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On the  
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**PROGRESS REPORT ON IMPLEMENTING THE MONTERREY CONSENSUS**

Attached for the September 28, 2002, 66<sup>th</sup> meeting of the Development Committee is a report entitled "Progress Report on Implementing the Monterrey Consensus" prepared by the staff of the World Bank and the International Monetary Fund which will be considered under Item I.1 of the Provisional Agenda.

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THE WORLD BANK AND INTERNATIONAL MONETARY FUND

**Progress Report on Implementing the Monterrey Consensus**

Prepared Jointly by the staffs of the World Bank (PREM)  
and the IMF (PDR)  
for the Fall 2002 Development Committee Meeting

(In consultation with other departments)

September 25, 2002

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## Progress Report on Implementing the Monterrey Consensus

1. The April 2002 Development Committee provided an early opportunity to assess the outcome of the Monterrey conference and discuss implementation of the Monterrey consensus including the roles of the Bank and the Fund.<sup>1</sup> Ministers welcomed the “very important progress achieved in the Monterrey Consensus towards laying out a new partnership compact between developed and developing countries, based on mutual responsibility and accountability, to achieve measurable improvements in sustainable growth and poverty reduction”. They recognized that country-owned and driven development strategies embodying sound policies and good governance had to be the starting point for this partnership, and that such strategies needed to be supported by increased and more effective development assistance. They committed themselves “to the implementation of these strategies and partnerships...as part of the scaling up of activities necessary for implementing the Monterrey Consensus and to meet the Millennium Development Goals” and agreed to regularly review progress at future meetings of the Committee.
2. The World Summit on Sustainable Development (WSSD) just held in Johannesburg reaffirmed and complemented the agreements reached in Monterrey and Doha. Over 180 member states participated including 104 Heads of State. An estimated 21,000 participants drawn from government, NGO, private sector and inter-governmental organizations attended the event. A political declaration and an action plan on sustainable development were successfully negotiated. In addition, the event spurred a number of initiatives involving a broad range of stakeholders. The Bank and the Fund participated actively in the preparatory processes and the event itself. The Bank’s *2002 World Development Report* which highlighted the challenges of sustainable development beyond the 2015 horizon drew a lot of attention. IFC played a lead role in the discussions on corporate social responsibility. In addition, the Bank launched four initiatives comprising a global village energy partnership, the Community Development Carbon Fund, the Amazon Rainforest program, the Gas Flaring Initiative and an Agricultural Science Assessment process.
3. As a result of the successive high-level events beginning with the Millennium Summit and Declaration, there is currently unprecedented agreement among the international community on the urgent need for a concerted and coordinated effort in the fight against poverty. There is also greater consensus on the means to attain this goal. In particular, the Monterrey consensus creates an architecture of mutual responsibility, based on a two-pillar approach, for reaching the UN Millennium Development Goals (MDGs):

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<sup>1</sup> *Financing for Development: Implementing the Monterrey Consensus*, (DC2002-0008, April 12, 2002). In his note to the Development Committee, President Wolfensohn set out a seven-point program for implementing the Monterrey Consensus.

- Developing countries take primary responsibility for implementing policies, improving governance and strengthening institutional capacity to accelerate growth and reduce poverty.
- The international community takes responsibility for buttressing these efforts with greater, better harmonized, and more comprehensive support through aid, market access, debt relief and technical assistance.

4. The Bank and the Fund are providing support in the implementation of actions on both pillars. Most of the areas flagged in the Monterrey and Johannesburg discussions for additional efforts on the part of the Bank and the Fund were already on the strategic agenda of the BWIs, including the need for comprehensive strategies, ownership, partnership and a focus on results in terms of poverty reduction and the MDGs. As part of the stepped-up commitment of the international community, the Bank and the Fund aim to intensify their efforts in a number of areas as highlighted in the last report to the Development Committee.

5. The remainder of this paper provides an overview of progress since April 2002 in implementing the Monterrey consensus focusing on the roles of the Bank and the Fund but also reviewing key actions by other stakeholders. The UN Secretary-General has also issued detailed reports on the Monterrey outcome and follow up.<sup>2</sup> This paper focuses on three aspects of the follow-up agenda: (a) work on the Millennium Development Goals which provides the framework for efforts of countries and the international community in supporting development and poverty reduction; (b) progress on the part of developing countries to strengthen policy and institutional frameworks; and (c) progress on implementing the commitments made by the international community on the global development partnership. The action plans to implement the Monterrey agenda are still evolving, and in view of the limited time that has elapsed since Monterrey, the paper focuses primarily on ongoing efforts. There are two companion papers for the Development Committee prepared by the World Bank.<sup>3</sup> The first responds to the specific request from Ministers to report on efforts to enhance the focus on results, by countries, donors and development agencies. The second reports on the lessons and challenges for development effectiveness and ‘scaling up’ that emerge from case studies of development experience in three different sectors.

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<sup>2</sup> *Outcome of the International Conference on Financing for Development* and a report on *Follow-up efforts to the International Conference on Financing for Development* (August 8, 2002, [www.un.org/esa/ffd/](http://www.un.org/esa/ffd/) ).

<sup>3</sup> *Better Measuring, Monitoring, and Managing for Development Results* (DC2002-0019, September 17, 2002); and *Development Effectiveness and Scaling Up: Lessons and Challenges from Case Studies* (DC 2002-0018, September 23, 2002).

## A. Progress on the Millennium Development Goals Agenda

6. The Millennium Development Goals establish quantified and time-bound targets for the development and environmental goals of the United Nations Millennium Declaration, based on the goals and targets of global conferences and summits held in the last decade. Together they represent a major milestone in global cooperation and commitment to development.<sup>4</sup> Although much is underway, there is no room for complacency as the risks of not attaining the Millennium Development Goals are considerable.

