Independent
Research
Forum

IRF2015

BACKGROUND PAPER 1

Towards a Monterrey 'Plus' Outcome:

The 2002 Monterrey Consensus and what is needed for a post-2015 sustainable development finance agenda

Romilly Greenhill and Gideon Rabinowitz
Overseas Development Institute

February 2015

Please send any comments to:
Romilly Greenhill (r.greenhill@odi.org.uk)
Gideon Rabinowitz (g.rabinowitz@odi.org.uk)

The Monterrey Consensus: A brief review of the financing agenda

The 2002 Monterrey Consensus on Financing for Development (FfD) was the first major international agreement to focus attention on development financing issues, with the Millennium Summit and agreement on the Millennium Development Goals (MDGs) providing the backdrop. Monterrey included commitments on aid, but also a number of other issues being emphasised in the post-2015 financing agenda. The Monterrey Consensus is therefore a good place to start for a list of commitments in 2015. Important elements included:

Domestic resource mobilisation (DRM), including a focus on macroeconomic policies, good governance, policy and regulatory processes, corruption, sustainable and equitable fiscal systems, basic social and economic investments and domestic financial markets.

Private capital and developing the private sector including the need to: develop domestic and international conditions to facilitate private flows; for international actors to help facilitate developments in this area (including through the use of public private partnerships, co-financing, venture capital and other lending instruments, risk guarantees, leveraging aid resources); promote transparency; and to tailor polices to country context.

Growth is an area strongly emphasised, alongside poverty reduction and sustainable development. Domestic resource mobilisation, good governance, appropriate private sector policies, foreign direct investment (FDI), strong macroeconomic policy, trade and aid are seen as important ingredients for growth.

Aid, technical cooperation and debt management are identified as of primary significance to countries with lower levels of domestic resources and private capital, including many in Africa, Least Developed Countries (LDCs), Small Island Developing States (SIDS) and land-locked countries. There is a call for aid to leverage other sources and to be better targeted at the poor. There is a reiteration of the 0.7% target and a commitment to channel 0.15%-0.2% of Gross National Income (GNI) to LDCs. There is also a strong focus on effectiveness of Official Development Assistance (ODA).

Systemic issues – with explicit reference in the Monterrey Consensus to reform of international financial institutions (IFIs), the need for a debt workout mechanism, and the importance of financial stability.

Progress in implementing the Monterrey Consensus has been mixed. Aid and debt relief have increased significantly, with developing countries also mobilising increased levels of domestic resources and private finance (although it is not clear to what extent FfD has facilitated this trend.) There has been less visible progress in areas such as trade, private investment beyond extractive sectors in the low-income countries, international tax cooperation, financial sector development and addressing the financing challenges of the most vulnerable countries.

This mixed picture on implementation may be due to the fact that the Monterrey Consensus contained very few concrete actionable commitments (aid commitments being the main exception), which signatories could be held accountable for delivering. There also wasn't a strong and transparent accountability process to follow-up and incentivise implementation. It therefore will be important for the Addis Ababa FfD agreement and follow-up process to address these shortcomings.

Updating Monterrey: A changing global context and a new set of goals

It is well known that the global economic context within which the Sustainable Development Goals (SDGs) will be financed has changed dramatically since the Monterrey Consensus. In particular:

- Developing and emerging economies have been driving global growth over the past decade, and many countries have graduated to Middle Income Country (MIC) status. This has helped to reduce poverty, although progress has been very uneven across and within countries. At same time inequality has spiked in several countries.

- Developing countries have also been expanding domestic tax revenues at a rapid rate, giving much more scope for development to be funded domestically. The average ratio of tax/Gross Domestic Product (GDP) rose from 23% in 2000 to nearly 29% in 2011.[1] However, low-income countries have seen a less rapid growth, with the tax/GDP ratio reaching only 22% in 2010.[2]

- All the main sources of finance in developing countries have been expanding rapidly over the past decade. For example, FDI inflows and workers remittances tripled in nominal terms between 2001 and 2010.[3]

- The relative importance of ODA vis-à-vis other forms of finance has declined in MICs. ODA/GDP ratios nearly halved during the 2000s, whereas tax revenues, FDI and workers' remittances have all seen an upward trend.[4]

- There has been a rapid growth of non-traditional forms of development assistance, including South-South Cooperation (SSC), philanthropic assistance, and climate finance. In 2000, these flows only accounted for $5.3bn, or 8.1% of total development assistance, while by 2009, these flows had increased ten-fold to $53.3bn, or 30.7% of total development assistance.[5]

- The 2008 global financial crisis has led to changes in regulation to facilitate stability. While regulations were necessary, they may deter necessary investments in developing countries by discouraging investors to take risks.

