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February 7, 2002

To: Members of the Executive Board

From: The Secretary

Subject: **Preparations for the Financing for Development Conference
to be Held in Monterrey, Mexico, March 18–22, 2002**

Attached for the information of the Executive Directors is a paper on the preparations for the financing for development conference to be held in Monterrey, Mexico on March 18–22, 2002.

Questions may be referred to Mr. Bräuning (ext. 36643) and Mr. Palmason (ext. 36850).

Att: (1)

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INTERNATIONAL MONETARY FUND

**Preparations for the Financing for Development Conference
to be Held in Monterrey, Mexico, March 18-22, 2002**

Prepared by the Office of the Special Representative to the United Nations

Approved by Reinhard Munzberg

February 6, 2002

I. INTRODUCTION

1. **The Fourth Preparatory Committee Meeting (PrepCom) for the Financing for Development (FfD) Conference was held in New York on January 14-25, 2002.** The draft outcome document (facilitator's draft) provided the basis for negotiations. However, a vast amount of additions and amendments emerged. Ultimately, the objective of agreeing on an outcome document well in advance of the Monterrey conference was met. The outcome document is attached (to be adopted in the coming days).

2. **UN Secretary-General Kofi Annan set the tone at the outset of the PrepCom.** He emphasized that the conference must strengthen and sharpen consensus on domestic policies and institutions in order to mobilize domestic resources and attract private capital, particularly FDI flows; build on the momentum achieved in Doha with respect to launching a new trade development round; and be a turning point in restoring consensus on the need for more ODA. Citing the need for an additional \$50 billion a year to achieve the Millennium Development Goals (MDGs), the Secretary-General called for targeting this amount as a specific commitment to be made in Monterrey, and achieving it within two or three years. He also argued that the HIPC Initiative should be implemented fully and swiftly, and that its eligibility criteria go beyond the present terms in order to ensure debt sustainability; that there is a need to find new ways to deal with the debt of middle-income countries; and that developing countries ought to have more say in discussions that relate to managing the global economy. To rally support for the conference, the Secretary-General appointed Messrs. Trevor Manuel and Michel Camdessus as his special envoys.

3. **Mr. Aninat attended a working lunch of high-level personalities involved in the financing for development process.** He expressed the view that the discussions should be focused on making progress toward achieving the MDGs and that this would require a two-pillar approach: country-owned domestic frameworks and policies, and an enabling international environment. In addition, he identified market access and capacity building as essential elements in any development finance strategy. While emphasizing the importance of collaboration and division of labor, he called for making the most of existing institutions with

respect to follow-up to the conference. Mr. Bräuning (EXR) delivered a statement on Mr. Aninat's behalf in the plenary, reinforcing the same message.

4. **Staff participated in the substantive debate in the first week of the PrepCom.** Negotiation of the outcome document during the second week involved only country delegations. Fund staff thus sought bilateral opportunities to explain Fund policies to delegates regarding the text under consideration and responded to technical questions from delegations.

II. OUTCOME DOCUMENT

5. **The outcome document builds on the two-pillar approach: country-owned domestic frameworks and policies, and an enabling international environment.** Delegates agreed from the outset that each country must take primary responsibility for its economic and social development and that such efforts should be strongly supported by the international community. The goal is to eradicate poverty, achieve sustained economic growth, and promote sustainable development as advances are made to a fully inclusive and equitable global economic system. Meeting the MDGs is central to achieving these goals. The document highlights, in particular, the importance of:

- Sound domestic policies and institutions and country ownership of development frameworks and poverty reduction strategies, including PRSPs.
- Sound policies for enhancing private international investment, particularly FDI.
- Good governance and transparency at both the domestic and international levels, including the need to fight corruption and money laundering.
- A substantial increase in ODA, especially to meet the MDGs, and to enhance efficiency and accountability at all levels. Recipient and donor countries are called upon to make ODA more effective, including by striving to reduce transaction costs, untying aid, and enhancing the absorptive capacity and financial management of the recipient countries. Nationally owned poverty reduction strategies, including PRSPs, are identified as the appropriate context for aid delivery.
- Capacity building and technical assistance.
- Trade as an engine for growth and development, including references to trade liberalization, market access, and the need to reduce subsidies.
- Addressing developing country debt difficulties, including to fully and swiftly implement the enhanced HIPC Initiative, and apply flexibility with respect to the HIPC eligibility criteria. In this connection, future reviews of debt sustainability should bear in mind the

impact of debt relief on progress toward the MDGs.¹ The document also calls for innovative mechanisms to address the debt problems of middle-income developing countries, and welcomes consideration of an international debt workout mechanism in the appropriate fora.

- Improving global economic governance—the coherence and consistency of the international monetary, financial, and trading systems—by means of enhanced collaboration among existing institutions. While ongoing efforts are recognized, there is a call for greater transparency and participation by developing countries in the ongoing reform of the international financial architecture.
- Better representation of developing countries in international dialogues, decision-making processes, and standards-setting bodies.
- Keeping the need for SDR allocations under review (with a reminder of the relevant criteria under the Fund's Articles of Agreement). While proposals for temporary allocations were not pursued, a requested study by the Secretary-General of innovative sources of financing is to include the possible use of SDR allocations for development purposes.
- Surveillance and early warning systems in the context of crisis prevention and financial stability. While strengthening its surveillance of all economies, the Fund is asked to focus, in particular, on short-term capital flows and external vulnerability. The CCL is endorsed as a vehicle for signaling strong policies and fighting contagion.
- Ensuring that the international financial institutions, including the Fund, have a suitable array of financial facilities and adequate resources.
- The CFF as a vehicle for stabilizing revenues from commodity exports.

