GRAY/05/1091

March 31, 2005

Statement by Mr. Misra and Mr. Srinivas on
Global Monitoring Report 2005—MDGs: From Consensus to Momentum
(Preliminary)
Executive Board Meeting 05/32
April 1, 2005

Key Points

i. *The sustained and strong growth achieved in India and China has enabled Asia to be on target for achieving the income poverty goal.*

ii. *The Five Point Agenda for accelerating progress towards the MDGs provides a degree of intense focus to the ongoing efforts, but implementation hurdles remain.*

iii. *The report's call for growth acceleration in SSA to achieve MDGs is justified.*

iv. *The increase in aid flows in 2003 falls short of the commitments at Monterrey.*

1. **The Global Monitoring Report (GMR) is detailed, meticulous and extremely well crafted**. The recommendations represent a forward movement on the policy discussions of this Board and various other multilateral development institutions and most of the recommendations reinforce on-going policy efforts being made by the Fund. The GMR calls for tangible efforts to accelerate progress to MDGs. Although both developed and developing countries have made efforts towards the MDGs, progress has been slower than envisaged. The sustained and strong growth achieved in India and China has enabled Asia to be on target for achieving the income poverty goal. On other MDGs progress has been slow and it appears that they will not be met in many regions. We welcome GMR's special focus on the Sub Saharan Africa – the region that is facing the toughest challenges in accelerating progress.

General Comments

2. The Five Point Agenda for accelerating progress towards the MDGs provides a degree of intense focus to the ongoing efforts, but implementation hurdles remain.

Anchoring MDG efforts in Country led Development Strategies: In the 47 countries implementing the PRS approach, there is a need for greater strengthening, attention to institutional capacity and incorporation of PSIAs into the PRS approach.

Spurring and Sustaining Economic growth: With GDP growth in developing countries averaging the highest in the decade, sustaining growth rates poses challenges. Deepening progress on economic management, improving the climate for private sector activity and strengthening public sector governance are key challenges.

Scaling up Delivery: Developed and emerging market countries have an important role to play in providing expanded training facilities that will enable SSA region to triple its health workforce by 2015. While the developing countries have to improve expenditure management systems and budget systems for strengthening service delivery, a significant scaling up of aid is required to meet health and education MDGs.

Realizing the Development Promise of Trade: Liberalization of trade is a critical priority. High income countries must lead by example. The trade protections they impose, burdens developing countries five times more than the aid they receive. It is like a contest between a light weight and a heavy weight with the light weight having a handicap. The trade related technical assistance (IF) is a useful mechanism to identify priorities and allocate assistance for trade related investments and support for policy reforms.

Increasing the Level and Effectiveness of Aid: A doubling of ODA is not in sight but is required for adequate progress toward the MDGs. There has not been much progress since the first GMR on increasing aid effectiveness. Debt relief and innovative financing facilities are yet to find political consensus.

Strengthening and Sharpening IFI support: The GMR has identified that IFI's should (a) support the deepening of the PRS framework; (b) streamline conditionality and investment lending; (c) work towards dismantling of trade barriers; (d) strengthen partnerships and improve transparency and (e) encourage results orientation of their country strategies. We agree.

Sub Saharan Africa Region: An analysis of issues

3. **Sub Saharan Africa is presently witnessing the highest growth seen in a decade, underpinned by the strength of the global economy, high commodity prices, improved macroeconomic policies and progress with structural reforms**. The prospects for growth are generally favorable and the downside risks appear manageable. Some of the countries of the region would have to adjust to the elimination of world textile trade quotas. The growth performance can be sustained by further reform efforts for promoting private sector investment, developing infrastructure and strengthening institutions (including better transparency, governance and property rights). The international community has to support the SSA's efforts with increased aid, debt relief and improved market access.