7. The 2002 *World Development Indicators* provide an update on progress toward the Millennium Development Goals. The key findings are:

- There has been significant progress toward the attainment of the MDGs, not only on poverty but on other dimensions such as universal primary education, gender equality in education, and child mortality, although progress has been uneven.
- Many middle-income countries have met or exceeded the proposed targets or have set more ambitious goals for themselves. But even in better-off countries there are often regions or ethnic groups that lag far behind.
- Facing the greatest challenge are the 63 poorest countries of the world. As the recent *Global Poverty Report*<sup>5</sup> concludes, the most persistent poverty and widest gaps remains in Sub-Saharan Africa. On current trends, it is the only region where the number of people living in extreme poverty will increase—by more than 100 million between 1990 and 2015. Child and maternal mortality rates remain extremely high and the spread of epidemic diseases will continue to undermine development efforts.
- Significant gaps in the available data need to be addressed in order to better monitor progress, set priorities, and ensure the effective use of public and private resources.

8. Recent activities related to MDGs and the next steps proposed by the UN to implement the MDG agenda are summarized in Annex 1. The Bank and the Fund play a key role in the implementation of the MDG strategy through the PRSP process. In addition, they are contributing to the overall strategy in a number of ways:

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<sup>4</sup> For a list of the MDGs, see [www.UN.org/millenniumgoals/](http://www.UN.org/millenniumgoals/).

<sup>5</sup> *Achieving the Millennium Development Goals in Africa: Progress, Prospects, and Policy Implications*, Global Poverty Report 2002, July 2002, prepared by the African Development Bank and the World Bank in collaboration with the IMF and other regional development banks.

- First, Bank and Fund staff have been actively involved in the UN Department of Economic and Social Affairs (DESA)-led work on the development of indicators to measure progress towards the MDGs.
- Second, the Bank and the Fund have committed to provide data for an annual statistical report, and technical assessments of overall progress to the UN Secretary-General's annual progress report and the five-year comprehensive report. As part of the *World Development Indicators* and the *Global Poverty Report*, the Bank will continue to provide summary assessments and analysis of progress on MDGs to the Development Committee and the international community, and will collaborate and coordinate with the UN and DAC on assessments and reporting.
- Third, the Bank and Fund are exploring concrete ways to enhance cooperation with the UNDP for country-level monitoring of MDG implementation within the context of PRSPs;
- Fourth, the Bank is contributing to the preparation of country case studies on obstacles and opportunities to accelerate progress towards the MDGs. Six studies have been completed or are in process for Vietnam, Argentina, Uganda, Armenia, Bangladesh and Yemen.
- Fifth, the Bank and Fund will participate in the Millennium Project, through Bank and Fund senior level representation in the UN Experts Group and staff participation in the task forces, with the Bank participating in all and the Fund in those that are relevant to the Fund's work.
- Sixth, the Bank and the UN will jointly organize a seminar this Fall on *Global Poverty Mapping* which will consider how to develop a map for all developing countries that identifies better who and where the poor are and the underlying causes of poverty.
- Seventh, the Bank and UNDP have agreed to coordinate on the content, analysis and preparation of the 2003 *World Development Report on Making Services Work for Poor People* and the 2003 *Human Development Report* which will focus on the Millennium Development Goals.
- Eighth, in order to help address the deficiencies in statistics needed for underpinning PRSPs and monitoring of progress on MDGs, the Bank and the Fund have stepped up efforts on statistical capacity building, including to improve coordination among data producers, users and donors through PARIS 21, an international consortium for statistical advocacy in developing countries. The Fund is leading the PARIS 21 Task Team on statistical capacity building indicators that are designed to help countries strengthen their statistical capacity. These indicators are designed to help track, *inter alia*, progress under poverty reduction strategies. The World Bank is also working on a broad-based effort—STAT CAP—to support national statistical capacity at the country level, building

on the PARIS 21 partnership and delivered through country-specific lending operations focused on statistical capacity building. In collaboration with other partners and donors, the Bank is considering providing small grants for statistical capacity building and developing a lending operation that could provide the basis for more systematic and sustained support for statistical capacity building. Recently, the Fund, in close collaboration with the Bank and other agencies, has introduced a series of regional projects that use the Fund's General Data Dissemination System (GDDS) as a framework to help countries toward sustainable improvements in the capacity to produce and disseminate economic and socio-demographic statistics. The first and largest project to date focuses on 14 Anglophone African countries, with the Fund providing support for capacity enhancement on economic statistics and the Bank on socio-demographic (including poverty) data in the context of a large-scale medium-term program.

9. The WSSD fostered a broad-based dialogue on long-term sustainability, global equity and inclusion and on the centrality of poverty reduction. The general outcomes built upon the agreements reached at Doha and Monterrey by:
- (i) Stressing the importance of the *quality of growth*—economic growth that embeds within it environmental and social responsibility including on the part of the corporate sector.
  - (ii) Clarifying that poverty is at the heart of long-run sustainable development.
  - (iii) Reconfirming the MDGs as pillars for sustainability but, recognizing the need to think beyond 2015 towards the middle of the century.
  - (iv) Promoting the need to think comprehensively and to engage broad-based multi-stakeholder coalitions and partnership reflected in the prominent role for the private sector.
  - (v) Identifying agriculture and water as key sectors for sustainable development and, in the case of agriculture, calling for the elimination of OECD subsidies that were argued to be a barrier to sustainable development.
  - (vi) Recognizing the need to address unsustainable consumption and production patterns and a committing to establish a ten-year framework.