6. **In regards to “Staying Engaged,” delegates agreed that it would be impractical to invent new institutions or mechanisms for follow-up to the conference.** Hence, it is necessary to make fuller use of UN organs (ECOSOC and the General Assembly) as well as the relevant governing bodies of other institutional stakeholders (the Bank, the Fund, and the WTO). Greater coordination among existing institutions is called for, while respecting their individual mandates and governance structures. The venues include:

- Interactions between representatives of the ECOSOC and the Directors of the Executive Boards of the Bank and the Fund.

¹Some delegations proposed that debt sustainability analysis should take into account each country's capacity to raise the financing needed to achieve those goals.

- The spring meeting between ECOSOC and the Bretton Woods institutions, which is to address coherence, coordination, and cooperation in the context of follow-up to the conference.
- The existing biennial dialogue in the General Assembly on “strengthening international cooperation for development through partnership,” which would become the focal point for the follow-up to the conference. It would consider reports from ECOSOC and other bodies on matters related to financing for development, and would include a policy dialogue segment, with the potential for participation by the Fund, the Bank, and the WTO.
- Continued engagement of all relevant national institutions, in particular ministries of foreign affairs, finance, development cooperation, and trade as well as central banks and representatives from the private sector and civil society.
- Engagement by the Secretary-General and the Chief Executives Board (CEB).²
- A follow-up conference; modalities would be decided upon no later than 2005.

III. FORMAT AND PROCEDURES FOR THE CONFERENCE

7. The International Conference on Financing for Development will be held at the Cintermex Convention and Exposition Center in Monterrey, Mexico, on March 18-22, 2002. It will be divided into three segments: an officials’ segment, a ministerial segment, and a summit segment. The proposed structure of the conference is as follows:

- **An officials’ segment**, co-chaired by the deputy ministers of finance, trade, and foreign affairs of Mexico, in the morning of Monday, March 18. It will consider a report by the co-chairs of the PrepCom, adopt the outcome document for ministerial consideration, and hear statements by regional commissions and regional development banks.
- **A ministerial segment** in the afternoon of Monday, March 18 will adopt the outcome document for summit consideration and hear statements by financial, monetary, and trade bodies, UN organizations, business, and civil society. The ministers of finance, trade, and foreign affairs of Mexico will co-chair the segment.
- **A summit segment** (two full days) on Thursday and Friday, March 21-22. The President of the General Assembly, the Secretary-General of the UN, and the heads of the Fund, the

²The United Nations System Chief Executives Board for Coordination succeeded the Administrative Committee of Coordination (ACC) in 2001. It consists of the executive heads of UN agencies, the WTO, and the Bretton Woods institutions and meets under the chairmanship of the Secretary-General to discuss issues concerning the UN system.

Bank, and the WTO will be invited to make introductory statements to the plenary followed by statements by heads of delegations. The President of Mexico will preside.

- **A closing session** in the evening of Friday, March 22 where the final document will be adopted followed by closing remarks by the President of Mexico and the UN Secretary-General.
- **Twelve interactive roundtables:**
 - *Four summit-level roundtables* entitled “The International Conference for Financing for Development: Looking Ahead.” The Managing Director of the Fund, the President of the Bank, and the Director-General of the WTO are invited to co-chair, along with heads of state representing regional groups. Two concurrent roundtables will run in the afternoons of Thursday and Friday, March 21-22.
 - *Eight ministerial roundtables* will be co-chaired by ministers and the executive heads of UNCTAD, UNDP, AfDB, ADB, EBRD, and IADB. Four roundtables, two concurrent in the morning and two in the afternoon, entitled “Partnerships in Financing for Development” will run on Tuesday, March 19; and with the same format, four roundtables will take place on Wednesday, March 20 entitled “Coherence in Development.”
 - *Each roundtable comprises a maximum of 70 participants:* government delegations (48), representatives of major institutional stakeholders (8), civil society (7), and business sector (7). Each participant is entitled to bring two advisors to the room.
- **Civil Society Forum**, March 14-16.
- **An International Business Forum**, March 18, organized by the International Chamber of Commerce, the World Economic Forum, and the Business Council for the United Nations.

Agreed draft text
Advanced final unedited version
27 January 2002

International Conference on Financing for Development
(Monterrey, Mexico, 18-22 March 2002)

MONTERREY CONSENSUS

I. CONFRONTING THE CHALLENGES OF FINANCING FOR
DEVELOPMENT: A GLOBAL RESPONSE

1. We, heads of State and Government, gathered in Monterrey, Mexico, on 21-22 March 2002, have resolved to address the challenges of financing for development around the world, particularly in developing countries. Our goal is to eradicate poverty, achieve sustained economic growth and promote sustainable development as we advance to a fully inclusive and equitable global economic system.

1bis We note with concern current estimates of dramatic shortfalls in resources required to achieve the internationally agreed development goals, including those contained in the Millennium Declaration.

2. Mobilizing and increasing the effective use of financial resources and achieving the national and international economic conditions needed to fulfil internationally agreed development goals, including those contained in the Millennium Declaration, to eliminate poverty, improve social conditions and raise living standards, and protect our environment, will be our first step to ensuring that the 21st century becomes the century of development for all.

2bis Achieving the internationally agreed development goals, including those contained in the Millennium Declaration, demands a new partnership between developed and developing countries. We commit ourselves to sound policies, good governance at all levels and the rule of law. We also commit ourselves to mobilizing domestic resources, attracting international flows, promoting international trade as an engine for development, increasing international financial and technical cooperation for development, sustainable debt financing and external debt relief, and enhancing the coherence and consistency of the international monetary, financial and trading systems.

