The Monterrey Consensus Six Years On

DPM November 27-28, 2008

Kigali

Outline

- Background
- Main Areas of Action of the Monterrey Consensus (MC)
- Follow Up Commitments
- Progress at Global Level
- Progress in Rwanda

Background

- First International Conference on Financing For Development was held in Monterrey, Mexico in March 2002
- Objective was to create a new “partnership” amongst developed and developing countries to more effectively address the growing challenges to financing development
- The international community made commitments under this new “partnership” in six key areas of action

1. Mobilizing Domestic Resources

- MC recognized that developing countries (DCs) need to harness their own resources more effectively for development
- Called on DCs to:
  - mobilize domestic savings towards activities leading to increased productivity—especially increased production capacity
  - Put in place sound macroeconomic policies in order to create a domestic environment conducive to public and private investment
- An important commitment in this area is to fight corruption which could divert resources away from productive activities

2.Mobilizing International Resources for Development

- MC recognized that domestic resources would need to be complemented by international resources
- DCs were urged to:
  - Attract and enhance international capital flows (especially FDI) into their economies by providing a sound macroeconomic environment and a transparent stable and predictable investment climate
  - Support public and private sector financing mechanisms both debt and equity to benefit in particular SMEs
  - Improve transparency and information on financial flows
- International Community would also take measures to reduce negative impact of excessive volatility of short term capital flows

3. International Trade as an Engine of Growth

- Promote a rule-based, open, non-discriminatory multilateral trading system
- Enhance role of regional integration processes and support projects that promote regional and sub-regional integration
- Expand and coordinate efforts to remove supply side constraints , improve trade infrastructure, diversify export capacity and support increased technological content of developing country exports
- Multilateral assistance would be used to help mitigate effects of depressed export revenues on countries with limited export diversification

4. Increase International Financial and Technical Cooperation for development

- Increase ODA and other development resources: MC sought to increase ODA from 0.23% of donors' GNI in 2002 to0.7% of GNI
- Strive to make ODA more effective by:
  - Harmonizing and untying aid
  - Enhancing absorptive capacity and financial management of recipient countries
  - Promoting use of ODA to leverage additional financing
  - Improving ODA targeting to the poor

5. External Debt – Financing and Relief

- Work to prevent and resolve unsustainable debt situations
- Vigorously pursue debt relief measures
- MFIs (IMF and WB) to take into account any fundamental changes in countries' debt sustainability caused by natural disasters, severe TOT shocks or conflicts in making policy recommendations

6. Systemic Issues

- Enhance coherence governance and consistency of international monetary, financial and trading system
- MFI should give high priority to identification and prevention of potential crises and to strengthening the underpinnings of international financial stability
- Broaden and strengthen participation of developing countries in international economic decision-making (developing country voice)

Follow Up Commitments

- MC commitments reaffirmed through
  - G8 Gleneagles Summit Declaration (2005) to:
    - Increase total ODA to Africa by $25 billion a year by 2010
    - Cancel 100% of outstanding debts to IMF, IDA and ADF through the MDRI (eligible HIPC countries)
  - Paris Declaration on Aid Effectiveness
    - Improve quality and effectiveness of aid through actions in 5 areas: ownership, alignment, harmonization, managing for results and mutual accountability

Global Progress

- **International Capital Flows**: Global FDI rose to record level of **$1.5 trillion in 2007** but only **$438 billion** went to developing countries
- Important to note that capital flows from dcs to developed economies is increasing--$800bn in 2007 due to massive accumulation of reserves (esp. China)
- Private Foundations also becoming important players in development finance but going largely emerging markets such as Brazil China, Mexico and not to poorest countries in SSA

Global Progress

- In SSA FDI flows have also risen but still relatively small and concentrated in enclave investments in oil-exporting countries—Nigeria, Equatorial Guinea, Angola, Sudan—so don't provide a basis for financing broad based growth
- Capital outflow from SSA appear to be smaller than in the previous decade but stock of capital flight from region remains high
- Personal and institutional remittance inflows to SSA is a growing source of financing but still lag behind other regions