- There are now stricter international rules around governance and transparency to combat to corruption and terrorism.

One of the critical elements of the SDG agenda is that it is considered 'universal': applying to *all* countries, not just developing ones. The SDGs also represent a wider agenda than the MDGs. There are three particularly important changes, all of which point to the need for an integrated financing framework that addresses all three dimensions of sustainable development

- The SDGs include a commitment to **'end poverty in all its forms everywhere.'** This is a significant change in ambition from the MDG commitment to halve income poverty. Poverty has reduced rapidly in recent years, from 43% in 1990 to 17% in 2011[6]. Further progress up to 2030 will be very dependent on trends in growth and inequality, and will be a much more difficult challenge than the progress made over the MDG period. This is because those remaining in poverty between now and 2030 are in harder to reach groups. This includes those living in fragile and

---

[1] International Monetary Fund World Economic Outlook Database 2012, online access at http://www.imf.org/external/pubs/ft/weo/2012/02/weodata/index.aspx.
[2] Ibid.
[3] World Bank World Development Indicators 2012, online access at http://data.worldbank.org/data-catalog/world-development-indicators/wdi-2012.
[4] Ibid.
[5] Greenhill, R., Prizzon, A., and Rogerson, A., (2013) 'The Age of Choice: Developing Countries in the New Aid Landscape'. London: ODI.
[6] World Bank's PovCal Net, online access at http://iresearch.worldbank.org/PovcalNet/.

conflict affected states, people in rural areas, ethnic minorities, the young and the old. These groups are much less likely to be brought out of poverty by growth alone. Moreover, the climate challenge will make the poverty challenge more difficult.

- A focus on **growth and structural transformation.** The proposed SDGs include a commitment to 'promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.' This was not included within the MDGs, although, as noted above, it was given prominence in the Monterrey Consensus. Meeting this goal will require harnessing of all forms of development finance, particularly private finance, to ensure they promote growth which is both sustainable and inclusive. Infrastructure financing will be key priority to meet this goal.

- A focus on **environmental sustainability,** which played a minor role in the MDGs. In the proposed SDGs, there is a commitment to 'take urgent action to combat climate change and its impacts,' to preserve oceans, and to sustain and restore ecosystems (Goals 13-15). Further, goals on cities, water, energy, and food include targets for environmental sustainability. Meeting these goals will require ensuring that all forms of finance promote sustainable development, and that finance makes the maximum contribution towards this goal.

Key elements of a post-2015 financing agenda

The FfD agenda is potentially very broad. For the purposes of this paper, we cannot cover all relevant topics, including trade, remittances, innovative financing and so on. We have instead chosen to focus on core issues of domestic public finance, international public finance, and private finance (both domestic and international), in line with the framework developed by the Intergovernmental Committee of Experts on Sustainable Development Financing. We also briefly discuss systemic issues.

Commitments on Domestic Public Finance

Monterrey noted the importance of domestic resource mobilisation for development financing, and the growth in domestic revenues makes this issue even more relevant in 2015. Core elements of Monterrey including on good governance, policy frameworks etc., remain relevant. Since Monterrey, two issues have increased in prominence. The first is greater consideration of spending, as well as revenue decisions. The second is greater attention to international systemic issues which can undermine domestic resource mobilisation, particularly tax evasion and illicit flows.

