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The Monterrey Consensus: analysis, proposals and follow-up

Executive Summary

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C O N T E N T S

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F O R E W O R D

This document has been prepared by the Permanent Secretariat of the Latin American Economic System (SELA) with the purpose of analysing the contents and initiatives or proposals included in the Monterrey Consensus.

The first part of this executive summary offers the background as well as a global assessment of the commitments made in this area. The second part includes an identification of the initiatives, followed by the third part with a summarized characterization of the initiatives. The fourth part consists of a brief classification of the initiatives or proposals included in the Monterrey Consensus, establishing their relations with the operational guidelines of SELA. The last part consists of a summary of the general conclusions of the study.

This effort by SELA can be considered as a first step in the follow-up process of the various multilateral cooperation commitments in the area of financing for development. SELA is confident that it will represent an important contribution in the crucial process of adopting concerted and coordinated positions for Latin America and the Caribbean.

I. INTRODUCTION

As part of its Work Programme¹, the Permanent Secretariat of the Latin American Economic System (SELA) regularly submits analytical papers about different international cooperation initiatives. This document summarizes the aspects on which consensus was reached at the International Conference on Financing for Development, held under the auspices of the United Nations Organization in Monterrey, Mexico. The “Monterrey Consensus” initiatives or proposals that are analysed here are listed in the same order in which they were discussed at the conference.

This effort by SELA is intended to serve as a basic guide for the follow-up of cooperation among its Member States with respect to such a transcendental issue as financing for development in the present circumstances. Thus, the Permanent Secretariat can identify mechanisms that allow it to implement the agreements and to contribute to establish convergent operational processes, while promoting a more efficiency use of resources and setting priorities for cooperation in this area.

It is equally important to try to make an assessment of the classified proposals in accordance with the cooperation activities that they could generate during their implementation – within a framework that serves to differentiate the elements for North-South cooperation and those for South-South cooperation. This, in turn, could help national, international and multilateral organizations to highlight the economic resources and factors that they should use in order to face the challenge of changing the current patterns of financing for development and improving its efficiency.

The first part of this executive summary offers the background as well as a global assessment of the commitments made in this area. The second part includes an identification of the initiatives, followed by the third part with a summarized characterization of the initiatives. The fourth part consists of a brief classification of the initiatives or proposals included in the Monterrey Consensus, establishing their relations with the operational guidelines of SELA. The last part consists of a summary of the general conclusions of the study.

II. BACKGROUND AND GLOBAL ASSESSMENT

The “Monterrey Consensus” summarizes the positions agreed upon as regards the issue of Financing for Development during the preparatory process that led to the Conference on Financing for Development, which was held from 18 to 22 March 2002 within the framework of the United Nations system.

Financing for Development was a major pending issue among the various commitments entered into by Member States at the different UN International Conferences that were held during the last decade. Paradoxically enough, compliance with such commitments depended, to a large extent, on the level of resources allocated to support development efforts.

A long-standing aspiration of the Group of 77 was to organize the multinational forum to discuss this issue at the highest level. In 1999, during the 54th Session of the General Assembly of the United Nations, approval was given to Resolution 54/196 establishing an Intergovernmental Preparatory Committee – open to all States – in order to start debating this problem and consider innovative ways and possible mechanisms to allow countries

¹ The operational guidelines of SELA include following up globalization processes, as agreed upon in a resolution during the XXVII Latin American Council in October 2001.

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participating in the financing for development process to make contributions to it. Based on the General Assembly Resolution, five Preparatory Committees were established, with the first being responsible for organizational matters and the remaining committees in charge of substantive matters.

The topics of the agenda that were included in the analysis were:

1. Mobilizing domestic financial resources for development;
2. Mobilizing international financial resources for development: foreign direct investment and other private flows;
3. International trade;
4. Increasing international financial and technical cooperation for development, through Official Development Assistance (ODA), among other mechanisms;
5. External debt; and
6. Addressing systemic issues.

Without doubt, the Monterrey Consensus is a step forward in dealing with the problem of financing for development in the present conditions, and it could be regarded as a commitment made by the international community with respect to this crucial issue.

It is worthwhile stressing that the approved document recognizes the decrease in international resources allocated to financing for development as a top-priority concern of the international community. The document also reiterates that achieving development goals calls for a new alliance between donor and receiving countries, as well as new alliances among all the public and private organizations, agencies and institutions linked to finances, trade and international development. In addition, the document emphasizes that, in the face of a global economy that is becoming increasingly interdependent, it is imperative to adopt an integral approach as regards national, international and systemic problems affecting financing for development.

During the preparatory process and during the conference itself, the positions assumed by some governments and institutions with respect to the financing issue underwent certain changes. The pledge made by the U.S. government to increase its contribution in financial resources for development was particularly relevant – in view of the weight that the country has in any international issue. The European Union (EU) also reaffirmed its commitment to substantially increase the amounts destined to development assistance.²

Nevertheless, the Monterrey Consensus includes proposals with complex formulations, whose implementation requires constant follow-up and is subject to modifications based on the experiences that are to be gathered after implementing them. It is a document that acknowledges both the “co-responsibility” of industrialized countries and the high level of “individual responsibility” of developing countries in attaining the proposed goals as regards the economic and social well-being of most of the people who live and have families in the countries of the South. It is also worthwhile mentioning that – as in the case of most documents reached by consensus in the United Nations – the Monterrey Consensus makes general recommendations to solve problems, which cannot always be translated into concrete actions.

² Even though the U.S. was reluctant to fulfil its commitment to earmark 1% of its GDP for overall aid to developing countries – of which 70% would be destined to Official Development Assistance (ODA) – during the days of the conference it did increase its announced annual amount of resources allocated for assistance to developing countries. Some Member Countries of the EU – which as a group has reported relatively higher amounts of financial resources for development – also favoured the proposal to increase ODA by up to 0.39% of their GDP by the year 2006 (Barcelona Declaration, Spain).