4. **The GMR identifies a continuous need for external resources to support SSA's domestic efforts to accelerate the progress towards the MDGs**. In SSA countries the aid flows represent 60 percent of external flows to the region with FDI flows into predominantly

four resource rich countries. Official grants to SSA are expected to remain flat as a share of GDP, with these grants falling in 24 countries and increasing marginally in only 11 countries.

5. **The report's call for growth acceleration in SSA to achieve MDGs is justified**. Sustainable debt policies coupled with strong fiscal adjustment policies are associated with growth acceleration. It is necessary to reorient public expenditures to productive projects in the areas of physical and human capital to raise growth. However past experience suggests that in countries like Kenya, that undertook adjustments, the investment ratio of real GDP declined[1]. We invite staff views on the GMR's observations that 'private investment has offset the drop in public investment in SSA in the last two decades'. Some discussion on exchange rate policy and export performance is also recommended.

6. **We agree that fiscal institutions can improve can improve fiscal management.** In this regard we support the proposals for (a) creation of autonomous revenue agencies and greater Central Bank independence (b) Strengthen government budgetary procedures and (c) adopt Fiscal Responsibility legislation. Targeting current account deficit and effectively raising the fiscal space by generation of additional revenues remain priority areas for policy makers.

7. **The policy direction has to be oriented for creating an enabling climate for private sector activity**. The GMR recommends streamlining entry regulations and cutting fees; cutting fees and unnecessary procedures for property registration; encouraging the establishment of capital bureaus; making labor market regulations more flexible and cutting unnecessary procedures and reducing the time frame for enforcing contracts. We agree. Investment policy reviews could help evolve a clear picture on the performance of FDI policies.

8. **The discussion on Public Sector Governance needs to examine the investment behavior of state enterprises** given the chronic decline in government investment ratio in the last two decades. The reform of the state enterprise sector was hampered by debt overhang and the government savings ratio did not contribute to adjustment.

9. **Trade liberalization can help accelerate growth**. The poor record of African RTAs needs to be addressed through more active participation in multilateral trade liberalization, improving infrastructure and bolstering domestic tax mobilization.

Increasing Aid and Its Effectiveness

10. **The increase in aid flows in 2003 falls short of the commitments at Monterrey**. While the ODA has increased to USD 69 billion, there continues to be a shortfall of at least USD 50 billion. Some of the large donors continue to avoid bringing performance focus while making aid allocations and therefore aid flows cannot be explained by institutions, policy and poverty criteria alone. Geopolitical and security concerns continue to pull up aid

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[1] Kenya – Selected Issues and Statistical Appendix (SM/04/418) – Table 1.3

flows. Important contributions are being made to the development effort by increasing South – South cooperation and non OECD countries also.

11. **A degree of political consensus needs to be evolved on the innovative financing mechanisms to augment traditional ODA**. While no firm proposals have been arrived at, the last few months have witnessed substantial discussion in the Landau Report and the Quadripartite report. Blending arrangements of concessional loans and grants can help the poorest countries to scale up investment and spending without affecting debt sustainability. We invite staff views on the role of IFIs in assisting bilateral efforts for structuring blending mechanisms appropriate to country and program circumstances.

12. **The donor fragmentation index remains unchanged at 2003 level**. The efforts for untying aid remain under consideration. The GMR calls for donors to support country owned strategies. Could staff comment if any surveys have been conducted to determine the ownership levels and flexibility in countries receiving large volumes of aid. The fragmented and uncoordinated assistance issues at country level needs to be addressed.

The Role of IFIs

13. The role of the IMF in LICs is to support the efforts towards meeting poverty reduction and meeting the MDGs through policy advise, program assistance and technical assistance. The PRGF programs focus appropriately remains fiscal policy conditionality and debt/ vulnerability related conditionality. Future Fund work should encompass signaling and donor coordination; greater clarity in PRS process and better design of instruments and financing of PRGF. This is adequately reflected in the GMR.

14. The GMR also adequately covers the profile of the Multilateral Development Banks.