Global Progress

- **ODA:** Overall **most donors are not on track** to meet 2010 targets: only Netherlands, Denmark, Luxembourg Sweden and Norway have met the 0.7% of GDP commitment

- ODA excluding debt relief was only 0.25% of GNI in 2007. Current commitments from donors imply that ODA will increase to only 0.35% of their GNI half the target level by 2010

Global Progress

- ODA to SSA rose significantly in 2006—more than two and a half times size of private flows but appears to have been driven by debt relief through HIPC—Debt relief represented about 70% of increase in bi-lateral ODA to SSA between 2001 and 2005
- Excluding exceptional debt relief for Nigeria, real ODA flows to SSA fell in 2005 and stagnated in 2006
- New group of donors have emerged on the African scene—Brazil, China, India, Lebanon and Saudi Arabia. These new player could potentially fill some of the funding gaps in SSA

Global Progress

- **Trade:** Developing Countries are participating more in global and South-South trade

- But
  - absence of conclusions on the WTO Doha Round negotiations is a major obstacle to turning trade into an engine for development
  - It is also not clear that countries are being able to take full advantage of aid for trade arrangements

Global Progress

- **External Debt:** The HIPC and MDRI initiatives together will help reduce debt stocks by **90% on average** for the 31 countries that have qualified for debt relief

- Ratio of debt to GDP in Africa has dropped from average of **62% pre-MC to 47%** post-MC

Global Progress

- But :
  - Will growth rise fast enough to allow countries to raise their debt carrying capacity and grow out of debt?
  - There are concerns about limitations of current debt sustainability framework used by the WB and the IMF
  - And concerns that ODA flows have to some extent been undermined by financial resources granted for debt relief

Global Progress

- **Systemic Issues**. Ongoing financial crisis is further evidence that more needs to be done at global level to ensure stable financial system

- Some progress in addressing voice issues for developing countries but insufficient

- **Paris Declaration**: the 2008 Survey shows progress is being made in some important respects but not in others. An acceleration will be needed if the aims are to be met by 2010.

Progress in Rwanda-Domestic Resources

- Between 2002 and 2007, significant increases in both domestic savings and investment
  - Domestic investment more than doubled.
  - Domestic savings rose from negative levels to about $139 million
- But
  - Relative to GDP, both savings and investment have not grown that much
  - Large gap between savings and investment
  - Savings as a share of GDP is particularly low and also much lower than in other parts of SSA

Savings and Investment

(millions of current US$)

Rwanda	**2002**	**2005**	**2006**	**2007**
Gross domestic investment	290.4	515.0	582.5	746.2
Gross domestic savings, total	7.4	77.7	91.5	139.0
Gross domestic investment (% of GDP)	17.0	22.0	20.0	21.0
Gross domestic savings (% of GDP)	0.3	3.2	4.3	5.4
Sub-Saharan Africa excluding South Africa				
Gross domestic investment	42,206	72,297	90,000	108,992
Gross domestic savings, total	50,936	120,167	170,480	183,515
Gross domestic investment (% of GDP)	17	18	18	19
Gross domestic savings (% of GDP)	20	30	35	32

Source: World Development Indicators, online (2007)

Progress in Rwanda-International Capital Flows

- International capital flows to Rwanda have increased significantly between 2002 and 2007.
  - Combined total of remittances and FDI flows increased from US$9.6 million in 2002 to US$32.4 million in 2006. More than threefold increase
  - Strong role of remittances and worker compensation which has grown more than seven fold between 2002 and 2007 and is much higher than FDI flows. This is in contrast to the situation in the rest of SSA

- But:
  - International capital flows still a very small share of total development financing and about 2% of GDP.