In several paragraphs, the document makes a quite justifiable emphasis on the domestic efforts and the ability of the countries to design national strategies and implement.

consistent but flexible policies, as the key factor to attain the objectives of eradicating poverty and increasing social and economic well-being. But this point of view has been criticized by some instances of civil society because there have been situations recently in which developing countries – with the “right” economic policies, quite credible and sustainable macroeconomic balance, a certain degree of productive diversification and even increased competitiveness at an international level – have been badly affected by “external factors” on the international economic scene, on which they have little control or no control at all.

In fact, a combination of factors such as the effective mobilization of domestic resources and a more rational management of available domestic and international resources would help to pursue the objectives of achieving self-sustained growth and reducing poverty – which are the starting points on the path towards development. It is also important to bear in mind that the use of international resources – depending of their nature, and their specific target and destination – could either favour or harm the economy of the country that receives such resources.

Thus, the Monterrey programme may have a fundamental weakness, since it does not include explicit assurances of any commitments whatsoever by certain States and actors that have the capacity – or could assume greater responsibility – to channel the necessary financial resources towards developing nations. If such a hurdle were overcome, the chances for the Monterrey Consensus to become a really historic, landmark agreement would substantially increase.

III. IDENTIFICATION OF INITIATIVES

This section summarizes the central aspects and concepts that were dealt with during the process of the International Conference on Financing for Development. It includes an analysis that takes into account the six major topics of the conference’s agenda and a classification of the proposals in accordance with several criteria

The first criteria is the probable deadline for the implementation of the proposals, or the period of time in which their application would have an actual effect on the reality or on the process that they are supposed to change. The initiatives are then classified – in a very general way – as short-term (1 to 3 years), mid-term (3 to 5 years), and long-term (5 to 10 years) measures or proposals.

Secondly, in accordance with the nature of the identified initiatives, they are classified as general or concrete. General initiatives or proposals are considered to be those that do not actually touch on specific elements of a phenomenon or issue, because of their degree of generalization or the broad language used to write them, whereas concrete proposal do include such specific elements. It should be borne in mind that the initiatives or proposals that are classified as “concrete” do not necessarily involve detailed and explicit mechanisms whose applicability can be easily quantifiable.

Third, with respect to the probable actions that the Permanent Secretariat of the Latin American Economic System (SELA) in order to follow up the proposals or initiatives,

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these are classified as actions involving monitoring, support or operation. Monitoring actions are the least specific in this group because they only involve the analysis and systematisation of the relevant information available at the international level on these issues, so as to offer it to the Member States. Support and operation actions would require the organization to become more directly involved in the follow-up process or the application of the proposals included in the Monterrey Consensus.

In addition, the liaison entities or instances for the implementation of the proposals – governments, financial institutions, and international organizations – are specified for each case, as well as the type of cooperation required for the implementation of the initiative, on which emphasis has to be made. Since financing for development is an issue on which many actors and agents from all over the world have an influence, most of the initiatives require North-South cooperation. Even though there are so many initiatives that call for cooperation between industrialized countries and developing nations, it would also be important to make strides in South-South cooperation.

- Mobilizing domestic financial resources for development

The statement that each country has primary responsibility for its own development is an unquestionable truth and constitutes the fundamental principle of the Monterrey Consensus. Also unquestionable is the thesis that the capacity to mobilize domestic resources has become a crucial factor in any development effort.

However, history shows that such the ability to mobilize resources is directly linked to the patterns of generation, distribution and appropriation of wealth in different countries. In the last sixty years, most of the efforts made to promote development have been to no avail, mainly because they have failed to dynamically restructure productive flows, income distribution patterns and the terms of the external economic relations of the countries of the South. Indeed, weak production and distribution structures – which do not serve the noble purpose of attaining economic and social well-being – have prevailed and entrenched in most of those countries.

According to some opinions, the last twenty years have categorically proved that increases in production and wealth by themselves do not necessarily lead to development. At any rate, such increases have not been substantial in the region, anyway. The international economic system has not contributed to intensify the flows of resources towards developing countries in the most suitable conditions for them, nor has it guaranteed the access to the main international markets for the goods and services from developing countries. Consequently, domestic problems have been compounded by those external factors, which have consistently widened the gap between the North and the South in terms of income and living standards.

For countries to attain growth based on their own efforts, they must first create the capacity to generate such domestic resources – which is a huge challenge from many points of view. This can be clearly seen in the fact that most developing economies are characterized by very low rates of saving, which in turn impose limitations on their investment processes and make them particularly vulnerable to external factors. It is, therefore, necessary to adopt autonomous macroeconomic policies that allow for structural changes in order to encourage domestic savings, consolidate public finances, create appropriate mechanisms for distribution of public expenses and guarantee long-term domestic flows of resources.

Thus, the Monterrey Consensus outlines some basic ideas that are linked to the implementation of measures to bring about certain changes in the institutional framework, shifting the emphasis made by the policies that have been implemented in recent years. Such measures would be aimed at increasing the efficiency, coherence and compatibility of macroeconomic policies, while pursuing a better management of public affairs.

Table 1
Initiatives for Development:
I. Mobilizing domestic financial resources

<u>No.</u>	<u>Initiative</u>	<u>Term</u>	<u>Liaison</u>	<u>Emphasis or type of Cooperation</u>	<u>Nature of the Initiative</u>	<u>SELA</u>
I.1	To promote investment in basic economic and social infrastructure in developing countries (DCs).	Long	Governments	North-South	General	Monitoring
I.2	To promote development of domestic financial systems in DCs.	Medium	Governments	North-South	General	Monitoring
I.2.a	- To encourage development of capital markets.	Medium	Governments	North-South	General	Monitoring
I.2.b	- To develop micro-credit programmes to support small- and medium-sized enterprises (SMEs).	Short	Int. Org.	North-South	Concrete	Operation
I.2.c	- To develop financial innovations for facilitating access to financing by DCs.	Short	Int. Org. / Governments	North-South	Concrete	Support
I.3	To consolidate equitable and efficient tax systems in DCs.	Medium	Governments	North-South and South-South	General	Support
I.4	To train public sector officials in DCs.	Short	Int. Org.	North-South	Concrete	Support
I.5	To establish rigorous systems to evaluate the use of financial resources.	Long	Governments	North-South and South-South	Concrete	Monitoring

Source: SELA, based on the Monterrey Consensus; United Nations. Monterrey Consensus, International Conference on Financing for Development. (2002) (New York: UN, document A/AC.257/L.13).

