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

1. It has been five years since the United Nations Millennium Summit took place, hence this is a good opportunity for a stock taking exercise to assess the progress of the implementation of the MDGs. In the same vein, 2005 is a crucial year to scale up efforts for multilateral trade liberalization and to increase aid quantity and quality if we want to achieve MDG by 2015. Although we understand the high concern for the Sub-Saharan Africa countries' weak progress in achieving MDGs, we feel that the presentation could have been more balanced and inclusive in showing more clearly the efforts and achievements of other areas and groups of countries, such as Latin America and Middle-Income Countries (MICs). Notwithstanding, the report indicates that Latin America is off-track on child mortality, maternal mortality and communicable diseases, which should lead our region's authorities to commit more strongly with these crucial issues and to avoid self-complacency.
2. The report sets a five-point agenda that developing countries should embrace to implement strategies aiming to accelerate progress in areas of policy quality and governance and thus to achieve economic growth and scale up the human development and key services. We agree that the Poverty Reduction Strategies (PRS) should be better integrated with the countries' needs and realities and that the MDGs should be better operationalized at country level, together with a strong link with medium-term fiscal frameworks and targets.
3. Once again, the evidence demonstrates that sustained growth is a necessary condition, albeit not sufficient, to achieve poverty reduction and to fulfill the MDGs. Growth, nevertheless, is the main challenge that the Sub-Saharan Africa region is facing, since to achieve the income poverty goal, those countries should grow at 7 percent per year over the next decade. We fully agree that the three areas, as mentioned in the report, that those countries should pay particular attention to are: a) further progress on macroeconomic management; b) improving climate for private sector activity; and c) strengthening public sector governance.
4. The report clearly establishes the shared responsibilities of both developed countries—reforming trade and providing increasing effective aid—and developing countries—spurring growth by improving investment climate, improving governance and accountability and empowering the poor. On the issue of aid, with disappointment we see that developed

countries have shifted their priorities in the last years towards meeting strategic and security goals instead of committing to aid in development. Although several debt relief initiatives have received popular applause, they are not enough. Less than one tenth of what high-income countries devote to military spending would double the development assistance, which would also represent only about 0.2 percent of high-income gross national income; this evidence is striking.

5. We welcome the inclusion in the report of the innovative financing mechanisms issue (ch. 5, pp 11). In our opinion, new sources of financing to complement increasing Official Development Assistance (ODA) flows should be considered to reach closer to the ODA target of 0.7 percent of GDP. In this context, we believe the report should also refer to the work done by the UN-supported Report of the Technical Group on Innovative Financing Mechanisms, the GT-5, an initiative led by Brazil, Chile, Brazil, France, Germany and Spain and supported by more than 110 countries. We would like to make two comments based on the conclusion reached by the group. On one hand, with regards to global taxes we believe that GT-5's call for "nationally applied and internationally coordinated mechanisms" merits to be considered in the report. On the other hand, regarding the innovative use of SDRs, we note there is no mention of this mechanism in the report and, recognizing the long-lasting debate about the utilization of SDR for development finance, we believe that SDRs should be not be used purely for that purpose, but also more innovatively to reduce the impact of widespread financial stress and significant deterioration of terms of trade. This initiative would ultimately require, the support by all members for the approval of the proposed 1997 Fourth Amendment of the Article of Agreements to ensure a more equal participation for the Fund's members, which we certainly agree.

6. Aid for development, although important, is not a sufficient factor to sustain high rates of growth. **We give greater importance to the elimination of all trade distortive subsidies and barriers that hinder the least developed countries from achieving growth.** In fact, the reports provide three interesting facts: a) there is more trade protection for agricultural products; b) MICs face the highest agricultural barriers from OECD; and c) the most difficult market access for Low-Income Countries (LICs) are Canada, the EU, Japan, the U.S. and some OECDs countries. Therefore, more results would come from the Doha Round if substantial reduction in tariffs and non-tariffs barrier were achieved. In the same manner, the Fund can play an important role in speeding up progress in this area. We think that the Fund's credibility would be enhanced and its ability to promote trade-oriented reforms in developing countries would be boosted if it could take a firmer and clearer position regarding the need to reform industrialized countries' trade policies. Furthermore, now that commodity prices are still at a high level it is the right time to confront the political costs of reducing subsidies. Finally, we welcome the staff's comments on the apparent contradiction between what is reported in chapter 4, pp.1, par 2. i.e., that 2/3 of developing country gains from trade reform would come from reforms by developed economies, and the evidence from table 4.11, pp 22, par. 44, which shows that 57 percent of developing countries' welfare benefits comes from trade liberalization in industrial countries.

7. As regards aid, the report is clear in indicating that "both how aid is allocated across countries and how increases are sequenced within countries must be aligned with the recipients' absorptive capacity" (ch 1, pp.11) placing some weight of responsibility on the

developing countries to improve their structures to absorb higher aid amounts. Along these lines, it is important to point out that countries should identify their binding constraints for absorption capacity, prioritize and sequence the interventions for capacity building. Finally, these improvements along with as a sharper performance-based focus by donor will strengthen the quality of aid.

8. In general, we believe the report falls short in assessing the responsibilities of the IFIs and taking a more self-critical stance of past actions. We believe that future GMRs should systematically monitor advances in this area. Addressing them would increase the credibility of the report. As regards the role of the Fund, starting from the fact the LICs should decide over the policies and institutions needed for their development, we think the Fund should support the capacity building through the provision of high-quality policy advice, ensuring that its advice is based on the deepest possible understanding of the impact of the policies it recommends.

9. In particular, we believe the Fund should include its assessment on how trade distortive practices in some high-income OECD countries affect developing and LICs countries' local production and exports and should continue to be involved in policies aimed at removing the tariff escalation schemes that penalize (with higher tariffs) potential value-added exports from developing and LICs. Additionally, as LICs are particularly vulnerable to external shocks, we believe that the Fund's policy advice should focus not only in promoting domestic reforms in LICs, but also in preparing them for external shocks. The latter should be carried out by assessing the macroeconomic impact of aid inflows and conducting debt sustainability analyses and, at the same time, providing adequate financing once the shock occurs.