"FINANCING FOR DEVELOPMENT"
A PROCESS INITIATED BY THE SOUTH

by Eva-Maria Hanfstaengl, SocDevJustice,
Sörup, 16.01.2011

"This could be the most significant process at the United Nations in two decades."
Oscar de Rojas, Executive Coordinator for Financing for Development

BACKGROUND

The Financing for Development/FfD process which lead to the International Conference in Monterrey/Mexico in March 2002, was initiated and driven by the developing countries of the G77. After the failure to put the issue of financing on the UN agenda 20 years ago, when the North were fully opposed, the G77 started discussions on this issue again in 1997. After the Asian financial crisis, time seemed favourable to get the agreement of the developed countries, including the US, to think about avoiding future global crisis and a more stable financial architecture. Another reason for a focussed discussion on financing was that developing countries were disappointed about the slow implementation of the UN Summits commitments of the 1990s. Especially the Rio, Copenhagen and Beijing Action Plans were not implemented seriously at national level. Great commitments had been made, including the Millennium Declaration in 2000, but no concrete ways had been proposed how to finance them. There was HIPC II in 1999, a welcomed debt initiative, but it was still insufficient, and overall ODA was declining. By starting multilateral dialogues on financing development, the G77 had the following goals:

- Raising the <u>financial resources</u> for development: more and better quality aid and more debt relief for poverty reduction strategies,
- Achieving better <u>coherence</u> between the different areas: domestic policies, foreign direct investment, international trade, aid and debt,
- Addressing imbalances and unfairness of the <u>global structures</u> and accelerating the process for change: questioning the role and legitimacy of ad hoc groups like the G8, broadening decision- making for developing countries in the international financial institutions, claiming their accountability, strengthening the UN as well as reforming its Economic and Social Council/ ECOSOC.

THE PREPARATORY PROCESS - A DIFFICULT START

In 1997, the UN General Assembly adopted an *Agenda for Development* and decided that "Due consideration should be given to modalities for conducting an intergovernmental dialogue on financing of development". Then, at the request of the developing countries, the United Nations started preparing a consultation process on how the commitments agreed at the major conferences of the 1990s were to be financed. In 1999 a very difficult debate began between South and North on a possible agenda for such an international conference. Whereas the North focussed their discussions on how to mobilise domestic and international resources for development, including foreign direct investment, the South preferred to talk about debt restructuring, ODA and trade policy. A sensitive area of discussion was the question of how to address systemic issues and structural implications involved in the international coordination of development initiatives, including a better global governance and financial architecture reform. The aim was to adopt a concrete and precise plan of action for the international community.

After two years of debating over a "Preliminary Agenda" a consensus seemed possible at that time by taking out the most sensitive proposals, like a timeframe for meeting the goal of 0,7% ODA, the question on innovative resources to achieve the Millennium Development Goals/MDGs and the establishment of a "Global Council" within the UN for international policy debate. Finally, the General Assembly concluded that this process should address national, international and systemic issues relating to financing for development in a holistic manner in the context of globalization and interdependence. It is due to high commitment of UN staff in the Financing for Development Office, the G77 and some EU member states that, in January 2002, a consensus could be reached, which was finally adopted at the International Conference in March 2002 as the so-called "Monterrey Consensus".

Unique in this process is also that the preparatory process, the Conference itself and its follow-up process involve the active participation of the World Bank, the International Monetary Fund (IMF) and the United Nations Conference on Trade and Development (UNCTAD), as well as collaboration of the World Trade Organization (WTO), the private sector and non-governmental organizations (NGOs).