Out of the eight initiatives identified in this section – which are all linked to internal transformations of the economic policies and structures of developing countries – those concerned with proposed changes in the domestic financial and tax systems are especially noteworthy. In addition, the initiatives recognize that it is necessary to make an effort to train public sector officials – and workers in general – and to establish efficient systems for systematic evaluation of the use of financial resources.

- Mobilizing international resources for development

Private international capital flows – particularly foreign direct investment – are vital complements to national development efforts. Indeed, foreign direct investment (FDI) has notably increased at global level over the last few years, even though they still concentrate on industrialized economies. However, some developing areas – with favourable policies and institutional frameworks – have benefited from the synergic effects that foreign direct investment has had on receiving economies.

The conference debates on the contents that were ratified in the Monterrey Consensus focused mostly on the creation of structural, infrastructural and regulatory conditions in developing countries to promote and attract FDI flows and other financing modalities.

However, it is widely believed that if the current patterns of geographic concentration of FDI and other private flows persist, the mobilized international resources for development would not be enough to achieve the objective of reducing inequities and poverty in most of the poor nations of the South by the year 2015, which is one of the objectives of the Declaration of the Millennium.³

One of the issues debated was that the major international financial institutions and agencies are aimed at creating conditions to encourage capital flows, fundamentally based on strictly market-oriented criteria. This often turns out to be counter-productive to the stated aim of promoting development processes that are sustainable from the economic, social and environmental standpoint. In this connection, there are indications that it is necessary to reconsider some of the policies of these institutions, and to create the broadest possible combination of international financial sources, agents and instruments for the promotion of development.

Table 2
Initiatives for Development:
II. Mobilizing international financial resources

<u>No.</u>	<u>Initiative</u>	<u>Term</u>	<u>Liaison</u>	<u>Emphasis or type of Cooperation</u>	<u>Nature of the Initiative</u>	<u>SELA</u>
II.1	To foster innovative developmental financing approaches.	Short	Governments and Fin. Inst.*	North-South and South-South	General	Support
II.2	To create new financing mechanisms (by using debt-for-equity swap mechanisms).	Short	Governments and Fin. Inst.	North-South	Concrete	Support
II.3	To establish consultations mechanisms to create business-enabling environments in developing economies	Short	Fin. Inst., Governments and enterprises	North-South	Concrete	Support
II.4	To promote measures (in both source and destination countries) to improve transparency of information on private flows.	Medium	Governments	North-South	General	Support
II.5	To establish measures to mitigate the impact of excessive volatility of short-term capital flows in recipient countries.	Short	Governments	North-South and South-South	General	Monitoring
II.6	To promote initiatives to ease the access to information on countries and financial markets.	Short	Governments and Int. Org.	North-South	General	Operation

Source: SELA, based on the Monterrey Consensus; United Nations. Monterrey Consensus, International Conference on Financing for Development. (2002) (New York: UN, document A/AC.257/L.13).

Note: (*) Both in donor or source countries providing the external financial resources and recipient countries.

³ Adopted in the Declaration of United Nations as a result of the Millennium Summit, New York, 2000.

The six proposals included in the section of the Monterrey Consensus on mobilizing international financial resources from private sources are characterized by being “general”. They are basically focused on promoting innovative financing approaches and establishing certain conditions in recipient countries in order to attract those flows. It is worthwhile noticing the inclusion of a proposal to take measures aimed at mitigate the impact of excessive volatility of short-term capital flows.

- International Trade

In the process that led to the Monterrey Consensus it became obvious that the issue of international trade had to be linked to that of financing for development. In dealing with the issue of financing for development, there are some aspects that inevitably must be discussed, such as the access to world markets for the goods and services from developing countries, the variations in the demand for several of the most important export products, or commodities, from those countries and their prices – which in some cases represent the main or the only source of revenue from abroad – and the modifications of the WTO agreements on several sectors.

As a matter of fact, the heavy dependence of several developing countries on external financing could be due to a large extent to the difficult conditions to access markets, the restraints on supply, and consequently, the marginal insertion of their goods and services in international markets.

In addition, by having larger amounts of external financial resources would allow the developing economies of the South to improve their capacity to respond to critical situations, particularly to declines in export revenue. If they are used in an efficient way, in the long term those resources should serve to finance the adoption of measures aimed at creating or strengthening the production and export capacity of those countries.

The Monterrey Consensus points out that a trade system that is open to the participation of all countries, based on non-discriminatory, equitable rules, along with liberalization measures in trade policies, would benefit the efforts made by developing nations. The document also deals with several of the most important concerns of developing economies about the international trade system, recognizing the importance of making changes in several of the trade practices and norms in industrialized countries.

However, some studies point at the need to reconsider the relations seen in developing countries among factors such as the external trade opening, the growth processes, the generation of jobs and income distribution. Additionally, according to some criteria used by NGOs, there are obvious imbalances in the various agreements regulated by the WTO, which should be solved through a substantial and real improvement of the access to industrialized markets for the goods and services from the economies of the South.

Over the last few years, the world economic system has been characterized by phenomena such as global interdependence and a growing gap between the North and the South as regards development and income levels. Closely linked to these trends, there are other factors characterizing the current multilateral trade system. The agreements that emerged from the Fourth Ministerial Conference of the WTO – which decided to start working on the launching of a New Multilateral Trade Round – and the resolution of pending questions about the application of the Uruguay Round Agreements should take this complex problem into consideration.

