

**Review of the Monterrey Consensus on Financing for Development
March 11, 2008 Review Session on Enhancing the Coherence and Consistency of the
International Monetary, Financial, and Trading Systems**

U.S. Government Submission

The 2002 Monterrey Consensus identifies *addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development* as the last of six “leading actions” or pillars in support of financing for development (FfD). The Consensus sets out a broad range of actions, recommendations, and commitments by both developing and developed countries in this section on issues ranging from domestic governance and inter-ministerial coordination to the suppression of corruption, money laundering, and financing for terrorism (see box for key commitments under this pillar).

Since Monterrey, there has been an unprecedented level of dynamism in the international economic system and in the area of development finance, with important systemic initiatives underway in every area of the Consensus. These initiatives are described in

Monterrey Consensus—Addressing Systemic Issues (*key commitments*)

- Coordination of macroeconomic policies among major industrial countries
- Improve global economic governance and strengthen the UN’s role in promoting development
- Enhance developing countries participation in international decision making, norm setting
- Strengthen IMF surveillance
- Strengthen the effectiveness of the global economic system’s support for development
- Good governance at all levels and steps to fight corruption, money laundering and financing of terrorism

detail in the various U.S. Government submissions to the Monterrey Consensus review process, and stand as one of the principal achievements of the Consensus. Taken as a whole, the financial and trading system is strong and dynamic, serving both developed and developing countries, and has the flexibility to adjust as global conditions change.

Important discussions on a range of systemic issues including global imbalances, exchange rate policies, International Monetary Fund (IMF) surveillance, and crisis prevention and response are underway at the IMF, both in its regular meetings and in the annual Article IV reviews of the IMF’s 185 member countries.

UN member states that are also members of the IMF should be encouraged to participate actively in these processes.

Key Areas of Progress since 2002:

A leading accomplishment of the Monterrey Consensus is that, since 2002, most developing countries have experienced high and sustained levels of economic growth. Emerging and developing countries enjoyed sustained, 7.2 % real GDP growth from 2002-07, far outpacing advanced economies (2.4%). All regions performed well during this period, including Africa, where average annual GDP growth reached 5.2%, Western Hemisphere growth was 4.0%, Developing Asia was 8.8%, Middle East 5.5%, Central

and Eastern Europe 5.6%, and the Commonwealth of Independent States and Mongolia grew at 7.3% (IMF World Economic Outlook; 2007 is estimated).

Poverty has fallen across the globe as a result, and the world as a whole is on track to meet the Millennium Summit target of halving extreme poverty by 2015. This success can be attributed to strengthened policy reforms in many developing countries, pro-growth policies in major industrialized countries, strong and successful coordination between policymakers in industrial economies, improved surveillance by the international financial institutions (IFIs) as well as coordination between them, significantly increased public and private flows. These factors together demonstrate that, as called for by paragraph 64 of the Consensus, the post-Monterrey international economic system has been significantly more supportive of development.

As called for by paragraphs 53 and 59 of the Consensus, *the world has not experienced large scale financial crises since Monterrey, and the financial facilities and resources of the IMF and other IFIs have continued to develop, further strengthening the international financial system.* Firm surveillance over exchange rates is at the core of the IMF's responsibilities in the international monetary system. Last summer, the IMF over-hauled its 30-year old Executive Board decision on exchange rate surveillance, strengthening the framework for discussion of exchange regimes and rates, and the spillover effects of members' economic policies on other members. Rigorous implementation of the new framework will be essential. The IMF's semi-annual "Global Financial Stability Report", launched in 2002, alerts policy-makers and the public to emerging risks and financial market trends, highlighting risks stemming from increasingly complex interactions between financial market developments and the broader global economy.

Participation by developing countries in international decision making and norm setting processes has expanded significantly since Monterrey, as called for by paragraph 63 of the Consensus. Developing countries are playing central leadership roles in the Doha Round of Multilateral Trade Negotiations and in deliberations on the operations and structures of the IFIs. The G-20 is also playing an increasing prominent role on an array of international issues, including IFI reform. Notably, the reform process at the International Monetary Fund and other IFIs has accelerated significantly since 2002 in the spirit of Monterrey. An initial round of quota reforms in 2006 expanded the voice of four particularly underrepresented countries, and current negotiations on a second package of quota reforms promise to further expand the participation of developing countries.

The IMF's International Monetary and Finance Committee (IMFC) meets twice a year and includes among its membership Argentina, Brazil, China, Malaysia, India, Gabon, Nigeria, and Algeria. With respect to global imbalances, the IMFC has agreed on an international approach to the reduction of global imbalances which emphasizes "shared responsibility." Specifically, the October 2007 IMFC communiqué addressed global imbalances and called on surplus and deficit countries to take specific actions. In addition, the IMF's first Multilateral Consultation process focused on global imbalances and included representatives from China and Saudi Arabia.