THE INTERNATIONAL CONFERENCE IN MONTERREY

In March 2002, after a four-year preparatory process, the International Conference, with participation of 50 heads of states and over 200 ministers, adopted the 'Monterrey Consensus'[1] in which developed, developing and transition economy countries pledged to undertake important actions in domestic, international and systemic policy matters. Despite the difficult preparatory process, due to successful efforts of the G77, some Northern governments, UN staff and NGOs, the final consensus fortunately could keep some of the most important and promising commitments, for example on raising ODA, on a MDG campaign, on a fair debt workout mechanism and on broadening decision-making for developing countries in the international financial institutions. In December 2002, the General Assembly agreed on a follow-up process to monitor implementation and carry forward the international discussion of policies for financing development. A standing FfD Office under the Department of Economic and Social Affairs (DESA) was established to support the process.

THE FOLLOW-UP PROCESS

Surprisingly, the run up to the Conference resulted in race of donor countries, especially US and EU, on ODA commitments (US announced the Millennium Challenge Account; the EU decided on their Barcelona Commitments on higher ODA) as well as in serious discussions on innovative resources, like the currency transaction tax and other levies (initiated by Brazil, France, Spain, Chile, Germany and Algeria). In the FfD follow-up process, the UK also announced their new proposal on the International Finance Facility/IFF for immunisation. 12 countries, including France and Chile recently decided to introduce a voluntary air-ticket solidarity levy that would is nationally applied and will raise additional finances for development such as filling the International Fund for combating HIV AIDS, Malaria and tuberculosis. France alone calculates an additional 200 million Euros per year aimed to support this Fund. In the context of the MDG Summit in September 2005, which included the implementation of the Monterrey commitments, the EU agreed to a collective timetable of 0.7 % gross national product for ODA by 2015, and committed to an intermediate target of 0.56 per cent by 2010. The G8 leaders in Gleneagles decided on July 8 2005 to double aid for Africa by 2010 (an increase of $50 billions per year by 2010, of which at least $25billions extra per year will be for Africa). The G8 has also agreed to cancel all of the debts owed by 18 heavily indebted poor countries to the World Bank, the International Monetary Fund and the African Development Bank and welcomed the Paris Club decision to write off around $17 billion of Nigeria's debt.

Key elements in the FfD follow-up process are the Multistakeholder Dialogues. The FfD Office organised two dialogue processes on the themes: "*inclusive finance*" and "*debt restructuring*". Several international conferences were held in Latin America, Asia, Africa, Europe and US and jointly organised by the UN, IMF, World Bank and UNCTAD, UNDP and UNCDF. Business and also NGOs participated actively in both processes. A third dialogue process on "*systemic issues/financial architecture*" was organised by the Washington based NGO "New Rules" with support of the FfD Office (all reports, also additional dialogues organised by the *World Economic Forum*, see FfD website below). These dialogues are an important tool to get the parties concerned at a table to discuss together in a transparent way (which includes NGOs) to

[1] www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf

prepare a common political ground for concrete decisions to be taken in the relevant bodies or nations. NGOs should lobby for the continuation of such dialogues under the umbrella of FfD.

It is clear that the implementation of the Monterrey commitments is not easy as it requires renewed political will, especially in the North. That is why an appropriate international monitoring mechanism is so important, but still missing. Unlike other UN processes – the FfD follow-up process has no UN Commission nor committee dealing with it, but the ECOSOC itself, which has an overloaded agenda anyway. The spring ECOSOC/ Bretton Woods meeting and the biennial GA high-level dialogues on FfD are the only opportunities for official monitoring of the implementation of the commitments made and for NGOs to watch and participate in the FfD follow-up process. This fact makes it quite difficult, but is still important for NGOs to involve and have influence in the FfD implementation at international level.

In addition to this UN review mechanism, FfD follow-up needs additional lobbying of as many NGOs as possible throughout the year at other UN events and at national levels to keep up its momentum. It also needs specialised NGOs, who watch and actively engage in the follow-up of specific FfD issues. Otherwise there is a danger, that with the stronger getting involvement of the private sector, this process will be reduced to mere financing and focus on the domestic level. There are tendencies to forget the commitments made on international structural change (the whole chapter "Systemic Issues"), fair debt workout mechanism and fairer trade relations. Also the discussion on innovative resources, like on fulfilling national ODA commitments, on the currency transaction tax and on the airline ticket levy need continuous NGO support and monitoring.