A number of **specific targets** were also agreed to:

- (i) In addition to the MDG target of halving the number of people unable to access safe drinking water by 2015, it was agreed also to halve the number of people without basic sanitation by 2015.
- (ii) Countries agreed to reverse the trend in biodiversity by 2010 and to restore collapsed fish stocks by 2015.

- (iii) Chemicals with a detrimental health impact will be phased out by 2020.
- (iv) Energy services will be extended to 35% of African households over the next ten years.
- (v) Food strategies for Africa will be developed by 2005.

10. The Summit and the lead up to it also provided the impetus for a number of actions including: the largest to date replenishment of the GEF (\$2.92 billion) and pledges at the Summit on the part of several countries to provide additional resources; the announcement by a number of countries (Russia, Canada) to ratify the Kyoto Protocol and thus allow it to enter into force; a number of special initiatives and funding commitments by donors to key issues related to agriculture research, water, energy, mining and biodiversity; and the creation of a task force to study the provision of global public goods.

## **B. Developing Stronger Country Policy and Institutional Frameworks**

11. The commitment to strengthen policies, governance and institutions by developing countries is a central pillar of the Monterrey consensus. During the 1990s, developing countries recorded significant improvements in their domestic policy and institutional frameworks, with commensurate results. Macroeconomic imbalances were sharply reduced on average, developing countries further increased their participation in the global economy, growth accelerated to levels that were for the first time higher than those of industrial countries, and substantial inroads were made in the fight against poverty and the attainment of the millennium development goals. Even poor countries in sub-Saharan Africa that had suffered setbacks in the previous decade saw significant improvement. During the last six years, around a dozen countries in Africa recorded growth in excess of 5 percent per annum and a dozen and a half countries recorded growth in excess of 4 percent. As a result of improved policies, some countries in sub-Saharan Africa have also been able to withstand better the current downturn in contrast to previous shocks.

12. Despite these improvements, sustained reforms and institution building are needed even in reforming countries.<sup>6</sup> The MDGs will only be met in most low-income countries through raising and sustaining growth for the coming decade. Thus it is crucial to remove the remaining obstacles to high growth, and to ensure that the poor share in the benefits of growth.

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<sup>6</sup> The *Country Policy and Institutional Assessments* that the Bank undertakes of policy, governance and institutional performance for around 135 developing countries indicates an improving trend in the 1990s (with the average rating improving from 3.0 in 1995 to 3.4 in 2001) but there remain performance gaps in many reforming countries and overall ratings remain weak (less than 3.0) in around 30 countries.



13. Country-owned poverty reduction strategy papers, or PRSPs, serve as the basic framework for Bank and Fund support for these reform efforts in low-income countries, and the Monterrey consensus underlined the centrality of nationally-owned poverty reduction strategies in reaching the MDGs. A separate joint Bank-Fund progress report on PRSP implementation, prepared as background for the Development Committee and the IMFC, reaffirms many of the strengths and challenges identified in the approach in the joint March 2002 Review of the PRSP.<sup>7</sup> Results-based indicators are being built into the PRSP framework which will help track progress, assess the poverty-reduction impact of policies contained in PRSPs, and signal the need for corrective action. While most MDG goals are included in PRSPs, different indicators are often used to assess progress in implementation. Some areas covered by the MDGs, e.g., many of the environment indicators apart from water and sanitation, receive less coverage in PRSPs.

14. As the focus shifts from preparing PRSPs to implementing the strategies they set out, a number of challenges are emerging. At the Development Committee Meeting in April, Ministers looked forward to “continued progress in extending the participatory processes for the elaboration and monitoring of PRSPs, implementing pro-poor growth policies, enhancing collaboration to strengthen public expenditure management and to improve poverty and social impact analysis; and, amongst multilateral and bilateral development agencies, in better aligning their programs with country strategies.” Other areas requiring increased attention include better prioritization of spending, improved costing of policy measures more focus on intermediate indicators, and more parliamentary involvement. The review of the PRGF earlier this year found that, while a good start had been made in linking the PRSP and PRGF-supported program objectives, it would be useful to have more focus on improving the quality and efficiency of public spending, more discussion of PRGF-supported program design and alternative scenarios, and more research on growth and poverty links. IDA has approved six Poverty Reduction Support Credits (PRSCs). Work on a review of PRSCs and Bank programmatic policy-based lending, scheduled for later in FY03, is underway.

15. Recognizing that limited capacity is a major impediment to PRSP/PRGF implementation, the Fund has been providing more focused and prioritized technical assistance, improved its coordination with other technical assistance providers, and has significantly expanded its network of regional training institutes, programs and technical assistance centers. The Fund will soon establish two African Regional Technical Assistance Centers (AFRITACs) in Dar es Salaam and Abidjan modeled on regional centers in the Caribbean and the Pacific, which should further support improved coordination.<sup>8</sup> To assist regional coordination of capacity building, the Fund became a member of the Africa Capacity Building Foundation in May 2002. Bank efforts are

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<sup>7</sup> *Poverty Reduction Strategy Papers – Progress in Implementation* (IDA/SecM2002-0453, August 9, 2002; and SM/02/250, August 6, 2002).

<sup>8</sup> The core functions of these centers will be in the areas of macroeconomic policy, tax policy and revenue administration, public expenditure management, monetary and exchange rate policy, financial sector sustainability, and statistics.

focused on a new multi-donor trust fund for capacity building, jointly administered with the UNDP. The Bank is also stepping up its support for capacity building more broadly including by strengthening technical assistance from local offices and expanding World Bank Institute training and learning programs.

