



THE PRESIDENT
OF THE
GENERAL ASSEMBLY

22 May 2008

Excellency,

A summary of the Financing for Development review session on Chapter IV of the Monterrey Consensus, "Increasing international financial and technical cooperation for development", on 15-16 April are now available on the President's website and have also been e-mailed to your mission. Hard copies of the summaries can be collected from General Assembly Affairs room S-2925.

Please accept, Excellency, the assurances of my highest consideration.

A handwritten signature in black ink, appearing to read 'Srgjan Kerim'.

Srgjan Kerim

All Permanent Representatives
to the United Nations

**President's summary of General Assembly Financing for Development Review
Session, 15-16 April 2008, on Chapter IV of the Monterrey Consensus**

**“Increasing international financial and
technical cooperation for development”**

I. Introduction

The informal G.A. review session on Chapter IV of the Monterrey Consensus, held on 15 and 16 April 2008, was chaired by H.E. Mr. Maged A. Abdelaziz, Permanent Representative of Egypt to the United Nations and H.E. Mr. Johan L. Løvald, Permanent Representative of Norway to the United Nations. The meeting consisted of an initial panel discussion followed by an interactive dialogue by all stakeholders. The panel presentations were made by Mr. Eckhard Deutscher, Chair, Development Assistance Committee, OECD; Mr. Richard Morford, Managing Director, Millennium Challenge Corporation, USA; Ms. Hilde Johnson, Deputy Executive Director, UNICEF; Mr. Sanjay Reddy, Assistant Professor of Economics, Columbia University; and Mr. Irfan ul Haque, Special Advisor on Financing for Development, South Centre. (The views of the panelists as well as their responses to the questions from the floor are also included in section II – Panel presentations). After the panel presentations, which were highly appreciated by the attendees, a policy discussion took place among participants, including representatives of governments as well as institutional and non-institutional stakeholders.

II. Panel presentations

a) Development assistance and lessons learned

1. According to the panelists, the Monterrey Consensus was a milestone where donors and recipients were brought together on an equal footing for the first time to form a global development partnership. There have been some positive developments since then. Debt relief measures had helped and there had been a revival of growth in Africa, mostly resulting from domestic own efforts, donors approaches had become less heavy-handed, and Overseas Development Assistance (ODA) virtually doubled between 2002 and 2005 reaching a level slightly above \$ 100 billion.

2. At G8 meetings in 2005, Heads of State of G-7 countries set targets for increasing ODA to \$130 billion by 2010. Yet, since then ODA had declined in both 2006 and 2007. The rate of growth of ODA will now have to increase substantially in order to meet the 2010 target to achieve the Millennium Development Goals. In addition however, the current international economic and social landscape, in particular the growing food crisis and the increasing need for measures to mitigate and adapt to climate change, call for more resources. These additional resources are particularly needed in the most vulnerable poor countries.

3. ODA comprises development aid, debt relief, emergency and humanitarian assistance and some peacebuilding activities, however, in recent years it was noted that only one third of ODA should be regarded as development aid. Moreover, performance had varied considerably among donor countries, with large increases from some and increases promised by others. The OECD had just completed a new and comprehensive survey of donor spending plans to 2010. This forward-looking information is critical for finance ministers in aid-dependent developing countries for proper budget management and investment planning to meet the MDGs. Long-term predictability of aid is critical for effective financing for development.

4. Foreign aid is heavily concentrated in a few countries. Many developing countries are not receiving enough assistance even after efforts to put in place appropriate policies. Still, aid has to be carefully measured and assessed as it can be counter-productive. The connection between aid flows and development has to be evaluated using a reasonable time horizon since its impact is seldom immediate. For example, in education - a priority for many developing countries - the time horizon for results to be effectively measured is very long. Still, despite the long gestation period aid to this sector should not be delayed. Also, when measuring effectiveness, it is important to differentiate between types of aid, such as development-oriented infrastructure assistance versus politically-oriented assistance. One crucial additional consideration is to effectively assess the need for aid in the recipient country. All domestic financial resources – tax and other revenues – should be exhausted before aid is disbursed. Effective mobilization of domestic resources will help developing countries move away from aid dependency.

5. There has been a substantial increase in the number of donors from non-DAC countries as well as private donors and NGOs, which is a welcome development. Therefore, there is the need for dialogue among donors to increase the efficiency of cooperation. South-South cooperation and regional cooperation are becoming increasingly important. Thus, their role in development cooperation and how they fit into aid delivery need to be considered.