3. The September 11 2001 terrorist attacks exacerbated the global economic slowdown, further reducing growth rates. It has now become all the more urgent to enhance collaboration among all stakeholders to promote sustained economic growth and to address the long-term challenges of financing for development. Our resolve to act together is stronger than ever.

4. Each country has primary responsibility for its own economic and social development, and the role of national policies and development strategies cannot be overemphasised. At the same time, domestic economies are now interwoven with the global economic system and, inter alia, the effective use of trade and investment opportunities can help countries fight poverty. National development efforts need to be supported by an enabling international economic environment. We encourage and support development frameworks initiated at the regional level such as the New Economic Partnership for Africa's Development (NEPAD) and similar efforts in other regions.

4bis Globalisation offers opportunities and challenges. The developing countries and countries with economies in transition face special difficulties in responding to these challenges and opportunities. Globalisation should be fully inclusive and equitable and there is a strong need for policies and measures at national and international levels, formulated and implemented with the full and effective participation

of developing countries and countries with economies in transition to help them respond effectively to these challenges and opportunities.

5. In the increasingly globalizing interdependent world economy, a holistic approach to the interconnected national, international, and systemic challenges of financing for development - sustainable, gender-sensitive, people-centred development - in all parts of the globe is essential. Such an approach must open up opportunities for all, help to ensure that resources are created and used effectively, and that strong, accountable institutions are established at all levels. To this end, collective and coherent action is needed in each interrelated area of our agenda, involving all stakeholders in active partnership.

6. Recognizing that peace and development are mutually reinforcing, we are determined to pursue our shared vision for a better future, through our individual efforts combined with vigorous multilateral action. Upholding the United Nations Charter and building upon the Millennium Declaration values, we commit ourselves to promoting national and global economic systems based on the principles of justice, equity, democracy, participation, transparency, accountability, and inclusion.

II. LEADING ACTIONS

Mobilizing domestic financial resources for development

7. In our common pursuit of growth, poverty eradication and sustainable development, a critical challenge is to ensure necessary internal conditions for mobilizing domestic savings, both public and private, to sustain adequate levels of productive investment and increasing human capacity. A crucial task is to enhance the efficacy, coherence, and consistency of macroeconomic policies. An enabling domestic environment is vital for mobilizing domestic resources, increasing productivity, reducing capital flight, encouraging the private sector and attracting and making effective use of international investment and assistance. Efforts to create such an environment should be supported by the international community.

8. Good governance is essential for sustainable development. Sound economic policies, solid democratic institutions responsive to the needs of the people and improved infrastructure are the basis for sustained economic growth, poverty eradication, and employment creation. Freedom, peace and security, domestic stability, respect for human rights, including the right to development, and the rule of law, gender equality, market-oriented policies, and an overall commitment to just and democratic societies, are also essential and mutually reinforcing.

9. We will pursue appropriate policy and regulatory frameworks at our respective national levels and in a manner consistent with national laws to encourage public and private initiatives, including at the local level, and foster a dynamic and well-functioning business sector, while improving income growth and distribution, raising productivity, empowering women, and protecting labour rights and the environment. We recognize that the appropriate role of government in market-oriented economies will vary from country to country.

10. Fighting corruption at all levels is a priority. Corruption is a serious barrier to effective resource mobilization and allocation and diverts resources away from activities that are vital for poverty eradication and economic and sustainable development.

11. We recognize the need to pursue sound macroeconomic policies aimed at sustaining high rates of economic growth, full employment, poverty eradication, price stability, and sustainable fiscal and external balances to ensure that the benefits of growth reach all people, especially the poor. Governments should attach priority to avoiding inflationary distortions and abrupt economic fluctuations that negatively affect

income distribution and resource allocation. Along with prudent fiscal and monetary policies, an appropriate exchange rate regime is required.

12. An effective, efficient, transparent and accountable system for mobilizing public resources and managing their use by governments is essential. We recognize the need to secure fiscal sustainability along with equitable and efficient tax systems and administration, as well as improvements in public spending that do not crowd out productive private investment. We also recognize the contribution that medium-term fiscal frameworks can make in this respect.

13. Investments in basic economic and social infrastructure, social services and social protection, including education, health, nutrition, shelter and social security programs—which take special care of children and older persons and are gender sensitive and fully inclusive of the rural sector and all disadvantaged communities—are vital to enabling people, especially people living in poverty, to better adapt to and benefit from changing economic conditions and opportunities. Active labour market policies, including worker training, can help raise employment and improve working conditions. Coverage and scope of social protection needs to be further strengthened. Economic crises also underscore the importance of effective social safety nets.

14. We recognize the need to strengthen and develop the domestic financial sector, encouraging the orderly development of capital markets through sound banking systems and other institutional arrangements aimed at addressing development financing needs, including the insurance sector and debt and equity markets, that encourage and channel savings and foster productive investments. This requires a sound system of financial intermediation, transparent regulatory frameworks and effective supervisory mechanisms, supported by a solid central bank. Guarantee schemes and business development services should be developed for easing the access of small and medium-size enterprises to local financing.