Potential policy commitments could include:

- Commitment to ensure that public spending targeted to individually consumed essential public services reaches at least [$300] per person per year, or [10 percent] of GNI, whichever is the highest;

- All countries commit to programmes to help domestic resource mobilisation reach at least [18 per cent] of GDP in low-income-countries, [20 per cent] of GDP in lower-middle income countries (LMICs), and higher levels in upper-middle-income countries;

- Increasing ODA for building tax capacity and strengthening technical assistance;

- Ensuring tax incentives are in line with sustainable development, and removing wasteful incentives, including by agreeing to phase out harmful direct and indirect fossil fuel subsidies, while compensating the poor;

- Adoption, and agreement on burden sharing of funding of, national social protection floors to nationally defined benefit levels;

- Commitments to tackle corruption and improve public financial management at country level, including by implementation of the UN Convention on Corruption;

- Enhancing multilateral, automatic exchange of tax information through tax authorities for all countries;

- Strengthening regional tax administration networks and South-South knowledge sharing, supported by a global forum for sharing experiences;

- Agreeing to an international definition of illicit financial flows (IFFs) and mandating impartial official estimates;

- Enhancing financial transparency by country-by country reporting of the tax information of transnational corporations;

- Accelerating stolen asset recovery, including through UN Convention on Corruption peer reviews.

Maximising the potential of private flows to promote growth

Monterrey included a strong focus on the role of the private sector, including on public-private partnerships, co-financing, risk guarantees and using ODA to leverage the private sector. These commitments remain important. As we have seen, private flows have grown significantly since Monterrey, and continue to have a key role to play in supporting growth and structural transformation, including in funding sustainable infrastructure. Three things are needed: mobilisation of sufficient volumes of private financing in order to fill financing gaps for the SDGs; ensuring that private finance is channelled into investments which promote sustainable and inclusive growth; and actions to promote 'good corporate citizenship' on behalf of private actors.

- **Policy commitments to help unlock long-term capital for sustainable development.** There is considerable scope for public actors to set policies that will encourage greater flows of private finance in support of sustainable development objectives. Policy measures must be disaggregated sufficiently in terms of their impact on goals and targets so that the link between outcomes, policy change and the provision of additional financing by private actors is made clear. Some policy prescriptions like 'improve domestic financial markets and open capital markets' can help to create the right environment for private capital flows, but there are different issues in each sector that warrant more specific attention.

  The table below shows examples of areas where there are policy and institutional blockages to the flow of long-term private capital into core sustainable development sectors.[7]

[7] Kharas, H., and McArthur, J. (2014) 'Mobilising Private Investment for post-2015 sustainable development.' Washington DC: The Brookings Institution.

Investment category	**Common missing pieces**		**Institutional implications for global actors**
	Regulatory, procedural or policy	**Public investment or fiscal support**	
Infrastructure and decarbonisation	Project preparation: regulatory agency strengthening; domestic financial intermediaries; long-term political risk insurance	Commitments to carbon pricing: more willingness to use guarantees and first-loss instruments; public finance for enhanced credit mechanisms	Larger multilateral mechanisms that support project preparation and provide public non-concessional loans; adequately funded climate funds to subsidise clean energy; harmonised procedures among development finance institutions
Agriculture	Comprehensive national agricultural plans; subsidy procurement price reform; land and water regulations; organisation of farmer associations to more easily link into global value chains	Investment in roads, ports and storage; credit systems; climate and crop insurance systems	Agricultural research in developing countries; large scale support for agricultural credit; country-level public-private partnerships; national agricultural transformation agencies
Extractive industries	Community consent; transparency requirements for exploration and negotiation	Sustainability of local social service provision; local development benefits	Establishment of national sovereign wealth funds and/or prudent budget policies for managing natural resource wealth

- <u>**Leveraging private finance using public resources**</u>**.** As well as setting the policy framework, public actors can directly seek to leverage private finance. This is a well-known policy commitment in SDG and FfD discussions. However, there are no widely agreed concepts and metrics that can benchmark the intent and/or effect of public-private financing combinations, and no common standards to help judge whether or not a private investment has been triggered by some specific public support. This is partly due to the lack of a counterfactual by which to gauge the catalytic impacts of the public support given, compared to a purely private alternative. Public agencies are also failing to account consistently for their inputs, i.e. which pieces of international public finance (IPF) [8] are particularly associated with private finance and which are not. There are no common definitions, for example, on leverage, and reporting is weak and inconsistent, notably on the use of guarantees. Priorities for Addis could be to:

- Establish basic metrics for private finance for development;
- Recognise the importance of guarantees in IPF targets;
- Agree standards, set transparency requirements for public-private partnerships, and mandate an organisation to increase oversight of such mechanisms.

