ADVANCE UNEDITED VERSION

(UNOFFICIAL)

International Conference on Financing for Development
Revised Draft Outcome prepared by the Facilitator

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

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

2. Mobilizing the financial resources and achieving the national and international economic conditions needed to fulfill internationally agreed development goals—including those contained in the Millennium Declaration to reduce poverty and improve social conditions—will be our first step to ensuring that the 21st century becomes the century of development for all.

3. After the September 11 terrorist attacks, the global economic slowdown deepened—further reducing growth rates, and with them, prospects for better living standards. It has now become all the more urgent to enhance collaboration among all stakeholders to jump-start a sustainable recovery and to address the long-term challenges of financing for development. Our resolve to act together is stronger than ever.

4. Development must come from within and the role of national policies cannot be overemphasized. Each country has primary responsibility for its own economic and social development. Yet domestic economies are now interwoven with the global economic system, and national development efforts need to be supported by an enabling international environment.

5. The increasingly interdependent world economy requires a holistic approach to the interconnected national, international, and systemic challenges of financing for development—sustainable, gender-sensitive, people-centered development in all parts of the globe. To this end, coherent actions are needed in each interrelated area of our agenda, with the active partnership of all stakeholders, public and private.

6. As leaders, we will join forces through a strengthened multilateralism. We must fully realize the potential of the United Nations system for fostering worldwide cooperation. Upholding the Millennium Declaration values, we commit ourselves to consolidating the global economic system around the principles of equity, participation, ownership, transparency, and accountability.

II. LEADING ACTIONS

Mobilizing domestic financial resources for development

7. In our common pursuit of growth, poverty eradication, and sustainable development, a critical challenge is to ensure the necessary internal conditions for mobilizing enough domestic savings to sustain adequate levels of investment in productive and human capacity. A crucial task is to enhance the appropriateness, coherence, and consistency of macroeconomic and structural policies. An enabling domestic environment is vital for mobilizing domestic resources, reducing capital flight, and attracting and making good use of international investment and assistance.

8. *Improved domestic governance.* Good governance is essential for sustainable development. Sound national policies and solid institutions are the basis for sustained economic growth, employment creation, and poverty reduction. Freedom, peace and security, respect for human rights and the rule of law, market-oriented policies, and an overall commitment to just societies, are also preconditions.

9. We will consolidate appropriate policy and regulatory frameworks to encourage private and local initiative and foster a dynamic and well-functioning business sector, while improving income distribution, empowering women, and protecting labor rights and the environment. We recognize that the specific mix between market-oriented policies and state intervention will vary from country to country, according to specific circumstances.

10. Fighting corruption is a priority. Taking into account existing instruments, we will negotiate a United Nations comprehensive convention against corruption, including stronger cooperation to eliminate money laundering, terror financing, and other illegal activities—as well as to repatriate transferred funds of illicit origin.

11. *Sound macroeconomic policies.* We recognize the need to pursue sound macroeconomic policies geared to high rates of economic growth, full employment, poverty eradication, price stability, and sustainable fiscal and external balances. Governments should attach priority to avoiding inflationary distortions and abrupt economic fluctuations that negatively affect income distribution and resource allocation. Along with prudent fiscal and monetary policies, an appropriate exchange rate regime is required.

12. *Securing fiscal sustainability. A*n effective, efficient, and accountable system for mobilizing public resources and managing their use by governments is essential. We recognize the need to secure fiscal sustainability through medium-term fiscal frameworks, based upon equitable and efficient tax systems and improvements in public spending that do not crowd out productive private investment but rather support it. We also recognize the potential of international tax cooperation to enhance the scope of national fiscal efforts.

13. *Social security and safety nets.* Investments in basic economic infrastructure and social services including education, health, nutrition, and social security programs—which take special care of children and are gender sensitive and fully inclusive of the rural sector and all disadvantaged communities—are vital to enabling people to better adapt to and benefit from changing economic conditions and opportunities and to contribute to economic activity. Recent economic crises have also stressed the importance of effective social safety nets.