The G-20 meets at the Ministerial level once a year and includes among its membership Argentina, Brazil, China, India, Indonesia, Mexico, South Africa, South Korea, and Turkey. The G-20 provides an ongoing dialogue on reducing economic vulnerabilities and promoting economic growth between developed countries and emerging markets. Since 2002 G-20 discussions have promoted the use of collective action clauses in international bond contracts and more recently the group has made useful progress in discussing quota reform at the IMF.

The Basel Committee on Banking Supervision has expanded its cooperation with the global supervisory community since 2002. The Core Principles Liaison Group (CPLG), which includes banking supervisors from sixteen non-Committee member countries, was originally established to monitor implementation of core banking supervision principles. Since 2002, it evolved further in fostering discussion and, in fact, was replaced by the new International Liaison Group (ILG) which now is a key forum through which the Committee is deepening its engagement with supervisors around the world. It gathers senior representatives from eight Committee member countries (France, Germany, Italy, Japan, the Netherlands, Spain, the United Kingdom and the United States), 16 supervisory authorities that are not members of the Committee (Argentina, Australia, Brazil, Chile, China, the Czech Republic, Hong Kong, India, Korea, Mexico, Poland, Russia, Saudi Arabia, Singapore, South Africa, and the West African Monetary Union), the European Commission, the International Monetary Fund, the World Bank, the Financial Stability Institute and the Islamic Financial Services Board. The Basel Committee is also exploring other formal and informal mechanisms to expand its dialogue with non-member countries, such as meetings with regional groups of banking supervisors.

The Heiligendamm Process, established in 2007, is a dialogue between the member states of the G8 group of countries and the important emerging economies that deals with the biggest challenges the global economy is facing today. The important emerging economies are: Brazil, China, India, Mexico and South Africa.

Since Monterrey, the IFIs have made important changes to their operating methods to enhance policy and program coordination and increase the coherence of their development activities, in conformance with paragraphs 52, 61, and 64 of the Consensus. Intensified coordination between the IFIs and their common orientation toward national poverty reduction strategy plans and other national development plans has put developing countries at the heart of the development process, as envisioned by Monterrey. As a response to the 1996 Development Committee Task Force Report on the MDBs, the heads of the regional development banks and the World Bank meet periodically to discuss high level systemic issues and challenges. Working groups address evaluation cooperation, environmental issues, fragile and post conflict countries, financial management, operational policies, governance and anti-corruption, and capacity building.

The 2007 report by the External Review Committee on IMF-World Bank Collaboration is an important contribution towards improving the coherence of the international financial system. It recommends a range of policy reforms, including strengthening the culture of

collaboration between the two institutions, improving collaboration on financial sector issues in the field, improving the deliverance of technical assistance and enhancing its responsiveness to the needs of developing countries, and increasing flexibility in mobilizing resources and services for member countries. The report emphasizes that closer collaboration is critical for the effective and efficient delivery of services to the institutions' member countries—especially given an ever-shifting global economic landscape and emerging pressures from global warming, energy security, and population ageing. It will be important for the IMF and World Bank to continue to enhance their collaboration.

According to the OECD Progress Report on Policy Coherence for Development (21 December 2007), continued improvements in economic governance and corporate responsibility are key to generating sustainable investment and growth in Africa. Nevertheless, getting the policy environment right is a necessary, but not a sufficient, condition to sustain growth. Economic diversification beyond resource extraction will be needed to stimulate investment and create jobs in traditionally commodity-dependent economies.

The Integrated Framework (IF) process has been enhanced significantly since Monterrey. Forty-five Least Developed Countries are now active in various stages of the IF coordination process. Under the IF, six international organizations work together to provide LDCs with technical assistance and capacity building related to trade. The World Bank, IMF, UN Conference on Trade and Development (UNCTAD), UN Development Program (UNDP), International Trade Centre, and World Trade Organization (WTO)—as well as bilateral donors—each work from a single, country-driven trade development plan, using their unique strengths and programmatic capabilities to address systemic problems and achieve greater impact than would be possible through any single organization.

The U.S. has also significantly increased its provision of Trade Capacity Building (TCB) assistance, which aims to help developing countries more fully benefit from the global trading system and make more informed policy decisions on trade-related matters. The U.S. has more than doubled its annual TCB allocation since 2002, providing more than \$1.4 billion in 2007. This assistance goes toward, inter alia, helping developing countries to understand trade agreements (with an eye toward ensuring national policy coherence) implement trade commitments, and benefit from trade opportunities.