According to the consensus reached by the majority of the G-77 countries, in the context of the new trade negotiations it is indispensable to establish principles that are based on the search for mutual benefit but that, at the same time, take into account the differentiated responsibilities from country to country. The developing nations – particularly the Least Developed Countries (LDCs) – have been excluded from the benefits of globalization and, therefore, this process is seen by many as one that aggravates the imbalances and asymmetries in international economic relations.

Generally speaking, six possible measures or initiatives linked to international trade could be identified in the Monterrey document.

Table 3
Initiatives for Development:
III. International trade as an engine for development

<u>No.</u>	<u>Initiative</u>	<u>Term</u>	<u>Liaison</u>	<u>Emphasis or type of Cooperation</u>	<u>Nature of the Initiative</u>	<u>SELA</u>
III.1	To include concrete provisions for special and differentiated treatment for DCs in international agreements.	Short	Governments and international agreements (particularly those reached at the WTO)	North-South and South-South	General	Monitoring
III.2	To support projects to foster subregional and regional integration.	Medium	Governments and Int. Org.	North-South and South-South	General	Monitoring
III.3	To take measures to foster an enhanced and predictable access to international market for products from the South.	Medium	Int. Org.	North-South and South-South	General	Support
III.4	To extend efforts to remove supply-side constraints in developing countries.	Medium	Governments and Fin. Inst.	North-South and South-South	General	Support
III.5	To take measures to reinforce trade-related training and institutional building, and to support external trade in developing countries.	Short	Governments, Fin. Inst. and Int. Org.	North-South and South-South	Concrete	Operation
III.6	To strengthen the participation of developing countries in trade negotiations.	Short	Governments, Fin. Inst. and Int. Org.	North-South and South-South	Concrete	Support

Source: SELA, based on the Monterrey Consensus; United Nations. Monterrey Consensus, International Conference on Financing for Development. (2002) (New York: UN, document A/AC.257/L.13).

The majority of the proposals related to international trade are of a very general nature. In view of the current institutional framework of the multilateral trade system, all of these initiatives would involve a real cooperation among industrialized countries and developing countries. As a matter of fact, South-South would also be indispensable in order to search for concerted positions of developing nations, which in turn would help them to increase their bargaining power at the WTO and other international forums.

- Increasing international financial and technical cooperation

Financial cooperation – particularly the commitments made for Official Development Assistance (ODA) – has lost relevance among the fundamental priorities in the foreign policies of the main industrialized countries. This occurs against a backdrop of high concentration of private flows in a relatively small number of countries in the South and an ongoing process of financial liberalization that makes emphasis on market considerations.

One of the main observations of the Group of 77 – which was at the centre of the process that led to the Summit on Financing for Development – was that, in addition to undertaking new international initiatives, it was also necessary for industrialized countries to respect and comply with the commitment they made in the United Nations to allocate 1% of their GDP to financing for development and to grant no less than 70% of those amounts in the form of concessions. In addition some sectors of civil society were disappointed by the fact that in this post-Cold War era the expected deviation of those resources that were absorbed by military budgets towards development efforts has not materialized yet.

In addition, regional and subregional financial cooperation projects are too limited to meet the need for technological modernization and productive re-conversion of developing countries. And the integration processes and/or schemes among those countries do not count on institutions that are able to channel intra-regional flows to back up investment in social projects that are badly needed and that almost never comply with the requirements of private banks. Moreover, most of those regional projects for South- South integration have not provided for financial cooperation to mobilize additional resources in crisis situations or to set up protection networks aimed at the most vulnerable social sectors or the neediest countries or regions.

At the same time, many developing countries have been affected by the shocks stemming from the excessive volatility that characterized international financial markets recently. Consequently according to some experts, it would be necessary for multilateral and regional development banks to take measures and establish provisions aimed at alleviating those negative repercussions on the economies of the South. These considerations were included in the final document of the International Conference on Financing for Development.

Taking this situation into account, the Monterrey Consensus urges entities and governments to ensure an appropriate amount of financial resources for development. The document further recognizes that, in order to improve the efficiency of partnerships between donor and recipient countries, developing nations must be able to identify their plans and assume management of those plans. The document also points to the fact that it is necessary to increase the efficiency of OAD, and to that end it proposes a series of measures that should be taken by recipient countries, donor countries and international organizations.

Table 4
Initiatives for Development:
IV. Increasing international financial and technical cooperation

<u>No.</u>	<u>Initiative</u>	<u>Term</u>	<u>Liaison</u>	<u>Emphasis or type of Cooperation</u>	<u>Nature of the Initiative</u>	<u>SELA</u>
IV.1	To reach consensus on operational procedures of financial and development institutions so as to reduce transaction costs.	Medium	Fin. Inst. and Int. Org.	North-South	Concrete	Monitoring
IV.2	To enhance the absorptive capacity and the management of external assistance in recipient countries.	Medium	Governments and Int. Org.	North-South	Concrete	Support
IV.3	To make those development plans decided upon by recipient countries become the real target of the ODA.	Medium	Governments and Int. Org.	North-South	Concrete	Monitoring
IV.4	To enhance recipient countries' contribution to the design of technical assistance programmes.	Medium	Governments and Int. Org.	North-South	Concrete	Support
IV.5	To improve ODA targeting to poor sectors.	Short	Governments, Fin. Inst. and Int. Org.	North-South	General	Monitoring
IV.6	To improve coordination of technical assistance and measurement of results.	Short	Governments, Fin. Inst. and Int. Org.	North-South	General	Support
IV.7	To strengthen triangular cooperation and South-South cooperation on issues relative to technical and financial cooperation.	Short	Governments, Fin. Inst. and Int. Org.	South-South	General	Operation

Source: SELA, based on the Monterrey Consensus; United Nations. Monterrey Consensus, International Conference on Financing for Development. (2002) (New York: UN, document A/AC.257/L.13).