International Resources for Development

(millions of current US$)

Rwanda	***2002***	***2005***	***2006***	***2007***
FDI, net inflows	2.6	8.0	11.2	-
Remittances	7.0	20.9	21.2	51.3
Sub-Saharan Africa				
FDI, net inflows	10,161	15,429	15,408	23,283
Remittances	5,030	14,265	15,324	16,195

Source: World Development Indicators, online (2007)

Progress in Rwanda - Trade for Growth

- Between 2002 and 2007 both exports and imports grew rapidly—both have more than doubled.
- But
  - relative to GDP, not significant growth—from about 34% of GDP to about 37% of GDP in 2007 compared to over 60% for SSA
  - Exports mainly primary products and increasingly services such as tourism
  - Limited progress on raising technological content of export

Exports and Imports

(millions of current US$)

Rwanda	**2002**	**2005**	**2006**	**2007**
Exports of goods and services	133	229	296	313
Imports of goods and services	430	666	787	920
Exports of goods and services (% of GDP)	8	10	10	9
Imports of goods and services (% of GDP)	26	28	27	28
Sub-Saharan Africa				
Exports of goods and services	113,346	231,798	276,758	300,353
Imports of goods and services	117,220	218,410	257,218	296,668
Exports of goods and services (% of GDP)	31	36	37	35
Imports of goods and services (% of GDP)	32	34	35	35

Source: World Development Indicators, online (2007)

Progress in Rwanda- ODA Flows

- ODA flows have increased by over 150% between 2002 and 2006
- Net ODA about 20% of GDP in Rwanda

Official Development Assistance Flows

(millions of current US$)

Rwanda	***2002***	***2005***	***2006***	***2007***
Official development assistance and official aid	354	571	585	..
Net ODA from all donors (% of recipient's GDP)	22	24	20	
Net ODA per capita (current US$)	40	62	62	..
Sub-Saharan Africa excluding South Africa				
Official development assistance and official aid	16,992	29,847	37,257	..
Net ODA from all donors (% of recipient's GDP)	7	7	8	..
Net ODA per capita (current US$)	26	42	51	..

Progress in Rwanda- Debt Financing and Relief

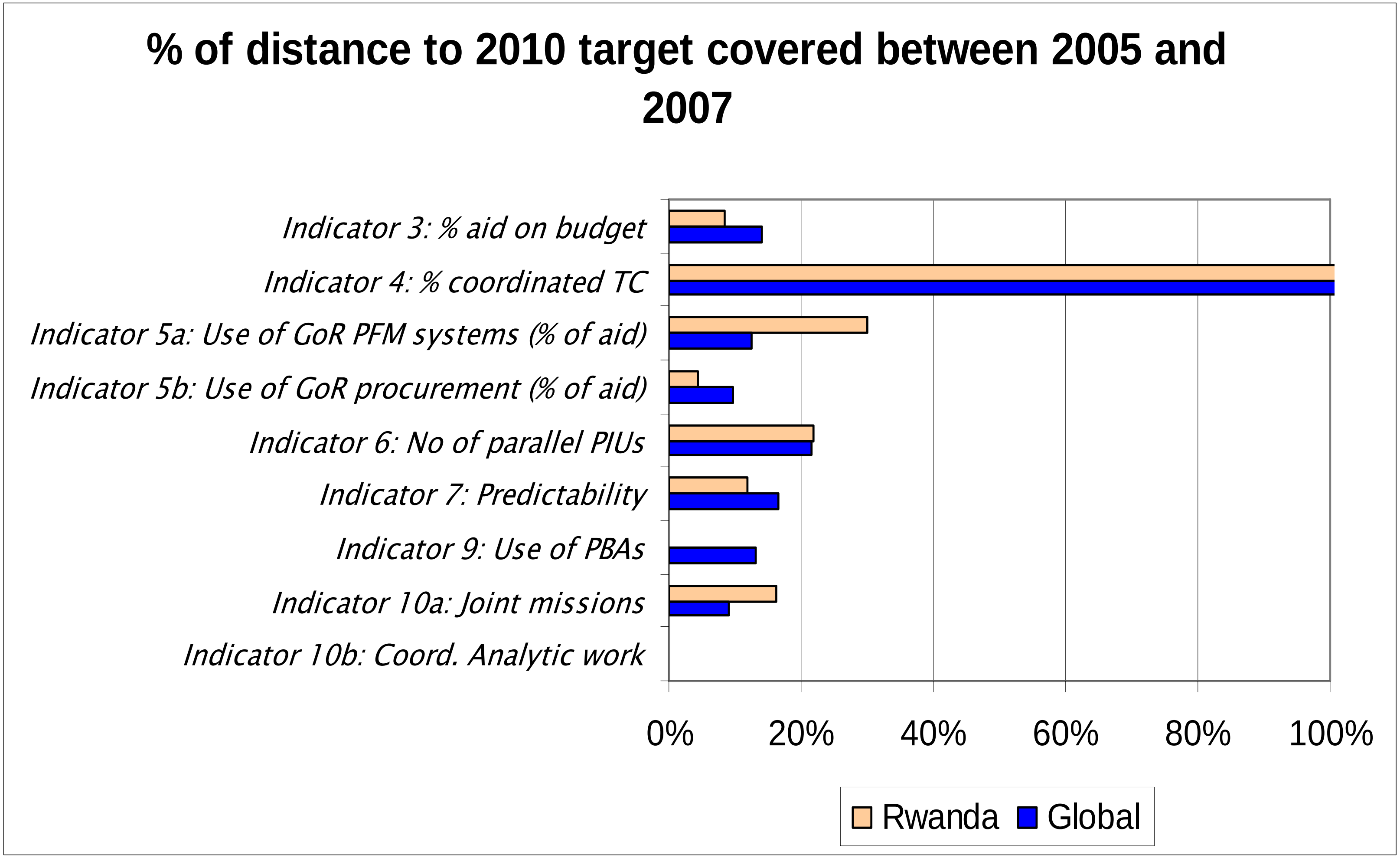
- HIPC and MDRI have provided significant debt relief–
- External debt to GDP fell from 63.3% in 2005 to 17% in 2007.
- But Rwanda feels that current arrangements do not provide adequate flexibility for achieving rapid growth at levels that could eventually reduce dependence on foreign borrowing.