ECOSOC REFORM

In this context the decision of the General Assembly contained in the 2005 'UN Outcome Document'[2], para 155 on the reform of the ECOSOC is promising and will hopefully soon be implemented. Here, the international community has decided that ECOSOC shall become the principle body for i.e. monitoring the implementation of the international development goals, including Financing for Development and the MDGs. It is proposed that "to achieve these objectives, the UN should:

- strengthen the outcome of biennial high-level **Development Cooperation Forum,**
- hold the regular substantive reviews **at ministerial-level** to assess progress (on follow-up of major UN conferences, including MDGs).
- promote global dialogue and partnership on global policies and trends in the economic, socials, environmental and humanitarian fields and create an integrated multi-stakeholder Forum or '**Global Council'**,

Raising awareness of the importance of the FfD follow-up process in civil society worldwide, including in the South, will be very important to put pressure on governments to further implement the commitments made in Monterrey and at the second "International Conference on Financing for Development" in Doha in 2008 [3] and at the UN Conference on the World Financial and Economic Crisis in 2009 in New York [4] and continue debate on the recommendations made by the Committee of Experts to the GA President in 2009, chaired by Prof. Stiglitz) [5].

Further information is available at the UN FfD Secretariat website: http://www.un.org/esa/ffd

[2] http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N05/487/60/PDF/N0548760.pdf?OpenElement
[3] http://daccess-dds-ny.un.org/doc/UNDOC/LTD/N08/630/55/PDF/N0863055.pdf?OpenElement
[4] http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/63/303&Lang=E
[5] http://www.un.org/ga/econcrisissummit/docs/FinalReport_CoE.pdf

ANNEX CHAPTERS OF THE MONTERREY CONSENSUS

I. Mobilizing domestic financial resources for development

***Enabling domestic environments**:* governance issues; sound macroeconomic policies, including fiscal and private savings policies; special needs of Africa, the least developed countries and transit developing countries.

***Strengthening public finances**:* development and enforcement of effective and equitable tax systems; capacity-building and technical assistance.

***Strengthening the domestic financial sector**:* institutional issues; supervision; harmonization of codes and standards; innovative instruments; access to micro-credit.

II. Mobilizing international resources for development

***Enhancing private capital flows for financing development**:* facilitating private flows, especially longer-term flows; expanding foreign direct investment to a much larger number of developing countries and sectors; enhancing the development impact of investments of transnational corporations; improving measures to reduce risks of excessive international financial volatility.

III. Trade

Enhancing trade for financing development: ensuring market access for products of export interest to developing countries; addressing issues related to the decline of public revenues from trade liberalization; strengthening regional cooperation/integration for expansion of global trade.

IV. Increasing international financial cooperation for development

Enhancing official development assistance (ODA): reinvigorating the commitment to fulfil the 0.7-per-cent target, increasing the effectiveness and efficiency of ODA, through, inter alia, enhanced ownership and better coordination of initiatives such as the comprehensive development framework, the United Nations Development Assistance Framework, and the poverty reduction strategy papers.

***Exploring innovative sources for financing for development**:* considering innovative global instruments, including tax cooperation and global public goods financing mechanisms.

V. Debt

Confronting external debt challenges: addressing debt problems of developing countries, including cases of high indebtedness and moral hazard issues; enhancing and expanding the Heavily Indebted Poor Countries Debt Initiative; avoiding the recurrence of debt crises.

VI. Addressing systemic issues

***Improving global governance**:* broader participation in decision-making and norm-setting; accountability; transparency; regional arrangements.

Strengthening the international financial architecture to support development: enhancing financial stability; improving early warning, prevention and response capabilities vis-à-vis financial crises; liquidity issues and lender of last resort.

Strengthening the role of the United Nations in assisting and complementing the work undertaken in the appropriate international monetary, financial and trade institutions.