14. *Financial sector strengthening.* We recognize the need to strengthen the domestic financial sector, encouraging the orderly development of capital markets through institutional arrangements that channel savings and foster productive investments, including equity markets.

15. This requires a strong central bank and a solid system of financial intermediation, supported by a transparent regulatory framework and effective supervision mechanisms. It also requires the progressive, voluntary implementation of internationally agreed financial standards.

16. Microfinance and credit for small and medium-size enterprises, including in the rural sector, as well as savings institutions such as postal savings, are important to enhance the social impact of the financial sector. Well managed development banks can be an effective instrument to guarantee access to finance to these enterprises, as well as an adequate supply of long-term credit and the promotion of financial innovations aimed at deepening domestic financial development. We must aim to develop pension schemes that maximize their dual role as social protection and as a source of savings. It is also important to reduce the transfer costs of migrant workers' remittances and explore modalities to encourage their investment in projects of high development impact. Wherever feasible, the informal sector must be incorporated into the formal economy.

17. *Capacity building.* We commit ourselves to strengthening technical assistance to reinforce national efforts in capacity building in areas such as: public finance and public administration, gender budget analysis, financial regulation and supervision, early warning and crisis prevention, and debt management. In the process, we shall particularly address the special needs of Africa, the least developed countries, small island developing countries, and landlocked developing countries.

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

18. Private international capital flows, particularly long-term flows, as well as international financial stability, are a vital complement to national development efforts. Foreign direct investment contributes toward financing development in the long term, in a more stable and orderly fashion than portfolio investment. And foreign direct investment is especially important for its potential to transfer knowledge, skills, and technology, create jobs, boost overall productivity, enhance competitiveness and entrepreneurship, and ultimately reduce poverty through economic growth and development. A central challenge therefore is to attract direct investment flows to a much larger number of developing and transition countries.

19. To attract stable inflows of capital, countries need to continue their efforts to achieve transparent, stable, and predictable investment climates, embedded in sound macroeconomic policies and institutions that allow businesses, both domestic and international, to operate efficiently and profitably and with maximum development impact. Special efforts are required in such priority areas as economic policy and regulatory frameworks for promoting and protecting investments, including avoidance of double taxation; corporate governance and accounting standards; and competition policy. These efforts can be enhanced through technical assistance for capacity building as requested by recipients, including the actions envisaged in the Doha Ministerial Declaration.

20. To complement national efforts, we call on the international financial and development institutions to increase their support for private foreign investment in infrastructure development and other priority areas, including projects to bridge the digital divide. This support includes provision of export credits, risk guarantees, cofinancing, and leverage of aid resources and venture capital, as well as provision of information on investment opportunities. We will strengthen the multilateral financial and development institutions to perform these tasks.

21. While Governments provide the framework within which businesses operate, firms, for their part, have a responsibility to engage as reliable and consistent partners in the development process. We urge firms to consider, in the spirit of good corporate citizenship, not only the economic and financial but also the social and environmental implications of their undertakings.

22. We underscore the need to sustain sufficient and stable private flows of all types to developing and transition countries. In this regard, it is important to design measures, in source and recipient countries, to increase the transparency of financial flows and to contain the excessive volatility of short-term capital flows and of highly leveraged transactions, including trade in currencies; to ensure orderly, gradual, and well-sequenced processes for liberalizing capital flows; and to improve sovereign risk assessment, based on transparent procedures and on well-disclosed, objective economic criteria. Multilateral financial institutions could provide further assistance for these purposes.

International trade as an engine for development

23. Freer trade would substantially stimulate development worldwide, benefiting both industrial and developing countries. The current slowdown in the world economy urges us to reaffirm our commitment towards trade liberalization, and ensuring that trade plays its full part in promoting recovery, growth and development. We thus welcome the WTO's decision reached in Doha to launch a new round of trade negotiations and the intent to place the needs and interests of developing countries at the heart of the WTO work program.

