

**IMMEDIATE
ATTENTION**

EB/CW/DC/01/4

October 29, 2001

To: Members of the Executive Board

From: The Secretary

Subject: **Financing for Development—Update Note**

The attached note, prepared jointly by the staffs of the Fund and the Bank, provides an update to the Development Committee Financing for Development (FfD) paper distributed on September 18, 2001. It is being circulated for consideration by the members of the Committee on a lapse-of-time basis. The update takes into account the implications for the FfD process of the negative impact of the deteriorating global economic outlook, the emergence of the Millennium Development Goals, and the recent (third) PrepCom meeting. The September 18 paper and this update will be discussed at the forthcoming Development Committee.

It is not proposed to bring this paper to the Committee's agenda unless a member of the Committee so requests by noon on Thursday, November 1, 2001. In the absence of such a request and after the World Bank Committee of the Whole discussion on November 1, the intention is to post the paper on the Development Committee's internal and external websites.

Questions may be directed to Mr. Dicks-Mireaux (ext. 35699).

Att: (1)

Other Distribution:
Department Heads
Development Committee Secretariat

INTERNATIONAL MONETARY FUND AND THE WORLD BANK

Financing for Development—Update Note

Prepared by the Staffs of the World Bank and the IMF

October 29, 2001

I. INTRODUCTION AND BACKGROUND

1. This note provides an update to the Financing for Development (FfD) paper distributed on September 18, 2001, which takes into account three developments since the drafting of that paper: the negative impact of the deteriorating global economic outlook for many developing countries; emergence, after inter-agency consultations, of a consolidated common set of international development targets (the Millennium Development Goals (MDGs)) and indicators; and the meeting of the PrepCom that has helped define areas of consensus on a constructive outcome for the FfD Conference, while highlighting a number of areas in which further efforts over the coming weeks will be required. These developments underscore the need to make progress in many of the areas included in the FfD agenda and the urgency of ensuring that each country's own effort towards ensuring MDGs is supported by concerted and effective international action.
2. The attacks on September 11 are having major implications for developing countries. This will be a separate subject for discussion at the Development Committee meeting on the basis of an upcoming paper from the World Bank.¹ These implications make the relevance and urgency of the effort that FfD represents even greater than before.
3. The Secretary General of the UN has issued a "Road Map" for implementing the Millennium Declaration. A centerpiece of this is an extensive set of indicators that provide a detailed basis for monitoring progress towards the MDGs. These indicators revolve around eight goals emerging from UN Conferences, from OECD/DAC/IMF/World Bank/UN discussions, and from the Millennium Summit, including a "partnership" goal designed to highlight the role that external assistance can play, as a complement to national efforts, in helping the most vulnerable countries realize progress towards the MDGs.
4. The FfD PrepCom met for five days (October 15-19) to discuss the first draft of a possible outcome text that had been produced by a facilitator. Much of the discussion focused on the specifics of the draft text. The discussion also covered the broad conceptual approach and possible format for the final outcome document. In all its aspects, the PrepCom

¹ The IMF's Managing Director will also brief the Development Committee on the conclusions of the previous day's IMFC discussion on strengthening the global economy.

discussion was designed to provide the facilitator with guidance for the preparation of a new version of the draft outcome reflecting the content of the discussions among delegations. That version is expected to be produced by the end of November and to be the basis for discussions during the next (fourth) meeting of the PrepCom (January 14-25, 2002). The PrepCom reaffirmed its intention to have a text of the outcome document agreed before the start of the FfD Conference on March 18, 2002.

5. The PrepCom also decided on the format and procedures of the Conference at Monterrey, Mexico (details are available at www.un.org/esa/ffd/aac257-29.pdf). Key features of the agreed format are:

- Meetings of senior officials, an NGO forum and a Business forum would take place as a prologue to the conference.
- A Ministerial segment for two-and-a-half days (March 18-20), consisting mainly of eight round tables and only brief plenary sessions to start and end the segment. These round tables would include governments, institutional stakeholders (such as the World Bank and the IMF), as well as representatives of the business community and of NGOs. The sixteen co-chairs of the round tables are expected to be two ministers from each of the five UN regional groups and the heads of the regional development banks, UNCTAD and UNDP.
- The “summit” segment (March 21-22) will start with a plenary session in which the speakers will include the President of the General Assembly, the UN Secretary General and the heads of the three “major institutional stakeholders” (World Bank, IMF and WTO). Four Round Tables are also planned for this segment. The eight co-chairs are expected to be one head of state/government from each of the regional groups and the heads of the World Bank, the IMF, and the WTO.

6. The Development Committee’s perspective is suited to help guide further progress in the FfD process. The Development Committee meeting on November 18, 2001 provides a timely opportunity to make a significant contribution to the FfD process and add to the momentum towards a constructive and pragmatic outcome to the FfD Conference.