Four of the seven proposals related to the issues of technical cooperation and financial assistance for development could be classified as “concrete” proposals which, generally speaking, are concerned with two fundamental problems that were identified during the preparatory process and during the conference itself. Those problems are that developing – or recipient – countries should have a more active participation in process and that it is indispensable to reduce the transaction costs incurred by financial institutions and agencies, which are the fundamental sources of ODA.

- The external debt

In general, as part of the issue of the external debt, some of the demands made by the G-77- and the NGOs of the South were taken into consideration. The Monterrey Consensus recognizes principles such as the “shared responsibility” in handling the external debt and the need to study the possibilities of debt cancellation, where appropriate. It also mentions different categories of external debt, making reference to the treatment for middle-income countries as regards external debt and to the need for additional resources for the implementation of an enhanced Heavily Indebted Poor Countries (HIPC) Initiative, aimed at reducing the debt of those countries.

However, according to some critics' opinions, while financing of external debt is a key instrument to mobilize resources and earmark them for public and private investment, in the present conditions the accumulated debt amounts are so high that it is difficult to manage them. Consequently, the chances to use debt financing as a way to mobilize resources for investment are slimmer. It would be feasible only if the international community accepted substantial levels of external debt cancellation for developing countries.

The document recognizes that external debt relief can play a key role in liberating resources that can then be directed towards activities to promote sustainable growth. But, additionally, there should be an increase in the amount of financial resources – under favourable conditions – so as to undertake sustainable development and growth processes.

A positive aspect is the fact that the Monterrey Consensus takes into account the two most relevant forums for debt renegotiation: the London and the Paris Clubs. Very few UN documents make direct reference to both of them.

The Monterrey Conference recognized the success of the debt relief initiatives undertaken so far. Emphasis was made on considering the HIPC Initiative as a strategy that, despite its limitations, has benefited the countries participating in it.⁴

Another important aspect was that the Monterrey Conference highlighted the need for multilateral financial organizations to take into account fundamental and unforeseen changes that could affect the countries' debt sustainability, when formulating policy recommendations on regulatory matters and external debt relief.

In treating the subject of the external debt during the process of the Summit, developing countries got to include some of their most important demands in the final consensus document – and this could set a precedent in the way the UN handles the subject. Nevertheless, it is necessary for industrialized nations and (multilateral and regional) international financial organizations to responsibly participate in the process of solving core problems so as to deal with the various factors that have an influence on this issue, in a coherent and effective way. As some governments of the G-77 as well as other relevant international actors point out, the problem of the external debt cannot be partially solved. Moreover, it requires a political solution.

⁴ This initiative involves a limited group of countries that accounts for a little more than 8% of the total debt of developing countries. Truth to tell, this initiative so far has not attained a substantial reduction in that figure, which represents just about 1% of the GDP of the Group of Seven. Since the initiative was launched in 1996, the reduction in debt servicing of the 41 countries that qualify to benefit from it has reached a little less than US\$1.1 billion. During the same period, however, this group of heavily indebted poor countries has transferred a total of US\$35 billion to industrialized nations and multilateral institutions.

Table 5
Initiatives for Development:
V. External debt

No.	Initiative	Term	Liaison	Emphasis or type of Cooperation	Nature of the Initiative	SELA
V.1	To continue implementing the debt relief programme for heavily indebted poor countries.	Medium	Governments and Fin. Inst.	North-South	General	Monitoring
V.2	To implement innovative debt negotiation mechanisms.	Medium	Governments and Fin. Inst.	North-South	General	Monitoring
V.3	To keep the debt sustainability analysis and the calculation procedures under permanent review.	Short	Int. Org. and Fin. Inst	North-South and South-South.	Concrete	Operation
V.4	To put in place a set of principles for the management and resolution of financial crises, that provide for fair debt burden sharing.	Short	Int. Org. and Fin. Inst.	North-South and South-South	Concrete	Support

Source: SELA, based on the Monterrey Consensus; United Nations. Monterrey Consensus, International Conference on Financing for Development. (2002) (New York: UN, document A/AC.257/L.13).

As seen in the table above, the Monterrey Consensus included really very few initiatives concerning the issue of the external debt, even though the document contained several positive concepts related to this issue. It is worthwhile noticing, however, that it made explicit reference to the need to keep the calculation procedures to gauge the debt sustainability levels under review, and to put in place a set of principles for equitable management and resolution of financial crises. These two elements represent a satisfactory answer to key demands made by developing countries.

- Addressing systemic issues

This section of the Consensus makes reference, on the one hand, to the need to redesign the current international financial architecture; and on the other hand, to the need to revitalize and strengthen the United Nations as a key organization for promoting international cooperation to foster development and to establish an global economic system that benefits all countries on equal terms.

The document underlines the need to enhance coherence, good governance, and consistency of the international monetary, financial and trading systems, in order to complement development efforts at national level. This involves recognizing the multiple dimensions of the “external” factors that are associated to the development process.

The Monterrey Consensus says that “Important international efforts are under way to reform the international financial architecture. Those efforts need to be sustained with greater transparency and the effective participation of developing countries and countries with economies in transition.”⁵

⁵ United Nations. Final Document of the International Conference on Financing for Development. (A/CONF.198/3), p. 15.

Nevertheless, some developing nations have underscored that the reform process should be speeded up and, at the same time, some principles and concepts that are at the very basis of the current international financial system should be modified. In addition, several analysts – particularly from agencies and governments of developing countries – noted that in undertaking such modifications the role of transparent information should not be overly emphasized. An improved and increased information flow – although important – is not going to solve the problem by itself, because the very instability and volatility that currently characterizes international financial markets makes the opinions and expectations of economic agents be more volatile and unpredictable as well. In other words, the information problems that are derived from financial instability are unsolvable, to a great extent, because they are more closely linked to the expectations of economic agents than to the imperfections of the information flows, in the strict sense of the term.

Two issues of particular relevance within the current context are the coordination of macroeconomic policies among the major economies of the world and the role of international financial institutions – particularly the IMF – in preventing potential crises and strengthening the underpinnings of international financial stability. These issues are included in the document, but some scepticism persists about what can really be done in this regard if the current institutional framework remains the same at the international level.