- **Promoting greater adherence to international agreement and standards on sustainable development by private sector actors.** There have been a number of financing initiatives such as the Equator Principles, UNEP-FI and the Global Compact which have sought to promote greater engagement of the private sector with the MDG agenda. These have all had limited success, and far more is needed now to shift global financing flows towards sustainable investments. Policy priorities could include:
  - Providing incentives for companies to internalise adverse externalities through taxation and subsidies;
  - Creating international frameworks to ensure implementation of the UN's Guiding Principles on Business and Human rights and other similar standards;
  - Establishment of generally accepted sustainable development accounting principles with endorsement form the world's top 20 institutional investors, including sovereign wealth funds and pension funds.

Updated commitments on concessional international public finance[9] (ODA and non-ODA)

The Monterrey Consensus included commitments on volume, effectiveness and allocation of ODA. These were important, and arguably helped to spur progress in the intervening period. Core elements included in the Monterrey Consensus, such as the commitment to 0.7% and aid effectiveness, remain highly relevant.

However, two important changes should be noted since Monterrey. The first is the growth of non-ODA providers of concessional international public finance, particularly SSC providers. ODA-equivalent SSC was estimated to be $11.5bn in 2009,[10] or almost 10% of ODA, and this figure is likely to grow. For this reason, we no longer talk about 'ODA' here, but 'concessional international public finance', although noting that a large sub-section of concessional IPF consists of ODA from Development Assistance Committee (DAC) donors. The second significant change has been the fact that, between now and 2030, poverty will be increasingly concentrated in fragile and conflict affected states. This will require different approaches to delivering IPF and to IPF effectiveness in the post-2015 period.

[8] International Public Finance is defined as 'financial interventions by a nation state, or a multilateral organisation, to secure public policy outcomes outside national boundaries. IPF includes grants, loans (concessional and non-concessional), equity investments and guarantees, from both DAC and non-DAC donors'. (Glennie and Hurley, 2014). IPF therefore includes, but goes beyond, ODA.
[9] Concessional IPF is defined as that which meets the ODA eligibility thresholds, whether or not it is provided by a DAC member.
[10] Greenhill, R., Prizzon, A., and Rogerson, A., (2013) 'The Age of Choice: Developing Countries in the New Aid Landscape.'

Priority policy options for concessional IPF include:

- **Volume.** There is still a significant need for additional concessional IPF to meet the SDGs. Provisional estimates by ODI suggest that the core social investments alone (social protection, health and education) will require an additional $75bn per year,[11] over and above current ODA, and other SDGs will require additional concessional IPF.
    - The FfD agreement could reinforce commitment to 0.7% for DAC members, and consider new metrics or targets for non-DAC providers. Voluntary targets for non-official providers such as foundations and philanthropists could also be considered.
- **Allocation.** At present, very low income countries (less than $500 per capita) receive only $70 per year per poor person. LMICs receive an average of $300 per poor person.[12] Yet ODI has calculated that most MICs can meet basic needs for social protection, health and education from their own resources, particularly if they collect the maximum feasible tax revenues.
    - The FfD agreement could consider a target of 50% of ODA going to LDCs, as proposed by the OECD's Development Cooperation Report 2014, amongst others.
- **Effective delivery of IPF.** Monterrey included commitments to aid effectiveness which pre-dated the 2005 Paris Declaration on Aid Effectiveness.[13] Core elements of Monterrey remain important, including ownership, alignment, and harmonisation. The Paris agenda has stalled, not least because it does not reflect the views and priorities of non-DAC IPF providers, including middle-income countries who are not members of the DAC and were not involved in the Paris agreement. However, effectiveness questions remain critical, including in fragile states contexts, in which risk-sharing is also important.
    - The FfD agreement could consider making a commitment to a new IPF effectiveness agenda, incorporating the priorities of non-DAC as well as DAC donors. This could incorporate elements of the Paris Declaration, plus additional principles such as risk-sharing, adaptability, long-term commitments and speed. The Global Partnership for Effective Development Cooperation could be mandated to take the lead on this agenda.
- **Architecture.** Monterrey did note the importance of multilateral and regional development banks, but did not include strong recommendations on multilateralism. It did not make strong commitments on pooled funds, which were embryonic at the time. The 2015 FfD agreement could consider highlighting the potential of multilaterals, including pooled funding mechanisms, to help improve coordination, allocation and predictability of IPF, as well as supporting government ownership and leadership. This is particularly relevant for fragile states. However, existing multilaterals will need reform, including of their governance, to make them 'fit for purpose[14].' Priority actions for the FfD agreement could include:

