Review of the Monterrey Consensus on Financing for Development
April 15, 2008 Review Session on International Financial and Technical Cooperation for Development: Key Developments since Monterrey

U.S. Government Submission

Commitments

The 2002 Monterrey Consensus identifies *international financial and technical cooperation for development* as one of six "leading actions" or pillars in support of financing for development (FfD). The Consensus sets out a number of commitments in this section on issues ranging from improving development strategies to promoting the use of official development assistance (ODA) to leverage additional financing for development. These commitments acknowledge that actions by recipient and donor countries, as well as international institutions, are necessary to make ODA more effective (see box for key commitments under this pillar).

Monterrey Consensus—International Financial and Technical Cooperation for Development *(key commitments)*

- Make concrete efforts to substantially increase ODA and other resources, particularly to least developed countries;
- Enhance recipient country ownership of development frameworks and program design;
- Harmonize operational procedures at the highest standards;
- Promote the use of ODA to leverage additional financing; and
- Support efforts to improve aid's impact and effectiveness such as untying aid.

ODA is an important source of financing, but the primary responsibility for development lies with each country. Countries that have succeeded in achieving sustained high growth and poverty reduction have done so because of policy reforms they have adopted, which stimulate trade and investment and reward the entrepreneurial efforts of their people. ODA can facilitate, but is not the source of, economic growth.

Since Monterrey, the international community has both increased the amount of ODA and committed to improving the effectiveness of these resources in achieving development goals. When donors and partner countries adopt best practices, ODA can more effectively complement other sources of finance in supporting efforts to achieve the development goals of the Millennium Declaration and other internationally agreed development targets.

Progress

Paragraph 41 of the Consensus urges developed countries to "make concrete efforts towards the target of 0.7 percent of gross national product (GNP) as ODA". The U.S. and a number of other countries do not accept a formal target measuring aid as a percentage of GDP since because the effectiveness of aid is more important than quantity, particularly when ODA can complement to other sources of financing for development. However, in 2002, President Bush pledged at Monterrey to increase ODA by 50% over 2000 levels by 2006. The 50% goal was achieved by 2003 and by 2006, the U.S. had increased ODA levels more than 130% over 2000 levels. At the 2005, Gleneagles G8 Summit, President Bush announced the United States would double assistance to Africa between 2004 and 2010, a pledge the U.S. is also on track to meet. U.S. assistance to Africa was $6.8 billion in 2006, 50% above the 2004 level.

The Paris Declaration on Aid Effectiveness formalized the commitment by donors and partner countries to take action to adopt best practices in the delivery and management of aid resources, as set out in paragraph 43 of the Consensus, and agreed to the achievement of specific targets by 2010. In addition to joining this commitment to improve aid effectiveness, donor nations increased net disbursements of ODA by 78 percent between 2002 and 2006.

Best Practices and Success Stories

Donor and partner countries and organizations endorsed and remain committed to implementing the best practices embedded in the Paris Declaration on Aid Effectiveness: host country ownership of development strategies, alignment of development assistance with those strategies, harmonization among donors, managing for results, and mutual accountability. U.S. foreign assistance reform has enabled the U.S. to do this more systematically through a results-oriented planning framework that takes into account each country's conditions and progress in transforming itself. This framework also increases the transparency of our assistance allocation process, promoting accountability.

All 62 partner countries assessed by a 2007 World Bank report[1] have national development strategies that identify clear strategic priorities linked to a medium-term expenditure framework and reflected in national budgets. In other words, partner countries have taken the lead in operationalizing their national development strategies. In addition, donors and partner countries are on track to meet the 2010 targets in the Paris Declaration on several commitments. One of these is that by 2010, 66% of aid flows will be provided in the context of program-based approaches (PBAs). In the 2006 OECD/DAC survey,[2] 43% of aid flows were already reported to be provided in the context of PBAs. These are an important tool for harmonization and reduction of transaction costs to the host country as well as critical for ensuring that aid is allocated to those countries who will use aid more effectively.

Obstacles and Constraints Encountered; Actions and Initiatives to Overcome Them; New Challenges and Emerging Issues

Without a policy environment conducive to sustained economic growth, ODA alone cannot effectively promote growth. Growth in turn provides the foundation for development. The U.S. believes that aid should be targeted to those developing countries

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[1] *Results-Based National Development Strategies: Assessments and Challenges Ahead*, The World Bank, December 2007.