A positive sign is that the document underscores the need to control short-term capital flows and recognizes that it is essential to ensure the effective and equitable participation of developing countries in the formulation of financial standards and codes at the international level.

Another relevant aspect is that this section of the document deals with the need to keep under review the possibility of granting more special drawing rights (SDR) allocations, although based on the principles and standards set forth in the constitutive agreement of the IMF. Since 1981 no new SDR allocations has been made. Consequently, more than one-fifth of the current IMF member countries have never received an SDR allocation, because they joined the fund after the last allocation (which was made on January 1st, 1981). Obviously, the issue is not to grant more SDR allocations, but to enhance their use so that they could be employed in a more effective way as part of financing for development.

In addition, the document calls for consideration by all relevant stakeholders of an international debt workout mechanism, in the appropriate forums, that will engage debtors and creditors to come together to restructure unsustainable debts in a timely and efficient manner.

An important issue dealt with in the document is the need to enhance the effective participation of developing countries in international dialogues with the different institutions under the UN system, the IMF, the World Bank and the WTO.

Another reasonable proposal included in the Monterrey Consensus calls on the Bank for International Settlements, the Basel Committees and the Financial Stability Forum to continue enhancing their outreach and consultation efforts with developing countries and economies in transition at the regional level, and to review their membership, as appropriate, to allow for adequate participation.

Table 6
Initiatives for Development:
VI. Enhancing the coherence and consistency of the international monetary,
financial and trading systems

No.	Initiative	Term	Liaison	Emphasis or type of Cooperation	Nature of the Initiative	SELA
VI.1	Measures to ensure the effective participation of developing countries in the formulation of financial standards and codes at the international level.	Medium	Governments, Fin. Inst. and Int. Org.	North-South	General	Support
VI.2	To increase the availability of high-quality data and analysis as a requisite for objective sovereign risk assessments.	Medium	Governments, Fin. Inst. and Int. Org.	North-South and South-South	General	Support
VI.3	To review the possibility and the need for SDR allocations.	Short	Fin. Inst. and Int. Org.	North-South and South-South	Concrete	Support
VI.4	To consider the creation of an international debt renegotiation mechanism.	Medium	Fin. Inst. and Int. Org.	North-South and South-South.	Concrete	Monitoring
VI.5	Support developing countries so as to enhance their capacity to participate in multilateral forums.	Short	Governments and Int. Org.	North-South and South-South	General	Operation

Source: SELA, based on the Monterrey Consensus; United Nations. Monterrey Consensus, International Conference on Financing for Development. (2002) (New York: UN, document A/AC.257/L.13).

Three of the five proposals linked to the coherence of the international monetary, financial and trading systems are evidently of a general nature. These three proposals relate to the need to improve the availability of data as a requisite for more transparent information and to enhance the participation of developing countries in the formulation of financial standards and in the international financial negotiations. The other two proposals could be considered to be more concrete, as they respond to important demands made by several governments of the South. As a matter of fact, the creation of an international debt renegotiation mechanism and the review of the need for new SDR allocations are two topics that have dominated international debates on the problem of the external debt.

- Staying engaged

This section of the Monterrey Consensus includes the necessary actions to ensure proper follow-up to the implementation of agreements and commitments reached at the Conference.

The proposals are based on the assumption that priority should be given to ensuring a permanent interaction among four multilateral institutions or organizations, namely: the United Nations Economic and Social Council (ECOSOC), the World Bank (WB), the International Monetary Fund (IMF), and the World Trade Organization (WTO). These four institutions would be in charge of coordinating and ensuring the necessary coherent cooperation in order to follow up the agreements reached.

Every two years, the UN General Assembly would review the reports submitted by ECOSOC and the other organizations on financing for development. The dialogue that takes place in the General Assembly about this issue would then become the centre of inter-governmental coordination for the general follow-up to the conference and any other related subjects.

In addition, the Secretary-General of the United Nations was requested in the Monterrey Consensus to submit an annual report on those efforts to follow up the implementation of the agreements and commitments. The document also calls for the convening of an international follow-up conference, whose modalities shall be decided upon no later than 2005.

Table 7
Initiatives for Development:
VII. Follow-up processes

No.	Initiative	Term	Liaison	Emphasis or type of Cooperation	Nature of the Initiative	SELA
VII.1	To promote interaction among different ministries at national level in developing countries.	Short	Governments and Int. Org.	South-South	General	Monitoring
VII.2	To harness the support of the UN regional commissions and other international organizations to follow-up of commitments.	Short	UN and other Int. Org.	North-South and South-South	General	Monitoring
VII.3	To keep the financing for development process on the agenda of all international organizations.	Short	Governments and Int. Org.	North-South and South-South	Concrete	Operation
VII.4	To submit a report on financing for development to the UN General Assembly every two years.	Medium	Int. Org.	North-South	Concrete	Support
VII.5	To hold a follow-up international conference.	Medium	Governments, Fin. Inst. and Int. Org.	North-South and South-South	Concrete	Support

Source: SELA, based on the Monterrey Consensus; United Nations. Monterrey Consensus, International Conference on Financing for Development. (2002) (New York: UN, document A/AC.257/L.13).

Aside from promoting greater interaction among the ministries and agencies at national level that are related to economy and finance in each country – an area in which opportunities should be enhanced in order to include South-South cooperation – three of the remaining four proposals could be considered as more “concrete”. For all of the proposals it is crucial to maintain channels for consultation and coordination among developing countries, with a view to strengthening the influence capacity of the group in international organizations and forums in charge of following up the commitments.

IV. SUMMARIZED CHARACTERIZATION OF THE INITIATIVES

The table below summarizes the proposals or initiatives of the Monterrey Consensus taking into consideration two fundamental aspects: the term or deadline for their implementation or for them to have an actual impact and their nature.