---

[11] See Manuel and Hoy (forthcoming)

[12] See Marcus Manuel, "Getting to zero poverty by 2030 – stop giving more to those that need it the least." Development Progress. Online access at http://www.developmentprogress.org/blog/2014/10/07/getting-zero-poverty-2030-%E2%80%93-stop-giving-more-those-need-it-least.

[13] The 2005 Paris Declaration included commitments on ownership, alignment, harmonisation, results and mutual accountability. See http://www.oecd.org/dac/effectiveness/parisdeclarationandaccraagendaforaction.htm.

[14] Particular priorities will include reform of International Financial Institution (IFI) governance to ensure stronger representation of developing countries; ensuring that IFIs are able to be more flexible in their approaches, particularly in fragile states; and improving coordination between multilaterals and other agencies.

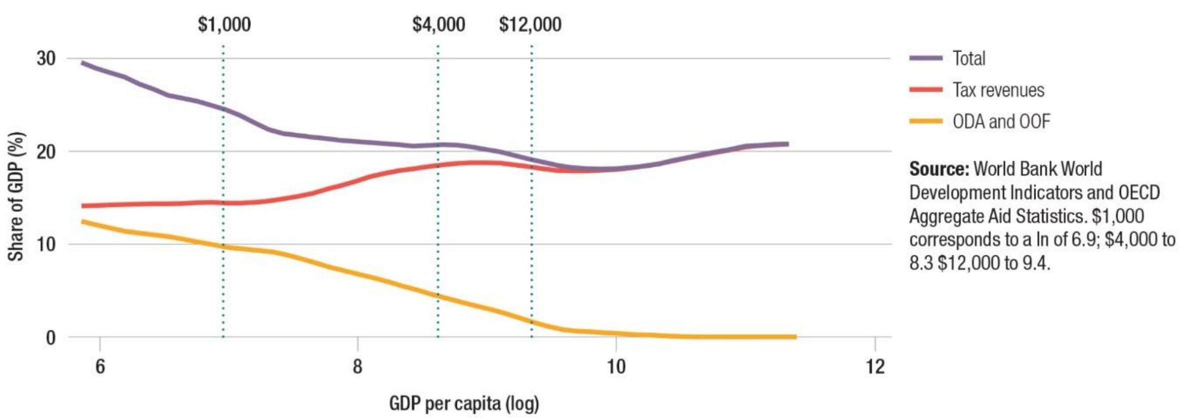
- Making a commitment to strengthen the multilateral architecture in fragile states[15];
- Establishing a pooled fund to help finance social protection floors in the poorest countries;
- Strengthening pooled funding mechanisms for other sectors.

Commitments on non-concessional international public finance

Non-concessional IPF, or 'other official flows' (OOF), were not referenced in the Monterrey Consensus, as the volume of such flows were very small at the time. However, an increasing number of countries having progressed to MIC status over the past decade, meaning that they receive less ODA and non-concessional IPF has become more important for this group. Many SSC providers also provide IPF on non-concessional terms, but there is very little information about the volume and use of such flows. Given the 'universal' nature of the SDGs, it will be important to consider how SSC can also be incorporated into an SDG financing framework.

Recent analysis suggests that there is a 'missing middle' pattern, whereby just as many countries start to emerge from very low income status, their growth is constrained as domestic taxes and foreign private and market-related public borrowing all fail to expand fast enough (and some to expand at all) to compensate for decreasing concessional assistance. The latter falls too quickly in relation to desirable public development investments (see Figure 4).[16]

Figure 4. ODA, OOF, tax revenues as a share of GDP by per capita income



26 Financing the post-2015 Sustainable Development Goals

---

[15] Including by bringing the World Bank and IMF into a more effective UN peace-building and state-building framework; improving coordination between the UN Security Council and the UN Peace-building commission; and streamlining support by the international community for justice and policing.
[16] Kharas, H., Rogerson, A., and Prizzon A. (2014) 'Financing the Sustainable Development Goals: A Rough Roadmap.' London: ODI.