16. Microfinance and credit for micro, small and medium-size enterprises, including in the rural areas, particularly for women, as well as national savings schemes, are important to enhance the social and economic impact of the financial sector. Development banks, commercial and other financial institutions, whether independently or in cooperation, can be effective instruments in facilitating access to finance, including equity financing, for such enterprises, as well as an adequate supply of medium and long-term credit. In addition, the promotion of private sector financial innovations and public-private partnerships can also deepen domestic financial markets and further develop the domestic financial sector. The prime objective of pension schemes is social protection, but when these schemes are funded, they can also be a source of savings. Bearing in mind economic and social considerations, efforts should be made to incorporate the informal sector into the formal economy, wherever feasible. It is also important to reduce the transfer costs of migrant workers' remittances and create opportunities for development-oriented investments, including housing.

17. It is critical to reinforce national efforts in capacity building in developing countries and countries with economies in transition in areas such as: institutional infrastructure, human resource development, public finance, mortgage finance, financial regulation and supervision, basic education in particular, public administration, social and gender budget policies, early warning and crisis prevention, and debt management. In this regard, particular attention is required to address the special needs of Africa, the least developed countries, small island developing States and landlocked developing countries. We reaffirm our commitment to the Brussels Programme of Action for LDCs and the Barbados Programme of Action for the Sustainable Development of Small Island Developing States. International support for these efforts, including technical assistance, and through United Nations operational activities for development, is indispensable. We encourage South-South cooperation, including through triangular cooperation, to facilitate exchange of views on successful strategies, practices and experiences and replication of projects.

Mobilizing international resources for development: foreign direct investment and other private flows

18. Private international capital flows, particularly foreign direct investment, along with international financial stability, are vital complements to national and international development efforts. Foreign direct investment contributes toward financing sustained economic growth over the long term. It is especially important for its potential to transfer knowledge and technology, create jobs, boost overall productivity, enhance competitiveness and entrepreneurship, and ultimately eradicate poverty through economic growth and development. A central challenge, therefore, is to create the necessary domestic and international conditions to facilitate direct investment flows, conducive to achieving national development priorities, to developing countries, particularly Africa, least developed countries, small island developing states, and land-locked developing countries, and also to countries with economies in transition.

19. To attract and enhance inflows of productive capital, countries need to continue their efforts to achieve a transparent, stable and predictable investment climate, with proper contract enforcement and respect for property rights, embedded in sound macroeconomic policies and institutions that allow businesses, both domestic and international, to operate efficiently and profitably and with maximum development impact. Special efforts are required in such priority areas as economic policy and regulatory frameworks for promoting and protecting investments, including the areas of human resource development, avoidance of double taxation, corporate governance, accounting standards, and the promotion of a competitive environment. Other mechanisms, such as public/private partnerships and investment agreements, can be important. We emphasize the need for strengthened, adequately resourced technical assistance and productive capacity building programmes, as requested by recipients.

20. To complement national efforts, there is the need for the relevant international and regional institutions as well as appropriate institutions in source countries to increase their support for private foreign investment in infrastructure development and other priority areas, including projects to bridge the digital divide, in developing countries and countries with economies in transition. To this end, it is important to provide export credits, co-financing, venture capital and other lending instruments, risk guarantees, leveraging aid resources, information on investment opportunities, business development services, fora to facilitate business contacts and cooperation between enterprises of developed and developing countries, as well as funding for feasibility studies. Inter-enterprise partnership is a powerful means for transfer and dissemination of technology. In this regard, strengthening of the multilateral and regional financial and development institutions is desirable. Additional source country measures should also be devised to encourage and facilitate investment flows to developing countries.

21. While Governments provide the framework for their operation, businesses, for their part, are expected to engage as reliable and consistent partners in the development process. We urge businesses to take into account not only the economic and financial but also the developmental, social, gender and environmental implications of their undertakings. In this spirit, we invite banks and other financial institutions, in developing countries as well as developed countries, to foster innovative developmental financing approaches. We welcome all efforts to encourage good corporate citizenship and note the initiative undertaken in the United Nations to promote global partnerships.

21bis. We will support new public/private sector financing mechanisms, both debt and equity, for developing countries and countries with economies in transition, to benefit in particular small entrepreneurs and small and medium-size enterprises and infrastructure. These public/private initiatives could include the development of consultation mechanisms between international and regional financial organizations and national governments with the private sector in both source and recipient countries as a means to create business-enabling environments.

22. We underscore the need to sustain sufficient and stable private financial flows to developing countries and countries with economies in transition. It is important to promote measures in source and destination countries to improve transparency and the information about financial flows. Measures that mitigate the impact of excessive volatility of short-term capital flows, are important and must be considered. Given each country's varying degree of national capacity, managing national external debt profiles, paying careful attention to currency and liquidity risk, strengthening prudential regulations and supervision of all financial institutions, including highly leveraged institutions, liberalizing capital flows in an orderly and well sequenced process consistent with development objectives, and implementation, on a progressive and voluntary basis, of codes and standards agreed internationally, are also important. We encourage public/private initiatives that enhance the ease of access, accuracy, timeliness and coverage of information on countries and financial markets, which strengthen capacities for risk assessment. Multilateral financial institutions could provide further assistance for all these purposes.

International trade as an engine for development

23. A universal, rule-based, open, non-discriminatory and equitable multilateral trading system, as well as meaningful trade liberalization can substantially stimulate development worldwide, benefiting countries at all stages of development. In this regard, we reaffirm our commitment towards trade liberalization and to ensure that trade plays its full part in promoting economic growth, employment and development for all. We thus welcome the WTO's decisions to place the needs and interests of developing countries at the heart of the WTO Work Programme, and commit ourselves to their implementation.