Table 8
Summarized characterization of initiatives:
Initiatives, Deadline for Impact and Nature

Section	Number of Initiatives	Deadline or term for application or to have an impact			Nature of the initiative		
		short	medium	long	General	Concrete	
1	8	3	3	2	4	4	
2	6	5	1	0	4	2	
3	6	3	3	0	4	2	
4	7	3	4	0	3	4	
5	4	2	2	0	2	2	
6	5	2	3	0	3	2	
7	5	3	2	0	2	3	
Total	Abs.	41	21	18	2	22	19
	%	100	51.2	43.9	4.8	53.6	46.3

Source: SELA, based on the Monterrey Consensus; United Nations. Monterrey Consensus, International Conference on Financing for Development. (2002) (New York: UN, document A/AC.257/L.13).

Most of the proposals could be implemented, or would have a repercussion on the aspect they are meant to change, in 1 to 5 years. Actually, 51.2% of them are classified as short-term measures (1 to 3 years), whereas almost 44% could potentially be implemented or have a repercussion in the medium term (3 to 5 years). Therefore, the degree of implementation of most of the commitments reached in the Monterrey Consensus could be measured in the next follow-up international conference that the United Nations would convene in the year 2005. Only 3.8% of the measures identified in this study could be considered as long-term proposal (5 to 10 years) and they are basically linked to other initiatives aimed at modifying the economic structures of developing countries and at materializing fundamental changes in their current institutional framework.

As expected in view of the type of document analysed, of a total of 41 proposals that were included in the Monterrey Consensus, 53.6% are of a general nature. This does not necessarily mean that they are not important, but there is no doubt that it could make it more difficult to establish the criteria that should be followed to put them into effect. On the other hand, as stated before, it is necessary to understand that 46.3% of the proposals were identified as "concrete" in the sense that they refer to more specific aspects of a general problem or that, at least, they contain specific ideas about the objective pursued or about how to implement some of the commitments included in the document.

V. RELATIONS WITH THE OPERATIONAL GUIDELINES OF SELA

As indicated before, a crucial factor to achieve the fullest possible implementation – along with the constant follow-up of the commitments reached in the Monterrey Consensus – is the consensus capacity of developing countries.

The Latin American Economic System (SELA) – as an inter-governmental organization comprising 28 countries of Latin America and the Caribbean whose objective is to provide a system of consultation and coordination for the adoption of common positions and strategies in the region – could play a central role in the whole follow-up process of the commitments entered into by the international community with respect to the issue of financing for development.

This study identifies 15 proposals (36.6% of the total number of initiatives in the Monterrey Consensus) in which the Permanent Secretariat of SELA could assume a monitoring function. This task involves a continuous process of analysis and systematisation of relevant information about the criteria that are being followed at international level in the implementation of the measures or proposals, with a view to making those studies available to the governments of its Member States, or to other subregional groups.

Out of the 41 proposals or initiatives included in the Monterrey Consensus, there are 19 (46.3% of the total) in which SELA and its Permanent Secretariat could, definitely, play a strong support role. Such a function involves the possibility to conduct specific studies, to prepare training programmes for the relevant actors in the implementation process of those the initiatives, or to seek alliances with other international organizations so as to support the implementation of the proposals in such a way that they benefit the countries in Latin America and the Caribbean. This also involves actions that SELA would undertake with a view to encourage regional consensus on measures, mechanisms and ways to implement the above-mentioned initiatives.

Seven of the initiatives included in the document (17.1% of the total) could entail a starring role for SELA, since it could co-participate with governments, financial institutions and other international organizations in the operation or implementation of those initiatives, or of specific aspects related to them.

Table 9
Initiatives for Development and operational guidelines of SELA
(summary)

Section	Number of initiatives	Operational Guidelines of SELA			
		Monitoring	Support	Operation	
1	8	4	3	1	
2	6	1	4	1	
3	6	2	3	1	
4	7	3	3	1	
5	4	2	1	1	
6	5	1	3	1	
7	5	2	2	1	
Total	Abs.	41	15	19	7
	%	100	36.6	46.3	17.1

Source: SELA, based on the Monterrey Consensus; United Nations. Monterrey Consensus, International Conference on Financing for Development. (2002) (New York: UN, document A/AC.257/L.13).

Obviously, the role to be played by SELA and its Permanent Secretariat would be determined, in part, by the level of its own resources and the resources it might obtain from other sources in order to finance the activities that would conduct.

VI. CONCLUSIONS

- The Monterrey Consensus was a step forward in dealing with the issue of financing for development in the present situation. It could be viewed as a document that sums up the minimal conditions in terms of the commitments made by the international community to start solving acute problems such as poverty, low growth rates, low social and productive investment rates, exclusion, and marginal participation in the dynamic international trade flows – which have badly hit the majority of the developing economies.

- Nevertheless, the final document of the Conference on Financing for Development is still perceived by some governments, institutions and actors in the South as a weak collection of agreements. Therefore, it is necessary to undertake a serious process to follow-up, review and improve many of the concepts, principles and mechanisms on which this international consensus is based.
- Consequently, analysing and monitoring the implementation of the initiatives of the Monterrey Consensus – most of them of a general nature – turn out to be a central task for achieving substantial and effective progress as regards financing for development. The consensus capacity that developing countries might show – particularly those of Latin America and the Caribbean – could be a key factor to achieve the objectives and to ensure fulfilment of most of the proposals, in anticipation of the year 2005.
- The Latin American Economic System (SELA) is a valuable tool available to all of its Member States. It has the capacity to give them strong support in the follow-up process of the proposals or initiatives identified in this study. To this end, the organization is determined to make efforts to obtain the necessary resources in order to undertake such an important and useful enterprise.