Priority policy areas to address this challenge in Addis could include:

- **Volume:** Enable multilateral organisations, particularly the Multilateral Development Banks (MDBs) to increase lending to LMICs.

- **Reporting:** Agree a new international indicator for non-concessional International Public Finance, and set a new UN-agreed international target. Monitoring of progress towards this target could be undertaken by the UN, the Global Partnership for Effective Development Cooperation, or a new UN-led Multilateral Aid Committee.

Systemic Issues

Monterrey referenced reform of the IFIs, the need for a debt workout mechanism, and the importance of financial stability, all of which remain important issues today. In the wake of the 2008 financial crisis, financial stability and mechanisms to deal with financial crises have become more important than ever. Potential policy areas for inclusion under this heading include:

- Substantially increasing the volume of quote-based resources to the IMF;

- Improving international coordination on financial and monetary policies;

- Enhancing regulation and deepening supervision of under-regulated financial markets such as shadow banks and banks that are 'too big to fail', with a view to promoting financial stability along with access to credit and equitable and sustainable growth;

- Further enhancing the vote and voice of developing countries into the governance of the IMF and World Bank;

- Negotiating a multilateral legal framework for sovereign debt restructuring;

- Ensure all international governance, rules and standards, including for trade, intellectual property rights, banking and insurance regulation, or accounting standards, are consistent with the objective of sustainable development.

Ensuring that all financial flows promote sustainable development

Climate change and other environmental challenges were not addressed substantially in the Monterrey Consensus. However, there is now a greater focus on the need for financial flows to promote, and not undermine, sustainable development. This objective needs to be mainstreamed across all the forms of finance identified earlier. However, additional, specific policy commitments could include:

- Ensuring that all financial flows, including public, private, domestic and international, promote rather than undermine sustainable development objectives;

- Use of international public finance to catalyse sustainable private finance, including through improving policies, regulations, governance and institutions for sustainable development;

- Creation of separate accounting protocols for climate adaptation and mitigation finance.

Conclusions: Ensuring implementation of the 'Addis Consensus'

We have noted that, while Monterrey included a number of relevant commitments, many of them were not implemented. There is need for the Addis agreement to more clearly consider how to ensure stronger accountability for the commitments made. A few options would be:

- Ensuring that all commitments made are SMART (specific, measurable, assignable, realistic and timebound);
- Ensuring that no commitment is included in the outcome document without clarity on who is delivering it and a monitoring mechanism for tracking progress;
- Designing a mechanism that can deal with complaints and 'compliance failure';
- Exploring options to encourage business groups, such as the Global Compact, the Global Reporting Initiative, and the World Business Council for Sustainable Development to report periodically on how business contributes to the SDGs;
- Ensure effective follow-through and accountability on FfD commitments in all major international fora, including the G7/8 and G20, the United Nations, the meetings of the MDBs, and major business groups.

Sources

Greenhill, R., Prizzon, A., and Rogerson, A. (2013) 'The Age of Choice: How are developing countries managing the new aid landscape?' London: Overseas Development Institute (ODI).

Greenhill, R. and Prizzon, A., (2012) 'Who foots the bill after 2015? What new trends in development finance mean for the post-MDGs.' London: Overseas Development Institute (ODI).

Kharas, H., and McArthur, J. (2014) 'Mobilising Private Investment for post-2015 sustainable development.' Washington DC: The Brookings Institution.

Kharas, H., and McArthur, J. (2015) 'Nine Priority Commitments to be made at the UN's July 2015 Financing for Development Conference in Addis Ababa, Ethiopia.' Washington DC: The Brookings Institution.

Kharas, H., Rogerson, A., and Prizzon, A. (2014) 'Financing the Sustainable Development Goals: A Rough Roadmap.' London: Overseas Development Institute (ODI)

Sustainable Development Solutions Network (SDSN) 'Financing for Sustainable Development: Implementing the SDGs through Effective Investment Strategies and Partnerships.' New York: SDSN.