24. To benefit fully from trade, which in many cases is the single most important external source of development financing, the establishment or enhancement of appropriate institutions and policies in developing countries, as well as in countries with economies in transition, is needed. Meaningful trade liberalization is an important element in the sustainable development strategy of a country. Increased trade and foreign direct investment could boost economic growth and could be a significant source of employment.

25. We acknowledge the issues of particular concern to developing countries and countries with economies in transition in international trade to enhance their capacity to finance their development. These include: trade barriers, trade-distorting subsidies and other trade-distorting measures, particularly in sectors of special export interest to developing countries, including agriculture; the abuse of anti dumping measures; technical barriers and sanitary and phytosanitary measures; trade liberalization in labour intensive manufactures; trade liberalization in agricultural products; trade in services; tariff peaks, high tariffs and tariff escalation, as well as non-tariff barriers; the movement of natural persons; the lack of recognition of intellectual property rights for the protection of traditional knowledge and folklore; the transfer of knowledge and technology; the implementation and interpretation of the TRIPS Agreement in a manner supportive of public health; and the need for special and differential treatment provisions for developing countries in trade agreements to be made more precise, effective and operational.

26. To ensure that world trade supports development to the benefit of all countries, we encourage WTO members to implement the outcome of the WTO's Fourth Ministerial Conference.

26bis. We further undertake to facilitate the accession of all developing countries, particularly the least developed countries, as well as countries with economies in transition that apply for WTO membership.

26ter. We will implement the commitments made in Doha to address the marginalization of the least developed countries in international trade as well as the work programme adopted to examine issues related to the trade of small economies.

27. We also commit ourselves to enhancing the role of regional and sub-regional agreements and free trade areas, consistent with the multilateral trading system, in the construction of a better world trading system. We urge international financial institutions, including the regional development banks, to continue to support projects that promote sub-regional and regional integration among developing countries and countries with economies in transition.

28. We recognize the importance of enhanced and predictable access to all markets for the exports of developing countries, including small island developing States, landlocked, and transit developing countries and countries in Africa, as well as countries with economies in transition.

28bis. We call on developed countries that have not already done so, to work towards the objective of duty-free and quota-free access for all least developed countries' exports, as envisaged in the Programme of Action for the Least Developed Countries adopted in Brussels. Consideration of proposals for developing countries to contribute to improved market access for least developed countries would also be helpful.

28ter. We further recognize the importance for developing countries as well as countries with economies in transition to consider reducing trade barriers among themselves.

29. In cooperation with the interested governments and their financial institutions and to further support national efforts to benefit from trade opportunities and effectively integrate into the multilateral trading system, we invite multilateral and bilateral financial and development institutions to expand and coordinate their efforts, with increased resources, for gradually removing supply-side constraints; improve trade infrastructure; diversify export capacity and support an increase in the technological content of exports; strengthen institutional development and enhance overall productivity and competitiveness. To this end, we further invite bilateral donors and the international and regional financial institutions, together with the relevant United Nations agencies, funds and programmes, to reinforce the support for trade-related training, capacity and institution building and trade-supporting services. Special consideration should be given to least developed countries, landlocked developing countries, small island developing States, African development, transit developing countries and countries with economies in transition, including through the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries and its follow-up, the Joint Integrated Technical Assistance Programme, the WTO Doha Development Agenda Global Trust Fund, as well as the activities of the International Trade Centre.

30. Multilateral assistance is also needed to mitigate the consequences of depressed export revenues of countries that still depend heavily on commodity exports. Thus, we recognize the recent review of the IMF Compensatory Financing Facility and we will continue to assess its effectiveness. It is also important to empower developing country commodity producers to insure themselves against risk, including against natural disasters. We further invite bilateral donors and multilateral aid agencies to strengthen their support to export diversification programmes in these countries.

31. In support of the process launched in Doha, immediate attention should go to strengthening and ensuring the meaningful and full participation of developing countries, especially the least developed countries, in multilateral trade negotiations. In particular, developing countries need assistance in order to participate effectively in the WTO Work Programme and negotiating process through enhanced cooperation of all relevant stakeholders, including UNCTAD, the WTO and the World Bank. To these ends, we underscore the importance of effective, secure and predictable financing of trade-related technical assistance and capacity building.

Increasing international financial and technical cooperation for development

32. Official development assistance plays an essential role as a complement to other sources of financing for development, especially in those countries with the least capacity to attract private direct investment. ODA can help a country to reach adequate levels of domestic resource mobilization over an appropriate time horizon while human capital, productive and export capacities are enhanced. ODA can be critical in improving the environment for private sector activity, and thus pave the way for robust growth. ODA is also a crucial instrument to support education, health, public infrastructure development, agriculture and rural development, and to enhance food security. For many countries in Africa, least developed countries, small island developing states, and landlocked developing countries, ODA is still the largest source of external financing and is critical to the achievement of the development goals and targets in the Millennium Declaration and other internationally agreed development targets.

33. Effective partnerships among donors and recipients are based on the recognition of national leadership and ownership of development plans and, within that framework, sound policies and good governance at all levels are necessary to ensure ODA effectiveness. A major priority is to build these development partnerships, particularly in support of the neediest, and to maximize the poverty reduction impact of ODA. The goals and targets and commitments in the Millennium Declaration and other internationally agreed development targets can help countries set short- and medium-term national priorities as the foundation for building partnerships for external support. In this context, we underline the importance of the UN funds, programmes and specialized agencies, and we will strongly support them.

34. We recognize that a substantial increase in ODA and other resources will be required if developing countries are to achieve the internationally agreed development goals and objectives, including those contained in the Millennium Declaration. To build support for ODA, we will cooperate to further improve policies and development strategies, both nationally and internationally, to enhance aid effectiveness.