16. The Bank and the Fund have also been providing support to the New Partnership for Africa's Development (NEPAD) which aims to promote growth and sustainable development, eradicate poverty, and halt the marginalization of Africa in the globalization process. The Partnership recognizes that peace, democracy and good governance are preconditions for investment, growth and poverty reduction, and that Africa must eliminate the obstacles to sustained growth in order to achieve the MDGs.

17. At the request of the NEPAD Steering Committee, Bank and Fund staff have attended NEPAD conferences and workshops, and provided inputs and advice on a range of topics including economic governance (Fund), agriculture and market access, infrastructure development and education (Bank). Recently, Fund staff assisted an AfDB delegation in developing practical proposals for prioritizing standards and codes and designing a peer review mechanism.

18. The Bank and the Fund have also stepped up work and support to developing countries in three policy areas that were highlighted in the Monterrey consensus as being of particular importance for domestic resource mobilization—tax policy and administration, strengthening of financial systems, and improving the environment for private investment, including foreign direct investment. In collaboration with the OECD, the Bank and the Fund have established an *International Tax Dialogue* to foster exchange of views and experience on key tax policy and administration issues and improve the coordination of technical assistance activities in these areas. The initiative will look to strengthen collaboration with other partners including the UN. In the financial area, the joint Financial Sector Assessment Program (FSAP) is now a well established instrument to undertake systematic assessment and provide enhanced support to developing countries for strengthening financial systems—to date the FSAP has covered 30 developing economies as well as 11 advanced economies and 16 economies in transition.<sup>9</sup> The Bank has put in place a program to undertake *Investment Climate Assessments* as a tool to measure and compare investment climate conditions in countries in a more systematic way. Under a joint initiative of the managements of the IMF and the World Bank, investor councils are being created in several African countries to facilitate dialogue between governments and private companies about the conditions affecting private investment.

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<sup>9</sup> Includes FSAPs completed or under way as of August 31, 2002. In addition, joint reviews of the FSAP and of the related program on *Reports on the Observance of Standards and Codes* (ROSCs) are under preparation for review by the Boards after the Annual Meetings. In collaboration with bilateral donors, the Bank and the Fund have established a multi-donor facility (the *Financial Sector Reform and Strengthening Initiative*) to provide follow-up support for policy reforms and institution building in the financial sector and related infrastructure.

## C. Progress in Delivering Global Commitments

### i. Increasing Aid and Improving Development Effectiveness

19. The Monterrey conference and the consensus document recognized the critical importance of higher volumes of aid to support reform and development efforts of the poorest countries. In the lead up to Monterrey and subsequently, major donors have made individual and collective announcements of significant increases in their ODA targeted to the poorest countries especially in sub-Saharan Africa. In addition, IDA donors reached agreement on a new replenishment, the largest in IDA's history.

20. The bilateral announcements include:

- A pledge by the United States to increase funding for official development assistance by \$1.7 billion in 2004, \$3.3 billion in 2005 and \$5.0 billion in 2006 and beyond, representing a 50 percent increase over current levels. These additional funds will be placed in a "Millennium Challenge Account" with funds allocated to developing countries that demonstrate a strong commitment to good governance, health and education, and sound economic policies that foster enterprise and entrepreneurship, including more open markets and sustainable budgets.
- At their summit meeting, the European Union countries pledged to increase official development assistance to reach an average of 0.39 percent of GNP from the current level of 0.33 percent, with EU countries below the current level committing to reach at least 0.33 percent by 2006. This could amount to an annual increase of \$7 billion by the year 2006. Several countries including Finland, Belgium, Ireland, Luxembourg, the Netherlands and Sweden reaffirmed their commitment to meet or exceed the UN ODA target of 0.7 percent. Others have set intermediate targets higher than the EU benchmark. The UK has announced an increase of around \$2.2b in its annual ODA budget by 2005, raising the GNP ratio from 0.32 to 0.4 percent. France has pledged to increase its ODA by 50 percent to reach 0.5 percent of GDP over the next five years.
- Canada has set aside an additional \$500 million to implement the objectives of the G-8 Africa Action Plan based on the New Partnership for Africa's Development (NEPAD), and committed to increase its aid budget by 8 percent annually, leading to a doubling by the end of the decade. Speaking as chair and on behalf of the G-8 Countries after their Summit in June, the Canadian Prime Minister also announced that "in aggregate half or more of our development assistance commitments announced at Monterrey could be directed to African nations that govern justly, invest in their people and promote economic freedom."
- Norway announced the launching of an Action Plan for Combating Poverty, and pledged to increase ODA from its current level of 0.92 percent of GDP to 1 percent of GDP by 2005.

- The Swiss Government announced its plans to increase its ODA to 0.4 percent of GNP by 2010 from 0.34 percent in 2000.

21. On multilateral aid, a landmark agreement was reached by donors on IDA's thirteenth replenishment. Under IDA13, roughly \$23 billion, representing an increase of 18 percent over IDA-12, will be made available to the world's poorest countries during the coming three years. In addition, IDA13 included two notable innovations in the way in which IDA reaches out to its clients.

- **Grants:** By expanding the use of grants for countries and programs, IDA will increase the overall concessionality of its financing. Grants are expected to comprise about 18-21% of IDA13 resources, and will be focused on priority areas and be given predominantly to the poorest countries to maximize their effectiveness. The allocation of such grants will be governed by IDA's existing principles and mandate.
- **Focus on Results:** IDA13 will establish results-based performance measurement to help ensure that IDA's resources achieve the greatest possible impact on poverty reduction. To this end, a measurement system will be put in place and in addition some selected indicators will be targeted during the IDA13 period.