Progress on Paris Declaration in Rwanda

Like-for-like comparison with 2006 Paris Declaration Survey (i.e. 2005 baseline)	2005 baseline	2007 result	2010 Target
Indicator 3: % aid on budget	49%	**52%**	74%
Indicator 4: % coordinated TC	58%	**85%**	50%
Indicator 5a: Use of GoR PFM systems (% of aid)	39%	**42%**	59%
Indicator 5b: Use of GoR procurement (% of aid)	46%	**44%**	N/A
Indicator 6: No of parallel PIUs	48	**41**	16
Indicator 7: Predictability	66%	68%	83%
Indicator 9: Use of PBAs	42%	39%	66%
Indicator 10a: Joint missions	9%	**14%**	40%
Indicator 10b: Coord. Analytic work	36%	36%	66%

For reference:			*%change 05-07*
TOTAL ODA Reported	*$570,977,324*	***$756,361,981***	*32%*
TOTAL ODA to Gov't sector	*$554,060,425*	***$682,801,675***	*23%*
… of which DBS	*$198,466,827*	***$213,388,023***	*8%*

Progress on Paris Declaration



Progress in Rwanda: Paris Declaration

- Overall progress is not as fast as desirable
- Little progress made between 2005 and 2007
- Some moves in the right direction
  - GBS/SBS is growing
  - Progress on SWAps, Should be made fully operational and complemented with agreed partnership principles detailing clearly the rules of engagement and ho we measure progress on the partnership
  - Preparation of CPAF and DPAF. Together should help us make more progress on key components of the PD agenda. CPAF will need more work over time to make it more results focused and less heavy

Progress in Rwanda: Paris Declaration

- Without renewed effort, unlikely that 2010 targets will be achieved
- GoR and partners need to inject much more energy into making progress on this agenda:
  - Complete and implement individual donor Action Plans for progress on the objectives
  - Bring to conclusion the long standing discussions on Donor Comparative Advantage
  - Complete Aid on Budget work and start implementation—perhaps focus a lot of attention on sectors such as health where this is acute
  - Discuss more openly the issue of use of country systems and agree a way forward