34bis. In this context, we urge developed countries that have not done so to make concrete efforts toward the target of 0.7% of GNP as ODA to developing countries and 0.15% to 0.20% of GNP of developed countries to least developed countries as reconfirmed at the Third UN Conference on Least Developed Countries, and encourage developing countries to build on progress achieved in ensuring that ODA is used effectively to help achieve development goals and targets. We acknowledge the efforts of all donors, commend those donors whose ODA contributions exceed, reach or are increasing towards the targets and underline the importance of undertaking to examine the means and timeframes for achieving the targets and goals.

36. Recipient and donor countries, as well as international institutions, should strive to make ODA more effective. In particular, there is the need for the multilateral and bilateral financial and development institutions to intensify efforts to:

- Harmonize their operational procedures at the highest standard, so as to reduce transaction costs and make ODA disbursement and delivery more flexible, taking into account national development needs and objectives under the ownership of the recipient country.
- Support and enhance recent efforts and initiatives such as untying aid, including the implementation of the OECD/DAC recommendation on untying aid to the least developed countries as agreed in the OECD in May 2001. Further efforts should be made to address burdensome restrictions.

- Enhance the absorptive capacity and financial management of the recipient countries to utilize aid, in order to promote the use of most suitable aid delivery instruments, responsive to the needs of developing countries and to the need for resource predictability, including budget support mechanisms, where appropriate, and in a fully consultative manner.
- Use development frameworks, which are owned and driven by developing countries, and which embody poverty reduction strategies, including PRSPs, as vehicles for aid delivery upon request.
- Enhance the recipient countries' input into and ownership of the design, including procurement, of technical assistance programs and increase the effective use of local technical assistance resources.
- Promote the use of ODA to leverage additional financing for development such as foreign investment, trade and domestic resources.
- Strengthen triangular cooperation, including countries with economies in transition, and South-South cooperation, as delivery tools for assistance.
- Improve ODA targeting to the poor, aid coordination and measurement of results.

We invite donors to take steps to apply these measures in support of all developing countries, including immediately in support of the comprehensive strategy that is embodied in the New Partnership for Africa's Development and similar efforts in other regions, as well as in support of least developed countries, small island developing States, and landlocked developing countries. We acknowledge and appreciate the discussions taking place in other fora on proposals to increase the concessionality of development financing, including greater use of grants.

38. We recognize the value of exploring innovative sources of finance, provided that these sources do not unduly burden developing countries. In this regard, we agree to study, in the appropriate fora, the results of the analysis requested from the Secretary-General on possible innovative sources of finance, noting the proposal to use SDR allocations for development purposes. We consider that any assessment of SDR allocations has to respect the IMF's Articles of Agreement and the established IMF rules and procedures, which requires taking into account the global need for liquidity at the international level.

39. Multilateral and regional development banks continue to play a vital role in serving the development needs of developing countries and countries with economies in transition. They should contribute to providing an adequate supply of finance to countries which are challenged by poverty, follow sound economic policies, and may lack adequate access to capital markets. They should also mitigate the impact of excessive volatility of financial markets. Strengthened regional development banks and sub-regional financial institutions add flexible financial support to national and regional development efforts, enhancing ownership and overall efficiency. They also serve as a vital source of knowledge and expertise on economic growth and development for their developing member countries.

40. We will ensure that the long-term resources at the disposal of the international financial system, including regional and sub-regional institutions and funds, allow them to adequately support sustained economic and social development, technical assistance for capacity-building, and social and environmental protection schemes. We will also continue to enhance their overall lending effectiveness through increased country ownership, operations that raise productivity and yield measurable results in reducing poverty, and closer coordination with donors and the private sector.

External debt

41. Sustainable debt financing is an important element for mobilizing resources for public and private investment. National comprehensive strategies to monitor and manage external liabilities, embedded in the domestic preconditions for debt sustainability, including sound macroeconomic policies and public resource management, are a key element in reducing national vulnerabilities. Debtors and creditors must share the responsibility for preventing and resolving unsustainable debt situations. Technical assistance for external debt management and debt-tracking can play an important role and should be strengthened.

42. External debt relief can play a key role in freeing resources that can then be directed towards activities consistent with attaining sustainable growth and development and therefore, debt relief measures should, where appropriate, be pursued vigorously and expeditiously, including within the Paris and London Clubs and other relevant fora. Noting the importance of re-establishing financial viability for those developing countries facing unsustainable debt burdens, we welcome initiatives that have been undertaken to reduce outstanding indebtedness and we invite further national and international measures in this regard including, as appropriate, debt cancellation and other arrangements.

43. The enhanced Heavily Indebted Poor Countries' (HIPC) Initiative provides an opportunity to strengthen the economic prospects and poverty reduction efforts of its beneficiary countries. Speedy, effective and full implementation of the enhanced HIPC Initiative, which should be fully financed through additional resources, is critical. Heavily indebted poor countries should take the policy measures necessary to become eligible for the Initiative. Future reviews of debt sustainability should also bear in mind the impact of debt relief on progress towards the achievement of the development goals contained in the Millennium Declaration. We stress the importance of continued flexibility with regard to the eligibility criteria. Continued efforts are needed to reduce the debt burden of HIPCs to sustainable levels. The computational procedures and assumptions underlying debt sustainability analysis need to be kept under review. Debt sustainability analysis at the completion point needs to take into account any worsening global growth prospects and declining terms of trade. Debt relief arrangements should seek to avoid imposing any unfair burdens on other developing countries.