22. In addition to these moves towards securing the quantity of aid needed to meet the MDGs, Monterrey brought renewed attention to the quality of aid, an area of long-standing interest to the Bank and the Fund. Leading up to Monterrey and to the Spring Meetings, the Bank undertook a major review of the lessons on development effectiveness.<sup>10</sup> The focus now is to operationalize these lessons with four key objectives in mind: (a) targeting aid to countries, programs and projects where it can have greatest impact; (b) working together within country-led frameworks; (c) providing more comprehensive and predictable financing including for recurrent costs where appropriate; and (d) improving the cost-effectiveness of aid. Achieving these results and ensuring the effective use of the larger volumes of aid that are now in prospect will require much closer collaboration amongst all donors—MDBs, bilateral donors and the UN system. The common commitment to the MDGs and the widespread acceptance of the PRSP/CDF approach has given momentum to improving donor alignment and harmonizing aid practices. This now needs to be built upon through a concrete program of action on donor collaboration.

23. As described in the two companion papers, the Bank and the Fund are pursuing a broad program of work to contribute to the efforts underway to improve aid effectiveness:

- First, continuing to promote greater coherence in donor assessments of country policies and institutions. Towards this end, IDA will continue to enhance its

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<sup>10</sup> *Development Effectiveness, Partnership, and Challenges for the Future* (DC2002-0006, April 9, 2002).

performance-based allocation system, strengthen the dialogue with other donors and review options for sharing information and for public disclosure. In addition to country economic and policy assessments, the Bank will contribute to efforts to develop, where appropriate, performance benchmarks and indicators for priority programs and sectors as was done to underpin the Education for All Initiative.

- Second, promoting the use of PRSPs, and the countries' own budget frameworks and donor coordination mechanisms to ensure better donor alignment and secure adequate amounts, appropriate concessionality, and more predictability in donor financing.<sup>11</sup> To underpin such a programmatic approach, the Bank and the Fund have stepped up efforts to improve public financial accountability in recipient countries including mechanisms for expenditure tracking. Also, the Fund has improved the prioritization of its technical assistance to align it better with macroeconomic policy reform priorities and to take into account the authorities' commitment to capacity building.
- Third, ensuring that the Bank's and the Fund's own instruments remain appropriately flexible so as to provide support tailored to different country and program circumstances in coordination with other donors.
- Fourth, promoting greater cost-effectiveness in donor support, not only through reducing donor fragmentation, but also by achieving harmonization and streamlining of donor practices. The Bank and the Fund are working closely with the DAC Taskforce on donor practices, and, in collaboration with the MDBs, the Bank has mounted a major effort on harmonization of operational policies, procedures and practices. A status report on this effort has been provided as a background document. In collaboration with DAC/OECD and the other MDBs, the Bank will be organizing a major conference on harmonization in early 2003.
- Fifth, as described in the accompanying paper on enhancing development results, the Bank has mounted a major program in collaboration with the MDBs, the DAC and other agencies to increase the results orientation of the individual and collective efforts of countries and the donor community. The OECD/DAC is proposing to organize a Development Partnership Forum in December 2002 to take forward this agenda in collaboration with the Bank and other partners. The OECD/DAC is also organizing an *Expert Meeting on Aid Effectiveness and Aid allocation: Integrating Multiple Development Objectives* in early 2003.
- Sixth, given the inherent difficulty of attributing country outcomes to individual agency contributions, the Operations Evaluations Department of the Bank has been discussing with other donors the implications of a country-led and more coordinated donor support for intra- and inter-agency evaluation systems.

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<sup>11</sup> The increasing willingness of virtually all donors to rally around country-owned PRSPs augurs well for donor alignment and aid effectiveness, but needs to be underpinned by a continuous dialogue between multilateral and bilateral donors.

- Seventh, increasing support to developing countries for better monitoring and statistics, results-based management systems and evaluation.
- Eighth, researching and learning from evidence on the ground (as undertaken through the case studies covering three areas) and committing to sharing knowledge with countries and donors. The Development Gateway, the Global Development Learning Network, the DAC and other multilateral fora can all provide useful platforms for enhancing information sharing and policy discussion.
- Ninth, the Bank is proposing more systematic engagement in countries that have not yet put in place policies needed for aid effectiveness, including through more extensive and frequent economic and sector work, support for capacity building, and working with partners who are more engaged in these countries.

## ii. Debt Relief

24. The Monterrey consensus underlined the importance of getting an early and enduring resolution to the long-standing debt problem of the poorest countries. The IMF and the World Bank have been playing a key role in the HIPC Initiative designed to address the problem, and the two staffs have prepared a joint report on status of implementation.<sup>12</sup> The report shows major progress in a number of respects:

- About two-thirds of countries identified as potentially eligible now benefit from debt relief under the enhanced Initiative. Of those eligible, 26 have already reached their decision points, including 6 that have reached their completion points.
- Together with associated debt forgiveness, total assistance committed so far represents a reduction in the outstanding debt stock of about US\$40 billion in NPV terms, or a two-thirds reduction in the overall debt stock of these countries. This will substantially reduce annual debt-service payments for most of these countries to less than 10 percent of exports.
- Debt relief provided to date has helped these countries increase annual social expenditures from around 6 percent of GDP on average in 1999 to a projected 9 percent in 2002—more than three times the amount of debt service.
- Most HIPCs now track expenditures to help monitor the use of resources freed up by debt relief, although improvements in expenditure monitoring are still needed in many countries.