To support post-conflict countries through a partnership that builds on the strengths of the World Bank and the UN, various operational instruments are being deployed jointly by the two institutions at the country level. A substantial part of country-level collaboration between the World Bank and the UN has taken place through joint implementation of common instruments, programs and platforms, such as post-conflict needs assessments (PCNAs), transition matrices and partnership strategies. PCNAs have provided national and international actors an entry point for conceptualizing, negotiating, and financing a shared plan for reconstruction and development in post-conflict settings, such as in Afghanistan, the Democratic Republic of Congo, Haiti, Liberia, and Sierra Leone.

USAID is working closely with the World Bank Group to develop diagnostic tools for post-conflict economic growth reform, while also involving other donors in USAID's own guidance for post-conflict economic growth work.

World Bank-UN partnership has also made notable progress at the global policy level. Examples include partnerships with the United Nations Development Program (UNDP), UN Peacebuilding Commission and United Nations Development Group Office (UNDGO) at the policy level, collaboration with the UN Department of Peacekeeping Operations (UN DPKO) on a joint staff training program, and a joint state-building work program with UNDP. The deepening of the partnership has helped to enhance the profile of conflict-affected and fragile state issues in international development policy dialogue; enabled the evolution of common platforms and instruments for coordinated donor assistance; created an enabling environment for country-level collaboration; and contributed to reducing lags in preparation and readiness to engage.

Progress against corruption in all its aspects, money laundering, and terrorist financing has been significant, but gaps remain. The United Nations General Assembly adopted the UN Convention Against Corruption (UNCAC) in October 2003 and there are now 140 signatories. A number of developed countries and institutions have offered technical cooperation programs in the area of good governance to support the implementation of UNCAC, focusing on administrative reform, decentralization, and the rule of law. The Extractive Industries Transparency Initiative (EITI), first announced in 2002, has made initial progress supporting improved transparency in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining. In 2000 the United Nations adopted the Convention against Transnational Organized Crime, also called the Palermo Convention, and currently has 147 signatories.

While not immediately recognized as an anti-corruption program, the World Bank/IFC *Doing Business Report* has been used as a driver for anti-corruption work. Simplification and reduction of business regulations directly reduces the opportunity for and incidence of rent-seeking behavior by regulators and enforcers. The reforms in licensing, credit information, registration and other business-related activities also lead directly to increased transparency and accountability in government service. *Doing Business* has led to well over 150 reforms in the past three years.

The International Convention for the Suppression of the Financing of Terrorism ratified in 2002 and currently has 132 signatories, requires each state party to criminalize the funding of terrorist activities under its domestic law and to identify, detect, and seize or freeze funds used or allocated for terrorist purposes. It is important that implementation accompany the signing of the Convention. Countries are encouraged to implement the Convention's provisions by incorporating the Financial Action Task Force's 40+9 Recommendations.

Membership and participation in the Financial Action Task Force (FATF) and its regional bodies, particularly among developing countries, has expanded significantly since 2002.

Currently over 180 countries are members or observers to FATF or one of its regional bodies; this broad participation has substantially energized the global fight against money laundering and terrorist financing in recent years.

Remaining Challenges and Emerging Issues:

The Monterrey Consensus assigns both consultative/leadership and operation roles to the UN. The UN's leadership role in promoting development has grown since Monterrey, as envisioned by paragraph 52 of the Consensus. Communication between the UN and the Bretton Woods Institutions has improved through annual joint meetings hosted by ECOSOC each spring, and reforms to ECOSOC promise to raise the profile of development cooperation issues at the annual substantive sessions. These dialogues have resulted in a more productive partnership between the United Nations and the Bretton Woods Institutions. An important future challenge will be ensuring that the meetings remain focused on the core development challenges facing developing countries, including in the area of financing for development.

The UN's operation role, as set out in paragraphs 61 and 64 of the Consensus, has evolved much more slowly. A key reform challenge for the UN system, particularly UNCTAD, UNDP, and UNIDO, will be to increasingly focus their assistance on fragile states and LDCs facing persistent security and political challenges. These countries need focused assistance on implementing the necessary domestic reforms to access the various private flows outlined in Monterrey. By any measure, this stands as the largest gap in the implementation of the Monterrey Consensus, and is a particular challenge for the UN system because of its grant-based assistance system.

As noted above, despite some progress, corruption remains a pervasive problem in many developing countries. In accordance with paragraphs 11, 13, and 65-66 of the Consensus, efforts by all countries to combat corruption and repatriate illicitly acquired funds should intensify, and the concept of good governance as a critical ingredient to economic growth should remain central to the development debate. In this context, consistent with their Monterrey commitments, countries should be encouraged to sign and ratifying the UNCAC and agree to a peer review mechanism that will hold them to a high standard.