24. To benefit fully from trade, which in many cases is the single most important source of development financing, developing and transition countries must establish appropriate institutions and policies. Trade liberalization is a fundamental element in the development strategy of a country. The active promotion of exports and the attraction of foreign direct investment boost economic growth and are an important source of employment.

25. Nations will only attain full benefits from such reforms if we ensure an open, equitable, rule-based, predictable, and non-discriminatory multilateral trading system. Trade barriers, subsidies, and other trade-distorting measures, particularly in agriculture, have negative effects on developing countries that significantly exceed the value of aid flows—and must be eliminated.

26. To ensure that world trade supports development goals, we will strive to:

- Strengthen the rules and disciplines of the World Trade Organization, to prevent abuses, particularly in antidumping measures; secure full implementation of all commitments made at the Uruguay Round; and facilitate, in non-discriminatory terms, the accession of all developing and transition countries to the WTO.

- Liberalize trade in agricultural products, eliminating export subsidies and substantially reducing production subsidies in developed countries; accelerate the elimination of trade barriers of developed countries in manufactures, particularly labor-intensive manufactures such as textiles and clothing; liberalize trade in services of export interest to developing countries; address the issue of labor migration through rules governing short-term overseas employment; and reduce tariff peaks, eliminate tariff escalation, and make fully operational the special and differential treatment provisions in trade agreements.

- Regarding trade-related intellectual property rights, ensure recognition of traditional knowledge and promote the transfer of knowledge and technology, while providing incentives to innovate, and respecting—in particular—the health needs of developing countries.

We encourage the WTO member countries to make their best efforts to achieve these goals as they implement the WTO work program adopted at Doha.

27. We also commit ourselves to enhancing the role of regional and sub-regional agreements and free trade areas in the construction of a better global trading system. International financial institutions, including the regional development banks, should give priority to projects that support sub-regional and regional integration among developing countries.

28. To speed up our efforts to ensure full and predictable access of developing country exports to all markets, we call on industrial countries that have not already done so, to take immediate steps to benefit the least developed countries, as well as to support the New Partnership for African Development, and the small island, landlocked, and transit developing countries. At the same time, developing and transition countries must reduce, and when possible eliminate, trade barriers among themselves.

29. To further support national efforts to benefit from trade opportunities, we call on multilateral and bilateral financial and development institutions to deepen their support, with additional resources, for removing supply-side constraints, improving trade infrastructure, diversifying export capacity, strengthening institutional development, and enhancing overall productivity and competitiveness.

30. Multilateral help is also needed to stabilize the export revenue of countries that still depend heavily on commodity exports. Thus, we welcome the review and impending activation of the IMF Compensatory Financing Facility. It is also important to empower developing country commodity producers to insure themselves against risk, including against natural disasters.

31. In support of the process launched in Doha, attention should go to strengthening the participation of developing countries in multilateral trade negotiations. In particular, developing countries need assistance to participate effectively in the new WTO work program through enhanced cooperation of all relevant stakeholders, including UNCTAD. To these ends, we undertake to make the financing of trade-related technical assistance and capacity building more secure and predictable.

Increasing international financial cooperation for development

32. *Revitalizing ODA*. Official development assistance plays an essential role as a complement to other sources of financing for development, especially in those countries with the least capacity to attract private direct investment. ODA can help a country to reach adequate levels of domestic resource mobilization over an appropriate time horizon while human capital, productive capacities, and export supplies are expanded. ODA can also help to improve the environment for private sector activity and thus pave the way for robust growth. For countries in Africa and the least developed, small island, and landlocked developing countries, ODA still provides the bulk of external financing and is critical to achievement of the Millennium development goals.

33. ODA cannot be effective in the absence of sound policies and good governance. Hence, a major priority is to build development partnerships among donors and recipients on this foundation, particularly in support of the neediest. The Millennium development goals and other internationally agreed development targets can help countries set short- and medium-term national priorities as the foundation for external partnerships of support.