25. The report identifies the key challenges ahead in bringing the remaining countries to their decision points, working with countries to get them to their completion points,

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<sup>12</sup> *Heavily Indebted Poor Countries (HIPC) – Status of Implementation*, (IDA/SecM2002-0467, August 19, 2002; and SM/02/264, August 16, 2002).

ensuring a sustainable exit from the Initiative, and preserving long-term sustainability beyond the HIPC Initiative. In reviewing these challenges, it also considers the implications for debt sustainability of recent economic developments including declines in commodity prices. These challenges can be met with concerted efforts of the HIPC countries, full participation of all creditors and continued support from the donor community. The Initiative has flexibility on a case-by-case basis to top up relief at the completion point when countries experience a fundamental change in economic circumstances due to exceptional exogenous shocks, as was recently done for Burkina Faso. Recent indications of donor support could help meet the shortfall in expected financing needs of the HIPC Trust Fund. These announcements, such as that of the G-8 to fund their share of the shortfall, will now have to be converted into firm commitments. The decision by IDA donors to provide up to 40 percent in grant financing to HIPC countries that are assessed to be vulnerable post-HIPC will also strengthen debt sustainability. Any modifications to the Initiative to increase debt relief would require additional donor financing to avoid eroding the capacity of multilateral creditors to provide financial support to the poorest countries.

### **iii. Increased Opportunities from Trade**

26. Monterrey recognized that the opportunities offered by trade are critical for more rapid growth and poverty reduction, and also that market barriers and domestic constraints have made it difficult for many developing countries to take full advantage of the potential benefits from trade. Accordingly policy coherence was a central concern in Monterrey, and the discussions stressed that improved trade access would contribute to greater aid effectiveness.

27. WTO members have committed in the context of the Doha Development Agenda to negotiations aimed at substantially improving market access for agricultural and industrial products, particularly for developing countries. While access has improved recently with the introduction of the EU's "Everything-but-Arms" initiative, the United States' African Growth and Opportunity Act and other similar schemes, greater and faster progress is required in opening markets and phasing out trade-distorting subsidies in industrial countries, particularly for agriculture, textiles and labor-intensive manufactures.<sup>13</sup> The next WTO Ministerial being hosted by Mexico in September 2003 will set the framework for the negotiations.

28. The Bank and the Fund have stepped up their efforts on the trade and development agenda, working closely with the WTO within a coherent framework and based on their respective comparative advantages. The two staffs have recently produced

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<sup>13</sup> In his recent initiative on *Concrete Actions of Japanese Government to be taken for Sustainable Development—Towards Global Sharing*, Prime Minister Koizumi announced that Japan intends to examine how to expand duty-free and quota-free access for LDCs for the fiscal year beginning April 1, 2003.

a joint paper on market access,<sup>14</sup> which examines patterns of protection in merchandise trade and suggests ways of making the multilateral trading system more supportive of development. The recommendations of the paper, in particular, the elimination of tariff peaks and the decoupling of agricultural support from production levels, as well as the acceleration of the removal of import quotas in textiles and clothing are particularly relevant to the current Doha Round of the WTO trade negotiations. Fund Article IV consultations with industrialized countries now provide candid assessments of the implications of trade and agricultural policies on low-income countries. The Bank and the Fund also encourage developing countries to reduce their own barriers to trade, and to mainstream trade issues in their poverty reduction and growth strategies. In this context, Fund staff will undertake a review of Fund trade policy advice in the first half of 2003. The review will examine the implementation, sequencing and impact of such advice, with a view to assessing its overall effectiveness. The Bank has established a new Trade Department to scale up and consolidate its research, policy and operational support on trade.

29. The Doha Development Agenda places new emphasis on capacity building and technical assistance. The Integrated Framework for Trade-related Technical Assistance, chaired by the WTO, and in which both the Bank and the Fund participate, has been revamped. As part of this collective effort, the Bank is leading work on country diagnostics of trade policy and infrastructure, and is coordinating the efforts to integrate trade in development strategies for least-developed countries. The Fund provides technical assistance in customs administration and other priority areas identified in the diagnostic studies.

#### **iv. Provision of Global Public Goods and Strengthening the International Financial Architecture**

30. The preparatory discussions and the Monterrey conference highlighted the importance of a clearer international strategy on global public goods (GPGs) related to the attainment of the MDGs, and flagged this as an area for further work. Also given the focus on financing for development, the Monterrey discussions underlined the importance of broader access by developing countries to international capital and the need for greater stability in international capital flows.

31. Over the last few years, the Bank has devoted considerable attention to the global public goods agenda as it pertains to development, and to defining its role given its mandate and comparative strengths. The Bank has also strengthened its management of global programs, through clearer criteria for selection of and exit from such programs and through stronger fiduciary and operational oversight. The Bank has also been engaged in discussions with the other MDBs, and a joint MDB Taskforce has just completed a report on *MDB Support for Global Public Goods Provision*. These discussions and the Development Committee's own past discussions have highlighted five areas for Bank and

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<sup>14</sup> *Market Access for Developing Country Export—Selected Issues* (SecM2002-0456, September 5, 2002; and SM/02/280, August 28, 2002).



MDB engagement, working in partnership with the relevant international agencies:  
(a) fighting infectious/communicable diseases; (b) improving the global environment;  
(c) promoting an orderly movement of goods, capital and knowledge across borders;  
(d) encouraging global financial stability and an enabling investment climate; and  
(e) creating and disseminating knowledge on development issues.