6. ODA is important since it goes to sectors that private flows do not reach but it is only one element of finance for development. FDI and non-concessional bilateral and multilateral flows are also key elements in fostering development. The principles and policy commitments in the Monterrey Consensus form the basis of successful development assistance, particularly policies aimed at creating a business friendly environment in the medium term that are focused on results within a framework of donor and recipient country partnership. The Consensus is also about efforts in other areas, such as; enhancing country ownership and effective democratic participation in policy formulation, coordination and harmonization among donors, and aid for infrastructure and education, which are important strategic investments whose benefits are essential for sustained development.

7. The Millennium Challenge Corporation (MCC) is based on these principles, focusing on results and rewarding countries with pro-development policies. It targets a single mission: “reducing poverty through growth”. MCC assistance is only a catalyst to

leverage other sources of finance for development, especially from the private sector. The MCC uses 16 indicators that are highly correlated to development to assess results. These indicators have changed over time and include areas such as girls' education, water and sanitation and environmental indicators.

8. Past experience shows that country ownership takes time and commitment. Countries must set their own priorities through participatory, meaningful and timely consultations and build support for successful action. Capacity for taking ownership grows through learning by doing. In general, donors have not done enough to support recipient country ownership by streamlining conditionality. Aid needs to be made available with enough policy space for flexibility and alignment with national development priorities. Regarding the latter, the views of non-governmental actors are important.

9. Donor and recipient countries are making major efforts to improve the quality and effectiveness of ODA. Transparency and accountability in aid delivery at the national and international levels are important. Enhanced effectiveness is necessary not only in achieving development goals but also to maintain public support in donor countries to ensure delivery on promised aid increases. Peer and partner review mechanisms can help donor and recipient countries to share experiences. It is a good opportunity to review whether best practices and policies are being implemented. Sustained economic growth is a good indicator of positive results of aid but the focus should not be only on growth. In fragile and post-conflict countries, growth cannot be expected but they still need aid for rehabilitation and humanitarian purposes, especially aid for children.

10. The Paris Declaration is critical since it targets donor and recipient countries to enhance aid effectiveness. Some progress has been made in harmonization and ownership but more effort is necessary. Mutual accountability on the part of donors and recipients is an important factor in achieving the MDGs. The third High Level Forum on Aid Effectiveness in Accra can provide a good opportunity for an assessment of progress. It will be very important to reach agreement on accelerating progress on aid predictability and other aid management issues that affect the ability to increase the trend rate of growth of ODA to support achievement of the MDGs.

11. Within the current aid architecture, there is a clear asymmetry in development cooperation relations. Recipient countries often do not have much voice in forums that set development cooperation guidelines and civil society and parliamentarians are not well represented. Thus, the Development Cooperation Forum (DCF) has a critical role to play, both in the operational and normative areas as well as in helping aid dependent countries formulate exit strategies. DCF should co-exist with OECD/DAC but not replace it. The United Nations' role, as well as the role of emerging donors, in aid delivery should be discussed in Doha. Tracking aid should be a critical aspect of this discussion.

12. Innovative sources of finance for development are important in mobilizing resources and their predictability and additionality are important features. Discussion of

innovative finance sources should make the distinction between taxes and voluntary contributions. Indeed, commitments to increase ODA have to be met regardless of progress in innovative sources of finance.

13. Transfer of knowledge constitutes a key strategic element in development cooperation, especially in South-South cooperation, and the United Nations has a key role in this area. In the spirit of the Monterrey Consensus, UNICEF has organized South-South conferences in knowledge sharing.

b) Development cooperation policies

14. Work on ownership has begun but still needs to be further developed. Aid resources need to be made available in a manner that leaves room for experimentation by the recipient countries. Open-mindedness and willingness to experiment with policies can be important in identifying effective ways of utilizing aid for development and yielding unexpected positive consequences. Developing countries have to learn from each other and from past experience. Education should be a priority target of aid. Investment in education is indeed a priority for many recipient countries, in addition to infrastructure, agriculture and healthcare.

15. South-South cooperation is motivated by a cooperative spirit and is very important for knowledge transfer and technical assistance, but it does not yet generate much financial flows. Beyond funding triangular cooperation is still very important, particularly through regional and sub-regional financial institutions, as well as multilateral and bilateral assistance.