34. Along with substantial policy improvements in the recipient countries, ODA must at least double if the Millennium development goals are to be achieved. We underscore the need to increase overall ODA to the annual equivalent of 0.7 percent of industrial countries' GNP, including ODA of 0.15 to 0.2 percent of industrial countries' GNP for least developed countries. We commend those donor countries whose ODA contributions reach or exceed these targets and urge others to follow their lead, undertaking multiyear commitments to advance through predictable steps.

35. To raise the political support that is needed to mobilize more ODA, we request the Secretary-General to launch a global information and advocacy Campaign for the Millennium Goals. This campaign should be designed to raise public awareness in industrial countries of the urgency of increasing international development assistance, as a vital investment in building a more secure world for all. The campaign would highlight best practices in the use of aid, especially aid for poverty reduction and economic growth. It will require the active involvement of all relevant stakeholders, including civil society organizations.

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

- Harmonize their operational policies and procedures, reduce transaction costs, and make ODA disbursement and delivery more flexible.
- Avoid burdensome restrictions such as aid tying, and shift from project-based to budget support mechanisms for aid delivery.
- Increase the concessionality of development financing, including greater use of grants, while ensuring full additionality of resources.
- Give recipient countries more influence over the design of technical assistance programs and more control over the use of technical assistance resources.
- Deepen triangular cooperation, including South-South cooperation, as a delivery tool for assistance.

To support these goals, we invite donor countries to consider immediately applying these measures in support of the comprehensive strategy that is embodied in the New Partnership for African Development, as well as in support of least developed, small island, and landlocked developing countries.

37. *Global public goods financing.* To hone a common approach to global public goods, such as the eradication of HIV/AIDS and other major infectious diseases, we need a participatory process for defining such goods and setting priorities and formulating strategies for their provision. That process will require stronger public-private cooperation. Also needed is a dual-track accounting system to differentiate global public goods financing from ODA, since development assistance should not be reduced to pay for global public goods. In some cases, ensuring that global public goods activities are anchored in national and global strategies will require fully additional funding. In others, flexibility and reinforcement of existing mechanisms will help countries take ownership of global public goods-related national programs and put them into practice.

38. *Innovative sources of multilateral development financing.* We recognize the value of exploring innovative sources of multilateral finance to supplement existing sources of official development assistance, humanitarian aid, and global public goods financing. In this regard, we will give careful consideration, in all appropriate forums, to the results of the study requested to the Secretary-General on possible innovative sources of multilateral finance.

39. *Strengthening multilateral development banking.* Multilateral development banks continue to play a vital role in serving the financing needs of developing and transition countries. They contribute to guarantee an adequate supply of finance to countries that lack adequate access to international private capital markets, and partly offset the excessive volatility of such markets that affect countries that have access to them. Regional development banks and sub-regional financial institutions add flexible financial support to national and regional development efforts, enhancing ownership and overall efficiency.

40. We will ensure that the long-term resources at the disposal of the international financial system, including regional and sub-regional institutions and funds, allow them to adequately support long- and medium-term economic and social development; technical assistance for capacity-building; and social protection schemes. We will also enhance their overall lending effectiveness through increased country ownership, more focused conditionality, and closer coordination with the private sector.

Sustainable debt financing and external debt relief

41. Sustainable debt financing is an important option for mobilizing resources for public and private investment. National comprehensive strategies to monitor and manage external liabilities, embedded in sound macroeconomic policies, are a key element in reducing national vulnerabilities and avoiding serious mismatches between financing needs and repayment capacity. Technical assistance for external debt management can play an important role.

42. Noting the importance of providing financial sustainability for the most highly indebted developing countries, we welcome the bilateral initiatives that many governments have undertaken to reduce outstanding indebtedness, and we invite further bilateral and multilateral initiatives in this regard.