[2] *2006 Survey on Monitoring the Paris Declaration*, OECD Journal on Development, Development Assistance Committee of the Organisation for Economic Cooperation and Development, Vol. 8, No. 2, 2007.

making a demonstrated commitment to governing justly, investing in their people, and promoting economic opportunity and entrepreneurship. Furthermore, the United States supports using a results-oriented focus that mandates that we give top priority to the effective use of resources rather than using fixed ODA targets that do not take into account results. The MCC, as the major new U.S. program to address economic growth, embodies this principle and focuses resources where sound economic policies and good governance provide an enabling environment for economic growth.

The United States welcomes the emergence of new donors and creditors, public and private, who are contributing to financing for development. Between 2002 and 2006, net disbursements from non-DAC donors increased by 60 percent. These resources can be both complementary to other resource flows and an important catalyst in achieving poverty reduction goals in developing countries. Non-DAC donors bring unique perspectives and contributions to the development agenda based on their own experience. Recipient countries have an opportunity to adopt best practices and learn from non-DAC developing country donors that are further along in the development process.

However, without proper management, non-DAC donor resources could prove ineffective at poverty reduction and counterproductive to maintaining the recent improvements in good governance, particularly where institutional and technical capacity is weak. Aid coordination and harmonization efforts need to encompass the increasing role of non-DAC donors. To address these issues, the donor community should strengthen the capacity of non-DAC donors to adopt international standards in reporting and delivery of development finance to developing countries and support non-DAC donor participation in bilateral, multilateral, and developing country-led dialogues to follow through on aid effectiveness and MDG commitments and promote donor harmonization and coordination.

Although U.S. ODA has increased at a faster rate than at any time in the past sixty years, approximately 85% of financial resource flows from the United States to the developing world are now private. This is a dramatic shift from thirty years ago, when ODA equaled 70% of U.S. flows to the developing world. The shift in relative importance of private flows underscores that ODA alone cannot achieve economic growth and poverty reduction. The U.S. is increasingly programming ODA to leverage and support private sector actions and reaching out to private sector actors to improve coordination.

Increasing ODA effectiveness remains an ongoing challenge. However, the United States is committed, along with other major donors, to implementing the Paris Declaration on Aid Effectiveness. Our foreign assistance reform, the creation of the Millennium Challenge Corporation, and the initiatives we have dedicated to addressing the Millennium Development Goals (including combating communicable diseases, hunger, and illiteracy) are positive steps in this regard.

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Fact Sheet on U.S. Government Assistance Programs

Net United States disbursed official development assistance (ODA) has grown by more than $10 billion, to $23.5 billion in 2006. More important than increasing ODA, the U.S. has been changing the way that we deliver assistance, by supporting partner country ownership, promoting best practices to improve aid effectiveness, and leveraging private resources. In particular:

- The U.S. established the Millennium Challenge Corporation (MCC) in 2004 to focus resources where sound economic policies and good governance provide an enabling environment for economic growth. MCC has committed over $5.5 billion in compacts with 16 countries and has 18 threshold programs totaling some $400 million. These programs use development frameworks and program designs that are initiated and implemented by developing countries and ensure civil society participation.

- In 2006, USAID untied $3.5 billion, approaching 50% of the programs it managed that year. The Millennium Challenge Corporation (MCC) obligated about $2 billion in compacts during 2007; all of its programs are untied.

- To leverage additional financing for development, the U.S. created the Global Development Alliance (GDA) program in 2002 to partner with governments, businesses, foundations, and other non-governmental organizations. Through more than 600 alliances with over 1,700 partners, $2.1 billion in U.S. government resources has generated $5.8 billion in private resource commitments.

- The U.S. provided $1.4 billion in 2006 and over $6.2 billion total since 2000 in support of trade capacity building programs that help developing nations better integrate into and benefit from the global trading system.

- By promoting reforms to improve the business enabling environment, including access to finance, the U.S. assists developing countries in expanding opportunities for the private sector to succeed.

- At Monterrey, the U.S. pledged to increase ODA by 50% over 2000 levels by 2006. The 50% goal was achieved by 2003 and by 2006, the U.S. had increased ODA levels more than 130% over 2000 levels. President Bush announced at the Gleneagles G8 Summit that the United States would double assistance to Africa between 2004 and 2010, a pledge the U.S. is also on track to meet. U.S. assistance to Africa was $6.8 billion in 2006, more than 50% above the 2004 level.

- Annual U.S. ODA disbursements of $23.5 billion in 2006 are the second highest ever provided by any donor; the highest was $27.6 billion provided by the U.S. in 2005.

- U.S. foreign assistance reform has enabled the U.S. to align development assistance with established strategies and manage for results more systematically through a results-oriented planning framework that takes into account each country's conditions and progress in transforming itself. This framework also increases the transparency of our assistance allocation process, promoting accountability.