32. In each of these areas, the contribution of the Bank and other MDBs should reflect their areas of comparative advantage. Defining and developing GPGs will normally be best done by agencies specially established or focused to address specific global public goods issues, such as UNAIDS, WHO, GEF and certain public-private partnerships. The Bank and other MDBs involvement will be complementary to the efforts of specialized entities providing loans, concessional credits or grants to support the provision of GPGs. In most cases, MDBs will be a part of a considerably broader coalition delivering GPGs, and these coalitions will be different for different aspects of global public goods provision. A high level task force on the provision of global public goods was launched at the World Summit on Sustainable Development under the sponsorship of France, Sweden and the UNDP. This taskforce is expected to play an important role in shaping an international strategy, and the Bank and the Fund intend to play an active role in its deliberations.

33. One aspect of the global environment that received particular attention in Monterrey is the functioning of international capital markets. The increasing integration of global financial markets has produced a remarkable increase in the volume of private capital flows to developing countries, helping to finance a rapid expansion of investment and economic activity. However, growing global economic and financial integration has also heightened vulnerability of emerging market countries to financial market volatility, external shocks, and contagion.

34. In the past two years, the Fund in cooperation with the Bank and other agencies, has taken further steps to help prevent capital market crises, and increase the resilience of the international financial system. It has substantially refocused its surveillance activities to strengthen its analysis of members' vulnerability to currency and balance of payments crises. The Fund and the Bank have also contributed to strengthening the international financial architecture through their joint work on Financial Sector Assessment Programs and helping members to implement standards and codes.<sup>15</sup> Looking forward, the Fund will continue to help its members reduce their vulnerability to crises, including by strengthening its analysis of debt sustainability. With regard to crisis resolution, the Fund has reviewed and streamlined its financial facilities to better support members' policy reforms during crisis periods. It is reviewing the framework under which it provides contingent credit to its members, with the aim of both encouraging them to take the

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<sup>15</sup> In July 2002, the Executive Boards of the IMF and the World Bank conditionally added the Financial Action Task Force (FATF) 40 + 8 Recommendations to the list of standards for which ROSCs are prepared, and endorsed methods for undertaking Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) assessments and preparing ROSCs.

actions needed to avert crisis and giving Fund financial support in the event of contagion. A review of access policy in capital account crisis situations is underway, clarifying the conditions for and amount of access to Fund financing, taking into account the adequacy of the Fund's resources.<sup>16</sup> The Fund continues to work on the framework for restructuring a country's debt when it becomes unsustainable. In this context, it has set out an ambitious program of work on a possible Sovereign Debt Restructuring Mechanism (SDRM), and on increased use of collective action clauses in international bond contracts. The objective of the SDRM is to create an international regime that will facilitate agreement between a debtor and its creditors when a restructuring is unavoidable, without causing unnecessary destruction of economic property or of creditors' assets.

#### **v. Strengthening Institutional Governance and Partnerships**

35. As part of the systemic agenda, the Monterrey consensus stressed the importance of improving coherence through better coordination of efforts amongst international institutions and agencies, the donor community, the private sector and civil society. There was also broad agreement that the best approach was to build on existing institutions and mechanisms, and to strengthen partnerships and linkages including those between the Bank and Fund and the UN. The Monterrey discussions also highlighted the importance of promoting greater participation and voice of developing countries in international institutions and fora.

36. The Fund and the Bank have been giving a great deal of attention in recent years to the governance and effectiveness of their institutions, and implemented a broad range of reforms. For the Fund, the key reforms have included major changes in transparency and disclosure, and the setting up of an independent evaluation office. For the Bank, the steps have included further improvements in transparency, disclosure and accountability including in the budget process, strengthening of analytic and diagnostic capacity, strengthening the country assistance strategy process, improvements in financing instruments, and combined efforts to improve the preparation, structure and format of Development Committee meetings. The Fund and the Bank have taken a series of steps to strengthen collaboration between the institutions; the Bank and other MDBs have put in place a revamped framework for collaboration; the Bank and Fund have intensified their collaboration with the WTO; and both institutions have stepped up their presence and engagement with the UN.

37. The Fund is continuing the Twelfth General Review of IMF Quotas in light of developments in the international economy, and continues to encourage steps to implement the Fourth Amendment (SDR allocation). In the IDA-13 process, selected developing countries were asked to participate in key discussions for the first time. To ensure better and broader participation in the preparations and discussions on the

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<sup>16</sup> These reflections are part of the ongoing discussions in the context the Twelfth General Review of Quotas. A progress report will be prepared for the IMFC on Board discussions on the size and distribution of IMF quotas.

Development Committee deliberations for this fall, including on the Monterrey agenda, a roundtable was organized on September 11. In addition to representatives of the Development Committee, relevant agencies including the UN, the DAC/OECD, the EU and the Commonwealth Secretariat participated in the meeting.

38. The Bank and Fund have also been discussing with the UN, and with ECOSOC in particular, how to stay engaged on the implementation of the follow-up agenda from Monterrey.<sup>17</sup> At its organizational meeting in July 2002, ECOSOC reaffirmed its commitment to “make full use of the ECOSOC/BWI/WTO dialogue” that takes place following the Spring meetings. ECOSOC members underlined the “need for a well prepared and focused agenda” and called for continued contacts with the Bank and Fund to shape the agenda and format of the discussions. The Bank and the Fund, through Board representatives and at secretariat level, will continue discussions with the UN and ECOSOC on how to best stay engaged on the Monterrey agenda.

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<sup>17</sup> The Report of the Secretary-General on follow-up provides an overview of the actions of the United Nations on the monitoring and continued engagement on the Monterrey agenda.