44. We stress the need for the IMF and the World Bank to consider any fundamental changes in countries' debt sustainability caused by natural catastrophes, severe terms of trade shocks, or conflict, when making policy recommendations, including for debt relief as appropriate.

45. While recognizing that a flexible mix of instruments is needed to respond appropriately to countries' different economic circumstances and capacities, we emphasize the importance of putting in place a set of clear principles for the management and resolution of financial crises that provide for fair burden sharing between public and private sectors and between debtors, creditors and investors. We encourage donor countries to take steps to ensure that resources provided for debt relief should not detract from ODA resources intended to be available for developing countries. We also encourage exploring innovative mechanisms to comprehensively address debt problems of developing countries, including middle-income countries, and countries with economies in transition.

Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial, and trading systems in support of development

46. In order to complement national development efforts, we recognize the urgent need to enhance coherence, governance, and consistency of the international monetary, financial, and trading systems. To contribute to this end, we underline the importance of continuing to improve global economic governance and strengthen the UN leadership role in promoting development. With the same purpose, efforts should be strengthened at the national level to enhance coordination among all relevant ministries and

institutions. Similarly, we should encourage policy and programme coordination of international institutions and coherence at the operational and international levels to meet the Millennium Declaration development goals of sustained economic growth, poverty eradication, and sustainable development.

47. Important international efforts are underway to reform the international financial architecture. These need to be sustained with greater transparency and effective participation of developing countries and countries with economies in transition. One major objective of the reform is to enhance financing for development and poverty eradication. We also underscore our commitment to sound domestic financial sectors, which make a vital contribution to national development efforts, as an important component of an international financial architecture supportive of development.

48. Strong coordination of macroeconomic policies among the leading industrial countries is critical to greater global stability and reduced exchange rate volatility, which are essential to economic growth as well as for enhanced and predictable financial flows to developing countries and countries with economies in transition.

49. The multilateral financial institutions, in particular the IMF, need to continue to give high priority to the identification and prevention of potential crises and to strengthening the underpinnings of international financial stability. In this regard, we stress the need for the Fund to further strengthen its surveillance activities of all economies, with particular attention to short-term capital flows and their impact. We encourage the IMF to facilitate the timely detection of external vulnerability through well-designed surveillance and early warning systems and to coordinate closely with relevant regional institutions or organizations, including the UN regional commissions.

50. We stress the need for multilateral financial institutions, in providing policy advice and financial support, to work on the basis of sound, nationally owned paths of reform which take into account the needs of the poor and efforts to reduce poverty, and to pay due regard to the special needs and implementing capacities of developing countries and countries with economies in transition, aiming at economic growth and sustainable development. The advice should take into account social costs of adjustment programmes and these should be designed to minimize negative impact on the vulnerable segments of society.

51. It is essential to ensure the effective and equitable participation of developing countries in the formulation of financial standards and codes. It is also essential to ensure implementation, on a voluntary and progressive basis, as a contribution to reducing vulnerability to financial crisis and contagion.

51bis. Sovereign risk assessments made by the private sector should maximize the use of strict, objective, and transparent parameters. This can be facilitated by good quality data and analysis.

52. Noting the impact of financial crisis or risk of contagion in developing countries and countries with economies in transition, regardless of their size, we underline the need to ensure that the international financial institutions, including the IMF, have a suitable array of financial facilities and resources to respond in a timely and appropriate way in accordance with their policies. The IMF has a range of instruments available and its current financial position is strong. The contingent credit line is an important signal of the strength of countries' policies and a safeguard against contagion in financial markets. The need for SDR allocations should be kept under review. In this regard, we also underline the need to enhance the stabilizing role of regional and sub-regional reserve funds, swap arrangements, and similar mechanisms complementing the efforts of international financial institutions.

53. To promote fair burden-sharing and minimize moral hazard, we would welcome consideration by all relevant stakeholders of an international debt workout mechanism in the appropriate fora, that will engage

debtors and creditors to come together to restructure unsustainable debts in a timely and efficient manner. Adoption of such a mechanism should not preclude emergency financing in times of crisis.

55. Good governance at all levels is also essential for sustained economic growth, poverty eradication and sustainable development worldwide. To better reflect the growth of interdependence and enhance legitimacy, economic governance needs to develop in two areas: broadening the base for decision making on issues of development concern, and filling organizational gaps. To complement and consolidate advances in these two areas, we must strengthen the UN system and other multilateral institutions. We encourage all international organizations to seek to continually improve their operations and interactions.

56. We stress the need for broadening and strengthening the participation of developing countries and countries with economies in transition in international economic decision-making and norm setting. To these ends, we also welcome further actions to help developing countries and countries with economies in transition build their capacity to participate effectively in multilateral fora.

57. A first priority is to find pragmatic and innovative ways to further enhance the effective participation of developing countries and countries with economies in transition in international dialogues and decision-making processes. Within the mandates and means of the respective institutions and fora, we encourage the following actions:

- International Monetary Fund and World Bank: To continue to enhance participation of all developing countries and countries with economies in transition in their decision-making, and thereby to strengthen the international dialogue and the work of these institutions as they address the development needs and concerns of these countries.
- World Trade Organization: To ensure that any consultation is representative of the full WTO membership and participation is based on clear, simple and objective criteria.
- Bank for International Settlements, Basel Committees, and Financial Stability Forum: To continue enhancing their outreach and consultation efforts with developing countries and countries with economies in transition at the regional level and to review their membership, as appropriate, to allow for their adequate participation.
- Ad-hoc groupings that make policy recommendations with global implications: To continue to improve their outreach to non-member countries and to enhance collaboration with the multilateral institutions with clearly defined and broad-based intergovernmental mandates.