43. The Highly Indebted Poor Countries' (HIPC) Initiative provides a unique opportunity to strengthen the economic prospects and poverty reduction efforts of its beneficiary countries, as they commit to sound policies. But a continued effort is needed to reduce debt in low-income countries to sustainable levels, and speedy and full implementation of the HIPC initiative is critical. Any further steps to enhance this initiative should be based on two considerations. First, debt sustainability should be assessed in terms of each country's capacity to raise the finance needed to achieve the Millennium development goals. Second, any new arrangement should avoid imposing burdens on other developing countries.

44. We call on the IMF and the World Bank to propose flexible policy actions for prompt, comprehensive debt relief for least developed, small island, landlocked developing countries and other low-income countries with severe debt-servicing problems, hit by natural catastrophes, suffering severe terms of trade shocks, or emerging from conflict.

45. While recognizing that a flexible mix of instruments is needed to respond appropriately to countries' different economic circumstances and capacities for public expenditure management, we underscore the value of ongoing efforts to support the development of clearer rules for equitable distribution of the cost of crisis-resolution adjustments between the public and private sectors and among debtors, creditors, and investors. We also encourage exploring innovative mechanisms to address debt concerns of developing and transition countries.

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

46. To complement national development efforts, the international monetary, financial, and trading systems need to operate coherently and consistently. To contribute to this end, efforts should be strengthened at the national level to enhance coordination among all relevant ministries and other domestic institutions. Similarly, we must take full advantage of international institutions and policy coordination to meet the goals of sustained economic growth, poverty eradication, and sustainable development.

47. *Reforming the international financial architecture*. Important international efforts are underway to reform the international financial architecture. These need to be sustained. We also underscore our commitment to sound domestic financial sectors, embedded in our national development efforts, as an important component of an international financial architecture supportive of development.

48. Stronger coordination of macroeconomic policies among the leading industrial countries is conducive to greater global stability and reduced exchange rate volatility, which are important elements for enhanced and predictable financial flows to developing and transition countries. In this regard, we acknowledge the coordinated action that was taken by leading monetary institutions after the September 11th events.

49. The multilateral financial institutions, in particular the IMF, should continue to give high priority to preventing crises and to strengthening the underpinnings of international financial stability. In this regard, we call on the Fund to strengthen its surveillance of all economies and to support the timely detection of external vulnerability through well-designed early warning systems.

50. We call on multilateral financial institutions, in providing policy advice and supporting adjustment programs, to work on the basis of nationally owned paths of reform, and to pay due regard to the special needs and implementing capacities of developing and transition countries, aiming at the best possible outcomes for growth and development.

51. A basic priority is to ensure progressive, voluntary compliance with internationally accepted standards and codes of best practice covering macroeconomic policy and data transparency, institutional market infrastructure, and financial regulation and supervision. To ensure that the needs of developing countries are taken into account, it is essential to ensure their adequate participation in the formulation, as well as implementation, of these standards and codes, including through technical assistance for capacity building.

52. We underline the need to ensure that the multilateral financial institutions, particularly the IMF, continue to have enough resources to provide timely, accessible emergency financing, including through possible temporary issues of special drawing rights and readily available contingency credit lines, to countries affected by financial crises or in danger of contagion. In this regard, we also underline the need to enhance the stabilizing role of regional and sub-regional reserve funds, swap arrangements, and similar cooperation mechanisms.

53. To promote fair burden-sharing and prevent moral hazard, we welcome consideration of an international debt workout mechanism, modeled on domestic bankruptcy procedures, such as recently proposed by the IMF, that will engage debtors and creditors to come together to restructure unsustainable debts in a timely and efficient manner. An adequate balance must be struck between such mechanism and the provision of emergency financing in times of crises.

54. Combating money laundering and the finance of terrorism are urgent priorities that require a united front among all member countries. We commit ourselves to work together to eradicate these pernicious activities at all levels.

55. *Improving global economic governance.* Good governance at the international level is also essential for sustainable development worldwide. To better reflect the growth of interdependence and enhance legitimacy, global economic governance needs to improve in two areas: broadening the base for decision making on issues of global concern, and filling organizational gaps. To complement and consolidate advances in these two areas, we must strengthen the UN system, including the World Bank and the IMF.