ANNEX 1
Proposals of the Monterrey Consensus in which SELA could play
an important MONITORING role

No.	Initiative	Term	Liaison	Emphasis or type of cooperation	Nature of the initiative
I.1	To promote investment in basic economic and social infrastructure in DCs.	Long	Governments	North-South	General
I.2	To promote development of domestic financial systems in DCs.	Medium	Governments	North-South	General
I.2.a	- To encourage development of capital markets.	Medium	Governments	North-South	General
I.5	To establish rigorous systems to evaluate the use of financial resources.	Long	Governments	North-South and South-South	Concrete
II.5	To establish measures to mitigate the impact of excessive volatility of short-term capital flows in recipient countries.	Short	Governments	North-South and South-South	General
III.1	To include concrete provisions for special and differentiated treatment for DCs in international agreements.	Short	Governments and international agreements	North-South and South-South	General
III.2	To support projects to foster subregional and regional integration.	Medium	Governments and Int. Org.	North-South and South-South	General
IV.1	To reach consensus on operational procedures of financial and development institutions so as to reduce transaction costs.	Medium	Fin. Inst. and Int. Org.	North-South	Concrete
IV.3	To make those development plans decided upon by recipient countries become the real target of the ODA.	Medium	Governments and Int. Org.	North-South	Concrete
IV.5	To improve ODA targeting to poor sectors.	Short	Governments, Fin. Inst. and Int. Org.	North-South	General
V.1	To continue implementing the debt relief programme for heavily indebted poor countries.	Medium	Governments and Fin. Inst.	North-South	General
V.2	To implement innovative debt negotiation mechanisms.	Medium	Governments and Fin. Inst.	North-South	General
VI.4	To consider the creation of an international debt renegotiation mechanism.	Medium	Fin. Inst. and Int. Org.	North-South And South-South.	Concrete
VII.1	To promote interaction among different ministries at national level in developing countries.	Short	Governments and Int. Org.	South-South	General
VII.2	To harness the support of the UN regional commissions and other international organizations to follow-up of commitments.	Short	UN and other Int. Org.	North-South and South-South	General

ANNEX 2
Proposals of the Monterrey Consensus in which SELA could play
an important SUPPORT role

No.	Initiative	Term	Liaison	Emphasis or type of cooperation	Nature of the initiative
I.2.c	- To develop financial innovations for facilitating access to financing by DCs.	Short	Int. Org. / Governments	North-South	Concrete
I.3	To consolidate equitable and efficient tax systems in DCs.	Medium	Governments	North-South and South-South	General
I.4	To train public sector officials in DCs.	Short	Int. Org.	North-South	Concrete
II.1	To foster innovative developmental financing approaches.	Short	Governments and Fin. Inst.*	North-South and South-South	General
II.2	To create new financing mechanisms (by using debt-for-equity swap mechanisms).	Short	Governments and Fin. Inst.	North-South	Concrete
II.3	To establish consultations mechanisms to create business-enabling environments in developing economies	Short	Fin. Inst., Governments and enterprises	North-South	Concrete
II.4	To promote measures (in both source and destination countries) to improve transparency of information on private flows.	Medium	Governments	North-South	General
III.3	To take measures to foster an enhanced and predictable access to international market for products from the South.	Medium	Int. Org.	North-South and South-South	General
III.4	To extend efforts to remove supply-side constrains in developing countries.	Medium	Governments and Fin. Inst.	North-South and South-South	General
III.6	To strengthen the participation of developing countries in trade negotiations.	Short	Governments, Fin. Inst. and Int. Org.	North-South and South-South	Concrete
IV.2	To enhance the absorptive capacity and the management of external assistance in recipient countries.	Medium	Governments and Int. Org.	North-South	Concrete
IV.4	To enhance recipient countries' contribution to the design of technical assistance programmes.	Medium	Governments and Int. Org.	North-South	Concrete
IV.6	To Improve coordination of technical assistance and measurement of results.	Short	Governments, Fin. Inst. and Int. Org.	North-South	General
V.4	To put in place a set of principles for the management and resolution of financial crises, that provide for fair debt burden sharing.	Short	Int. Org. and Fin. Inst.	North-South and South-South	Concrete
VI.1	Measures to ensure the effective participation of developing countries in the formulation of financial standards and codes at the international level.	Medium	Governments, Fin. Inst. and Int. Org.	North-South	General
VI.2	To increase the availability of high-quality data and analysis as a requisite for objective sovereign risk assessments.	Medium	Governments, Fin. Inst. and Int. Org.	North-South and South-South	General
VI.3	To review the possibility and the need for SDR allocations.	Short	Fin. Inst. and Int. Org.	North-South and South-South	Concrete
VII.4	To submit a report on financing for development to the UN General Assembly every two years.	Medium	Int. Org.	North-South	Concrete
VII.5	To hold a follow-up international conference.	Medium	Governments, Fin. Inst. and Int. Org.	North-South and South-South	Concrete

ANNEX 3
Proposals of the Monterrey Consensus in which SELA could play
an important OPERATIONAL role

No.	<u>Initiative</u>	<u>Term</u>	<u>Liaison</u>	<u>Emphasis or type of Cooperation</u>	<u>Nature of the Initiative</u>
I.2.b	- To develop micro-credit programmes to support SMEs.	Short	Int. Org.	North-South	Concrete
II.6	To promote initiatives to ease the access to information on countries and financial markets.	Short	Governments and Int. Org.	North-South	General
III.5	To take measures to reinforce trade-related training and institutional building, and to support external trade in developing countries.	Short	Governments, Fin. Inst. and Int. Org.	North-South and South-South	Concrete
IV.7	To strengthen triangular cooperation and South-South cooperation on issues relative to technical and financial cooperation.	Short	Governments, Fin. Inst. and Int. Org.	South-South	General
V.3	To keep the debt sustainability analysis and the calculation procedures under permanent review.	Short	Int. Org. and Fin. Inst	North-South and South-South.	Concrete
VI.5	Support developing countries so as to enhance their capacity to participate in multilateral forums.	Short	Governments and Int. Org.	North-South and South-South	General
VII.3	To keep the financing for development process on the agenda of all international organizations.	Short	Governments and Int. Org.	North-South and South-South	Concrete