## RECENT ACTIVITIES AND NEXT STEPS ON THE MDG AGENDA

1. Since the Spring Development Committee meeting, there have been a number of activities and events aimed at shaping and focusing the agenda for follow-up on the MDGs. These include:

- Agreement at expert level (involving 26 agencies and 90 experts) on the 48 indicators to monitor the MDGs, including refinement of the indicators for the environment and Goal 8;
- The UN Secretary General's Annual Report on Progress towards Implementing the Millennium Declaration and a more detailed report prepared by the UN Department of Economic and Social Affairs;
- The "OECD Action for a Shared Development Agenda" adopted as part of the 2002 OECD Ministerial ([www.oecd.org/EN/document/0,,EN-document-590-17-no-12-29673-590.00.html](http://www.oecd.org/EN/document/0,,EN-document-590-17-no-12-29673-590.00.html)) and an update on the role of the DAC in supporting the MDG agenda;
- Joint IADB, WB, UNDP and ECLAC Seminar on *Facing the Challenges for Achieving the Latin America and Caribbean Millennium Development Goals* which concluded with the signing of a letter of intent committing the participating multilateral institutions to work together ([www.iadb.org/exr/PRENSA/2002/cp12802e.htm](http://www.iadb.org/exr/PRENSA/2002/cp12802e.htm));
- An *International Policy Dialogue on the MDGs* organized jointly by the UNDP, the German Foundation for International Development and BMZ in Berlin, June 27-28, 2002;
- The joint UNDP/UNECA Forum on the *MDGs in Central and Eastern Africa: Campaigning for Action* in Addis Ababa in June 2002;
- A focus on human resources development and the related MDGs at this year's ECOSOC high level segment in July 2002 ([www.un.org/esa/coordination/ecosoc/hl2002/index.htm](http://www.un.org/esa/coordination/ecosoc/hl2002/index.htm));
- Completion of several pilot *MDG country reports* by different agencies, including for Bolivia, Cambodia, Cameroon, Chad, Madagascar, Mauritius, Nepal, Tanzania and Vietnam.

2. In consultation with other agencies including the Bank and the Fund, the UN has formulated a strategy on MDGs, which has four core elements:

- (i) **Monitoring:** Systematic and sustained tracking and review of progress towards the MDGs to keep the spotlight firmly on the MDGs, inform global and national campaigns, and turn the goals and targets into widely recognised measures of successful international co-operation in support of sustainable development.
  - (ii) **Analysis:** Definition and assessment of the policy dimensions of achieving the MDGs based on a consensus among partners on necessary policy and institutional reforms and investments, financing options and strategies for scaling-up their efforts
  - (iii) **Campaigning/mobilization:** Collaboration with a wide range of partners to foster a self-sustaining movement, extending well beyond the UN system, which mobilises the commitments and capabilities of broad segments of society to build awareness and galvanise public opinion in support of action on priorities, policies and resource allocations.
  - (iv) **Operational activities:** Goal-driven assistance to address directly key constraints to progress on the MDGs, guided by the mandates, comparative advantage and resources of the UN system at the country level and recognising that the achievement of the MDGs is ultimately the responsibility of member states.
3. This Strategy is to be implemented at the global and country levels:

#### **Support for Global Action**

- **The Millennium Project:** Purpose is to propose best strategies for meeting the MDGs. Main analytical work will be performed by 10 task forces encompassing poverty, hunger, primary education/gender equality, child mortality/maternal mortality, HIV/AIDS/TB/other major diseases/access to medicines, sustainable development, safe water, slum dwellers, open rule based trading system, technology transfer. Establish high-level United Nations Expert Group and an International Advisory Panel. Interim Report of each task force expected end 2003, the overall Millennium Project interim report by mid-2004 and the final recommendations to the Secretary-General and the UNDP Administrator by 30 June, 2005.
- **The Secretary-General's Reports to the General Assembly:** completion of the process initiated already by DESA to prepare the first Report on Progress towards Implementing the Millennium Declaration.
- **The Millennium Campaign:** recruitment of the Director of the Millennium Campaign Unit; establishment of the Campaign Unit; realignment of the UN system's communication activities around the MDGs, with the meeting of the Communications Group in June 2002 providing a first major opportunity to address this challenge; and implementation of communication initiatives to raise the profile of the MDGs in the build-up to the WSSD.
- **Operational Activities:** continued dialogue with the World Bank, IMF, regional development banks, EC and OECD/DAC on critical operational issues such as

practical collaboration to integrate the MDGs in PRSPs; preparation of a more detailed, medium-term UNDG strategy for operational support to the MDGs,

- **Internal mobilisation:** statements from the highest levels providing a consistent message from all agencies on the significance of the MDGs for the work of the UN system; awareness-raising for all staff; training targeted at Resident Representatives/Resident Coordinators, agency Representatives, and programme staff.

### Support For Action At Country Level

- **MDG reports:** stock-taking on the pilot phase through regional workshops; establishment of quality assurance standards; continued initiation and completion of additional MDG reports.
- **National Millennium Campaigns or Movements:** launching of a first wave of awareness-raising, advocacy, mobilisation and partnership-building initiatives at the country level, especially but not exclusively in the countries which have already prepared an MDG report.

**Operational Activities:** assessment and expansion of efforts to integrate the MDGs in PRSPs, working with Governments, the World Bank, IMF, regional development banks, EC and bilateral donors (OECD/DAC and others); action in the five priority countries (Benin, Ecuador, Kenya, Madagascar and Pakistan) beginning harmonized country programming processes in 2002, to address the MDGs as the core focus of the CCA, UNDAF and programs and projects.