56. Broadening and strengthening the representation and participation of developing countries in global economic decision-making and norm-setting bodies is essential to ensure the soundness and ownership of agreements, codes, and standards and their effective implementation. Increased consultation with civil society and the business sector is an important component in these efforts, which will also contribute to greater transparency, accountability and responsiveness. To these ends, we welcome further actions to help developing countries build their capacity to promote and defend their interests in multilateral forums.

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

- International Monetary Fund and World Bank: To continue to enhance the role of developing countries in their decision-making and deliberative bodies, taking into account these countries' real economic weight, as well as the need to strengthen the voice of low-income countries.

- World Trade Organization: To ensure that any steering group is representative of the full WTO membership and participation is based on clear, simple, objective criteria.

- Bank for International Settlements, Basel Committees, and Financial Stability Forum: To enhance their outreach and consultation efforts with developing countries at the regional level and to review their membership, as appropriate, to allow for the adequate participation of developing countries.

- Ad-hoc groupings that make policy recommendations with global repercussions: To strengthen their outreach to developing countries and to enhance compatibility with the work of multilateral institutions with clearly defined and broad-based intergovernmental mandates.

58. To address several gaps in global economic governance, we encourage the following actions:

- Strengthen the WTO, by enhancing its capacity to provide technical assistance to developing countries and by upgrading its institutional relationship with the UN to a similar level to that among the IMF, World Bank, and UN, in accordance to UN practices.

- Strengthen the capacity of the International Labour Organization to implement its agreed standards.

- Strengthen the coordination of the UN system and all other multilateral financial and development institutions, including environmental institutions, to more decisively mainstream gender issues into economic and development policies and support growth and sustainable development worldwide.

- Strengthen international tax cooperation through enhanced dialogue among national tax authorities and greater coordination of the work of the concerned multilateral bodies and relevant regional organizations. In particular, we encourage them to engage in an all-inclusive global intergovernmental network of dialogue and interaction, giving special attention to the needs of developing and transition countries.

- Promote the role of the UN regional commissions and the regional development banks in supporting policy dialogue among peers on macroeconomic, financial, and development issues.

59. We attach priority to reinvigorating the UN system as a fundamental pillar for the promotion of international cooperation to make the global economic system work for all. We reaffirm our commitment to enable the General Assembly to play effectively its central role as the chief deliberative, policy-making, and representative organ of the United Nations, and to strengthen further the Economic and Social Council to help it fulfill the role ascribed to it in the UN Charter, including through renewed efforts to reform it.

III. STAYING ENGAGED

60. To build a global alliance for financing for development will require an unremitting effort. We thus commit to keep ourselves fully engaged, to ensure proper follow-up of the implementation of agreements and commitments reached at this Conference, and to continue building bridges between development, finance, and trade deliberations and initiatives, within the framework of the holistic agenda of the Conference.

61. To this end, building on the successful experience of this Conference and the process leading up to it, we shall meet in 2005, rededicating the existing United Nations General Assembly's high level development dialogue as a Forum for the highest economic authorities, open to the participation of all public and private stakeholders associated with the Monterrey Conference.

62. To prepare for the Forum, we have also decided:

- To pursue the continual engagement of our ministries of finance, development cooperation, trade, and foreign affairs, as well as our central banks.
- To harness the active support of the UN regional commissions and the regional development banks.
- To keep the financing for development process in the agenda of the intergovernmental bodies of all stakeholders, and encourage similar attention by business and civil society organizations.
- To establish an agile set of interactions for substantive engagement among ECOSOC, IMF, WB, WTO, UNCTAD, and UNDP, as well as relevant regional bodies. To this end, we will build on the experiences of the ECOSOC high level policy dialogue and the ECOSOC-Bretton Woods institutions meetings.

63. To underpin these efforts, we request the Secretary-General to provide—with collaboration from the secretariats of the major institutional stakeholders concerned, fully utilizing the ACC mechanism—all necessary support to the follow-up of the implementation of the agreements and commitments reached at this Conference.