II. POSSIBLE MESSAGES FROM THE DEVELOPMENT COMMITTEE

7. The themes covered in the joint staff paper distributed on September 18, 2001 continue to be relevant. Progress on these themes—market access, private capital flows, the volume of ODA, the harmonization of donor procedures and the appropriate financing of global public goods—would contribute to the ability of developing countries to grow, reach the poverty reduction goal for 2015, as well as the other MDGs. The Development Committee paper emphasized the importance of sound policies and good governance as fundamental to the achievement of these goals and essential for the effective use of external assistance.

8. Taking into account recent developments and the current stage of the FfD process, it would be appropriate for ministers to consider a number of additional messages to be conveyed to the UN PrepCom. These messages, which are outlined in what follows, focus more on the approach and on the cross-cutting and institutional dimensions of FfD.

9. **Assuring the means to reach the MDGs.** The MDGs provide a focal point for the FfD effort. The means required to meet the MDG challenge encompass interventions in a number of areas. First, and foremost, the policy framework, implementation and governance at the national level have to be conducive to growth and poverty reduction. Second, complementary, concerted action at the international level has to ensure that the opportunities for growth and investment available to developing countries are enhanced by comprehensive trade liberalization. Third, donor countries must stand ready (directly and through multilateral institutions) to respond to the efforts of developing countries on the policy front with adequate funding. Such assistance should be available in amounts and with the flexibility appropriate to the needs of the most vulnerable countries, including through increased and effective technical assistance.

10. **Promoting ownership and partnerships.** National ownership is crucial for the effective implementation and sustainability of countries' development efforts and good governance. A partnership with donors that revolves around common goals and nationally-owned programs is key to success. The MDGs provide a basic set of long-term objectives that can guide the identification of short- and medium-term national priorities. The Comprehensive Development Framework and (for low-income countries) the Poverty Reduction Strategy Papers are designed to provide a vehicle for structuring the partnership with donors and a framework under which the interventions of donors and other partners can be articulated.

11. **Making the Most of Existing Institutions.** Considerable progress has been achieved by the IFIs in recent years—including through increased emphasis on participatory processes, implementation of policies leading to greater transparency and disclosure, and cooperation. In this context, the immediate outcome of the FfD Conference at Monterrey could be seen as two-fold: establishing a solid platform of common objectives revolving around the MDGs and operational principles (national ownership and partnerships); and identifying gaps which require enhanced international action. This two-pronged approach should then pave the way for concerted action among bilateral and multilateral agencies and for initiatives by individual institutions that build on their respective mandates, governance structures and strengths.

12. **Towards Greater International Participation by Developing Countries and an International Financial Architecture Supportive of Development.** The FfD agenda underscores the importance of a stable international financial system and of promoting the integration of countries into the system in ways that are supportive of development efforts. Considerable progress has already been realized by the IFIs, and is continuing, including crisis prevention, standards and codes, transparency, financial sector vulnerabilities, debt management, and private sector participation in the resolution of financial crises. The FfD

process could support these reforms, both through fostering consensus on initiatives and by encouraging donors to provide the assistance needed by countries to implement standards and codes and enhance the governance of financial sectors. It is of importance to continue to enhance the influence of developing countries in international dialogues and decision-making processes—though it is crucial to be pragmatic and ensure that this is done in a way likely to strengthen, rather than undermine, the ability of the international community to provide assistance to developing countries. Hence, the governing bodies of the responsible and competent institutions should be the ones taking initiatives in the areas of their respective mandates.

13. **“Staying Engaged.”** The FfD process offers the opportunity to be an important milestone in the effort to mobilize additional means and intensify concerted international action for development. It is not an isolated effort and its follow-up is a valid concern, but it is critical to do so in an effective manner. The dialogue among the ECOSOC and the Bretton Woods Institutions offers unrealized potential, as does further progress in coordination and cooperation within the framework of the ACC. The full realization of the potential for cooperation among existing institutions, a clear understanding of the respective responsibilities, accountabilities and an effective monitoring scheme to check periodically on progress toward the MDGs is needed. Such an approach provides an efficient, practical and immediate alternative to any new arrangement and, in particular, efforts to establish new institutions that are likely to be divisive, controversial and protracted.

14. Finally, the impact of the Development Committee on FfD should be seen not just as having to do with the conclusions of the November 18, 2001 meeting. In addition to communicating these to the UN, it is hoped that having FfD on the agenda of the Development Committee will encourage Finance and Development Cooperation ministers to increasingly involve their ministries in this process by coordinating their positions within their own national delegations to the Fourth PrepCom in New York and to the Conference in Monterrey.