16. The cost of mitigation and adaptation to climate change has to be borne mainly by industrialized countries since they have the resources to do so and are responsible for it. With the need to address the effects of climate change on development, the concept of aid has to be redefined. The UNFCCC should be the main framework for tackling financing issues for climate change.

17. Aid should be increased substantially. Efforts by donors to increase ODA should be commensurate with the targets set by the international community. There should be more public engagement on development cooperation in developed countries to foster support for increased aid to developing countries. Peer and partner review mechanisms can be helpful for public debate. The definition of aid should be taken up in these forums. It is important that the international community be more receptive to budding efforts in new aid modalities.

III. Policy deliberations

a) ODA evolution, new developments and emerging issues

18. Many representatives stated that ODA could facilitate, but was not the source of, economic growth. It had a key role in leveraging other resources. ODA, combined with

the other five leading actions of the Monterrey Consensus were necessary. They further stressed that increased aid was needed to start the virtuous cycle of economic growth, development and poverty reduction. ODA was effective when accompanied by an active business sector, civil society and independent media.

19. Numerous participants noted that ODA trends since Monterrey showed an increase between 2002 and 2005 but consecutive years of decline in 2006 and 2007. A significant part of the increase comprised growing debt relief, which constituted 30 per cent of ODA in 2005. A significant portion was also used for emergency relief for natural disasters in Asia. Many also noted that there was a high degree of uncertainty regarding the level of aid flows in the near future. It was also noted that the developing countries were fulfilling their commitments, as agreed in the Monterrey Consensus. They had improved their macroeconomic and debt management and increased their absorptive capacity for ODA.

20. A number of speakers underlined that for some country groups, like the LDCs and SIDSs, ODA provided the bulk of external development finance. They pointed out, however, that ODA to LDCs equaled only 0.08 per cent of donor GNI, well short of the agreed target of 0.15 per cent. It was noted that despite ODA volumes, developing countries as a whole had been recording net outflows of resources. Many representatives also warned that the slow growth in ODA would make it difficult to reach the \$130 billion amount agreed in Gleneagles. Moreover, they said that increasing food and energy prices were complicating the achievement of the international development goals. It was stressed that it would be important for the ODA situation to be addressed in Doha. They reiterated that debt relief, humanitarian and emergency assistance were as important as other types of international cooperation

21. Several speakers referred to the changing aid landscape, with the advent of new players, including emerging donors, private foundations, and vertical funds. The arrival of new creditors and donors, both private and public, was a welcome development. A positive effect of increased aid as a result of the emergence of new actors was that there would be more resources for social and environmental protection schemes in the event of exogenous shocks. They also pointed out that, in the last thirty years, there had been a radical shift from ODA to private finance. The relative importance of private flows as a share of total financial flows from developed to developing countries had grown substantially.

22. Many participants mentioned that South-South cooperation, including triangular cooperation, was an important aspect of development cooperation. South-South cooperation had features that distinguished it from North-South cooperation. Emerging donors could contribute to lessons learned from their own development experience.

23. A number of representatives stated that there had been significant progress in the area of development of new and innovative sources of finance, including air ticket levies, the International Financing Facility for Immunization pilot programme and the first Advance Market Commitment for pneumococcus. Some participants stressed the need to

put in place a process to build on successful examples of these mechanisms. They also noted that the Leading Group on Solidarity Levies had helped to bring different groups together.

24. Many speakers emphasized that the needs of Middle-Income countries, LDCs and other vulnerable countries must be accommodated in the context of their efforts to achieve the MDGs. They said that the approaches to implementing international cooperation, however, must be tailored to suit the specific development needs of each country. With respect to mitigating and adapting to the effects of climate change, it was noted that a large amount of additional resources, in the range of \$100 billion a year, would be needed, and that they should be additional to traditional ODA.

b) Aid quality and effectiveness

25. Numerous participants reaffirmed the concern of the Monterrey Consensus with aid quality and effectiveness along with aid volume. In this regard, many representatives stressed that aid quality and effectiveness depended significantly on national ownership, the quality of domestic policies and regulatory frameworks, as well as the alignment of ODA with national policy objectives. They raised concerns about restrictions such as tying of aid and burdensome conditionalities and the lack of harmonization among donors, including multilateral institutions, which compromised aid effectiveness. A number of participants reiterated that there was general agreement that most conditionalities did not work.