58. To strengthen the effectiveness of the global economic system's support for development, we encourage the following actions:

- Improve the relationship between the UN and the WTO for development and strengthen their capacity to provide technical assistance to all countries in need of such assistance.
- Support the International Labour Organization and encourage its ongoing work on the social dimension of globalization.
- Strengthen the coordination of the UN system and all other multilateral financial, trade and development institutions, to support economic growth, poverty eradication and sustainable development worldwide.

- Mainstream the gender perspective into development policies at all levels and in all sectors.
- Strengthen international tax cooperation, through enhanced dialogue among national tax authorities and greater coordination of the work of the concerned multilateral bodies and relevant regional organizations, giving special attention to the needs of developing countries and countries with economies in transition.
- Promote the role of the UN regional commissions and the regional development banks in supporting policy dialogue among countries at the regional level on macroeconomic, financial, trade and development issues.

58bis. We commit ourselves to negotiate and finalize as soon as possible a United Nations convention against corruption in all its aspects, including the question of repatriation of funds illicitly acquired to countries of origin, and also promote stronger cooperation to eliminate money laundering. We encourage States, which have not yet done so, to consider signature and ratification of the UN convention against transnational organized crime.

58ter. We urge as a matter of priority all states, which have not yet done so, to consider becoming parties to the international convention for suppression of the financing of terrorism and call for increased cooperation with the same objective.

59. We attach priority to reinvigorating the UN system as fundamental for the promotion of international cooperation for development and for a global economic system that works for all. We reaffirm our commitment to enable the General Assembly to play effectively its central role as the chief deliberative, policy-making, and representative organ of the United Nations, and to strengthen further the Economic and Social Council to enable it to fulfil the role ascribed to it in the UN Charter.

III. STAYING ENGAGED

60. To build a global alliance for development will require an unremitting effort. We thus commit to keep ourselves fully engaged, nationally, regionally, and internationally, to ensure proper follow up of the implementation of agreements and commitments reached at this Conference, and to continue building bridges between development, finance, and trade organizations and initiatives, within the framework of the holistic agenda of the Conference. Greater cooperation among existing institutions is needed, based on a clear understanding and respect for their respective mandates and governance structures.

61. Building on the successful experience of the Conference and the process leading up to it, we shall strengthen and make fuller use of the United Nations General Assembly and the Economic and Social Council, as well as the relevant intergovernmental/governing bodies of other institutional stakeholders, for the purposes of conference follow-up and coordination by substantively connecting, in ascending series, the following elements:

- a. Interactions between representatives of the Economic and Social Council and the Directors of the Executive Boards of the World Bank and the International Monetary Fund can serve as preliminary exchanges on matters related to the follow up of the Conference and preparations for the annual spring meeting between the institutions. Similar interactions can also be initiated with representatives of the appropriate intergovernmental body of the World Trade Organization.

- b. We encourage the United Nations, the World Bank and the International Monetary Fund, with the WTO, to address issues of coherence, coordination and cooperation, as a follow-up to the Conference, at the spring meeting between the ECOSOC and the Bretton Woods institutions. The meeting should include an intergovernmental segment to address an agenda agreed to by the participating organizations, and a dialogue with civil society and the private sector.
- c. The current High-level dialogue on strengthening international cooperation for development through partnership, held every two years in the General Assembly, would consider the financing for development related reports coming from ECOSOC and other bodies, as well as other financing for development related issues. It would be reconstituted to enable it to become the intergovernmental focal point for the general follow up of the Conference and related issues. The High-level dialogue would include a policy dialogue, with the participation of the relevant stakeholders, on the implementation of the results of the Conference, including the theme of coherence and consistency of the international monetary, financial, and trading systems in support of development.
- d. Appropriate modalities to enable participation in the reconstituted High-level dialogue by all relevant stakeholders as necessary will be considered.

62. To support the above at the national, regional and international levels, we resolve:

- To continue to improve our domestic policy coherence through the continued engagement of our ministries of Development, Finance, Trade, and Foreign Affairs, as well as our Central Banks;
- To harness the active support of the UN Regional Commissions and the Regional Development Banks;
- To keep the financing for development process on the agenda of the intergovernmental bodies of all main stakeholders, including all United Nations Funds, Programmes and Agencies, including UNCTAD.

62bis. We recognize the link between financing of development and attaining internationally agreed development goals and objectives, including those contained in the Millennium Declaration, in measuring development progress and in helping to guide development priorities. We welcome in this regard the intention of the United Nations to prepare a report annually. We encourage close cooperation between the United Nations, the World Bank, the IMF and the WTO in the preparation of this report. We shall support the United Nations in the implementation of a global information campaign on the internationally agreed development goals and objectives, including those contained in the Millennium Declaration. In this respect, we would like to encourage the active involvement of all relevant stakeholders, including civil society organizations and the private sector.

63. To underpin these efforts, we request the Secretary General of the UN to provide - with collaboration from the Secretariats of the major institutional stakeholders concerned, fully utilizing the United Nations System Chief Executives Board for Coordination mechanism - sustained follow up within the UN system to the agreements and commitments reached at this Conference and to ensure effective secretariat support. This support will build on the innovative and participatory modalities and related coordination arrangements utilized in the preparations of the Conference. The Secretary General of the United Nations is further requested to submit an annual report on these follow up efforts.

64. We call for a follow up International Conference to review the implementation of the Monterrey Consensus. The modalities of that conference shall be decided upon not later than 2005.