26. Many delegates emphasized that scaling-up of aid to meet commitments necessitated more efficient and effective delivery. They reaffirmed their commitment to implement of the Paris Declaration (PD) on Aid Effectiveness that formalized the commitment by development partners to take action to adopt best practices in the delivery and management of aid resources, as called for in paragraph 43 of the Monterrey Consensus. They welcomed the Accra High Level Forum on Aid Effectiveness in September 2008 as a crucial political opportunity to agree on decisive action needed to meet the Paris Declaration targets. Some underscored the need for early coordination and information sharing between the Accra Forum and the Doha Conference.

27. A number of representatives stressed that good governance should be exercised over the use of development resources. Some underscored that aid should be targeted to countries that specifically demonstrated their commitment to governing justly, investing in their people and promoting economic opportunity and entrepreneurship. At the same time, donors should help build capacity in governance. In addition, it was noted that aid effectiveness should focus on related issues such as human resource development, gender equality and environmental protection.

28. Many participants also expressed concern about the limited role of recipient countries in the Paris Declaration process, which was seen as essentially OECD and donor driven. The Paris Declaration was perceived by some as reducing the policy space of recipients and accentuating asymmetries in power between donor and recipient

countries, notwithstanding gains in efficiency and cost reductions in aid delivery. In this regard, some speakers noted that there was no one-size-fits-all formula and questioned the appropriateness of automatic application of all twelve Paris Declaration indicators as the gauge for achieving effective assistance.

29. Some representatives from countries shared the results of their efforts in untying aid from the perspective of donors, as called for in the Monterrey Consensus. Some also underscored changes in the way that they delivered assistance, based on a results-oriented focus that gave priority given to the effective use of aid resources. Others affirmed their increasing support for country ownership, promoting best practices to improve effectiveness and leveraging private resources.

30. Many participants welcomed the contribution of emerging public and private donors to development cooperation. These resources complemented financing from traditional donors. Moreover, non-DAC donors brought unique perspectives to development policies based on their own experiences. In the view of several speakers, aid coordination and harmonization efforts needed to encompass the increasing role of non-DAC donors. South-South and triangular cooperation were becoming a key dimension of overall efforts and should be part of the deliberations on enhancing the aid architecture. Also, a number of participants added that improving the effectiveness of operational development activities of the United Nations system was an important part of the global aid effectiveness agenda. They reiterated their support for the UN reform process on system-wide coherence, including improvement of effectiveness and coherence at the country level through the “One UN” approach. Some speakers also pointed out that it was important to address the current imbalance between core and non-core funding.

31. Many speakers asserted that aid flows should be predictable over time as well as counter-cyclical to minimize adverse effects on recipient country economies. Conditionalities should be eliminated to allow flexible use of resources and autonomy in formulation and implementation of public policies. In addition, they recalled that experience had shown that aid delivered as direct budgetary support could deliver good results. Some participants also noted the need for increased transparency on the part of donor and recipient governments in both aid flows and aid negotiations to improve accountability and promote democratic ownership.

32. The importance of increasing the cost effectiveness of technical assistance and the clear need for capacity building in developing countries was recognized by many participants. One example of capacity building assistance that should be supported was in enhancing the economic and social databases and policy evaluation skills which could contribute to improved policy development.

c) Enhancing international financial and technical cooperation for development

33. Numerous representatives pointed out that the slow pace of progress in meeting aid commitments was a main cause of concern. It also reinforced the need for redoubling efforts in this area. Some participants also stressed the importance of economic growth in

reducing poverty and to achieve the MDGs. Because of this, they placed great importance on cooperation to enhance productive activities, particularly aid for trade.

34. Some participants emphasized the importance for major donor countries to set strict deadlines to fulfill the ODA obligations and the establishment of an intergovernmental monitoring mechanism to keep track of aid quantity, quality and effectiveness. They were of the view that the Doha Conference should seek to increase the certainty of donor countries meeting their agreed ODA commitments. This could be achieved through an arrangement with the UN similar to that with the International Financial Institutions, such as IDA.

35. Many participants underscored the importance of making ODA more counter-cyclical and equitable, with LDCs receiving aid flows commensurate with their development financing requirements, as well as, meeting the major challenge of channeling more ODA to Africa, particularly in the agriculture sector. Also, the current highly deficient allocation of ODA to the agriculture, trade and manufacturing sectors needed to be addressed to enhance ODA effectiveness. Numerous speakers underlined that cooperation efforts to mitigate and adapt to climate change should be made within the UNFCCC. Many stressed that existing financing mechanisms should be used where possible for this purpose.

36. It was noted that the stress on enhanced donor coordination on aid allocation was rather new and had not yet yielded substantial results. However, the “Code of Conduct on Complementarity and Division of Labour” agreed upon in the EU represented efforts in the right direction. This was based on the recognition that total transparency in effective aid allocation, including its underlying criteria, was an indispensable first step.

37. A number of participants stressed that, given the large volumes of private capital flows into developing countries, it was important to use ODA to catalyze private funding by promoting the development of social and economic infrastructure. In addition, public sector involvement in trade and investment insurance to mitigate risk and public-private partnerships in financing for infrastructure should play a crucial role. It was noted that the delivery of assistance was undergoing change, as in the case of the US Millennium Challenge Corporation, which was based on a results-oriented framework taking into account individual country conditions and needs.

38. Some participants emphasized that assistance in a peace-building context required seamless transition from humanitarian assistance in a conflict situation, followed by rehabilitation and nation-building and then assistance for enhancing governance and improvement of social and economic infrastructure. More work was also needed to make aid to fragile states more effective.

39. A number of participants stressed that the use of ODA for the empowerment of women could yield a high rate of economic and social return. References were made to proposals for policy targets to increase the share of ODA for gender equality to 10 per

cent by 2010 and to 20 per cent by 2050 were important. It was reiterated that all actors preparing for the Doha Conference should pay due attention to gender issues.

40. Regarding the evaluation of aid effectiveness, numerous representatives noted the importance of making the process inclusive and reducing ex-ante conditionalities. Many participants were of the view that the framework of the Paris Declaration needed to be adjusted to the new aid landscape and dialogue between traditional and new donors should be promoted. While many participants expected the third High Level Forum on Aid Effectiveness in Accra would discuss the implementation of important principles of aid effectiveness, they underscored the need for an effective and more universally inclusive intergovernmental mechanism to monitor and evaluate aid commitments. The Annual Ministerial Review and the Development Cooperation Forum (DCF) of ECOSOC could play a key role in these functions. The 2008 DCF should provide impetus to the Doha Conference. Many indicated that the Doha Conference could also seek to provide for a reporting system on performance by donor and recipient countries that could be based on a peer review system, possibly on a regional basis, which would allow for the assessment of end results and performance relative to commitments, as well as, learning from each other.

41. A number of representatives underscored the importance of continuing international support of the middle income countries (MICs), including land-locked developing countries, in their development and poverty reduction efforts. In this connection, the international community had been invited to consider new and more effective criteria for assistance as the basis of innovative mechanisms for providing more targeted cooperation. At the same time, the MICs were committed to implementing the outcome of the Madrid Conference and the El Salvador Consensus on Development Cooperation with Middle Income Countries of March and October, 2007, respectively.

42. Many participants recognized the important role of multilateral and regional development banks in assisting the development efforts of developing countries, including middle income countries, and emphasized the need to strengthen these financial institutions to allow them to provide flexible financial support to fulfill their mandate. Core funding of these institutions should be bolstered to enhance their capacity for technical and financial assistance. Some speakers pointed out that the multilateral and regional development banks had ample funds to disburse but needed bankable projects. A potential portfolio of projects should include infrastructure in areas such as water, roads, sanitation and other fields where ODA had demonstrated effectiveness.

43. Participants noted the growth in the diversity of sources of development assistance to developing countries, extending to non-DAC countries, private corporations, international NGOs and foundations. As a result, it was important to monitor and coordinate the coherence of these contributions. The UN system could play a substantial role in that regard.

44. Innovative sources of financing were recognized by many speakers as a supplement to existing sources. Some participants called for the implementation of the

Monterrey proposal to use SDR allocations for development financing. Initiatives on innovative sources of finance that were already operational should also be considered by other countries and new initiatives should be explored. There was reiteration of the proposal of a global currency transaction tax that could be national but require international coordination to administer, which could generate very substantial resources. Some participants cautioned that innovative sources of financing should not impose any additional burden on already resource-constrained countries. They called for the disbursement of resources generated by innovative finance through existing multilateral institutions, especially through organizations of the UN system. They were also of the view that innovative sources of financing should be a topic actively discussed in Doha.

45. It was pointed out that deliberations in the Doha Conference should also include the follow-up process of the Monterrey Consensus. Valuable lessons had been learned regarding this process and it was important to review existing follow-up mechanisms to determine whether enhancements were necessary, and if so, along what lines.