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

Key Points

- More attention should be given to how the improvement in the policy performance of developing countries can be sustained.
- We strongly support the GMR's emphasis that development must be country-driven and cannot be imposed by donors. Donors need to work in partnerships with governments on shared priorities.
- We highlight the importance of improving the quality of governance - upgrading public sector management and controlling corruption.
- Effective service delivery is essential to achieving the 'human development goals' (health, education and gender equality).
- Regarding the benefits of trade reform, the GMR needs to report results from the more robust *general equilibrium* models rather than a *partial equilibrium* framework.
- The discussion of the role of the IFIs should fully address the key strategic questions facing the IFIs such as how to provide effective assistance to fragile states.

We thank the joint staffs for a high-quality report, which is a significant development from the inaugural 2004 edition. The GMR's five-point agenda for building momentum towards the MDGs is sound. In particular, we welcome the GMR's emphasis on: the importance of country-ownership; the centrality of economic growth to development and poverty reduction; the importance of ensuring effective service delivery; the need for further trade reform by developed and developing nations; and the role that effective aid can play in accelerating progress towards the MDGs.

Chapter 2 presents some key messages such as the centrality of growth to poverty reduction, the evidence that the fundamental drivers of growth operate in Africa much the same as

elsewhere, and the importance of improving the business climate in Africa. It is useful to emphasize that more aid by itself does not constitute a growth strategy, and that a ‘big push’ in aid is not the sole answer (para 7). We found Chapter 2’s use of ‘boxes’ to convey recent findings particularly effective. While the claim that ‘there is evidence that Sub-Saharan Africa (SSA) has begun to turn the corner’ is a big call, given the disappointing history of previous short growth accelerations (para 30), we consider the chapter presents a plausible case for this claim.

While it is welcome that the GMR 2005 has a special focus on Sub-Saharan Africa – the region that is farthest from the development goals and faces the toughest challenges in accelerating progress, the GMR could do more to acknowledge the differing needs of different regions and to apply the lessons from SSA to other regions.

Policies and institutions are the key

The GMR makes clear that SSA (and elsewhere) requires a sustained growth acceleration to meet the MDGs. It also makes clear that aid and trade reform will not be sufficient to achieve this acceleration. The GMR could be improved by giving greater emphasis to the message: the quality of policies and institutions is the key. The report notes that the average policy performance of developing countries has improved, which suggests that there should be focus on how this improvement can be sustained.

Country-ownership

We strongly support the GMR’s emphasis that development must be country-driven and cannot be imposed by donors. As the GMR argues, for aid to be effective, it must be linked to ‘a clear national agenda and priorities for achieving [the MDGs]’. As the Bank’s paper *Assessing Aid* (1998) points out, ‘donors should take it for granted that their financing is fungible because that is reality’ and so ‘donors are, more or less, financing whatever the government chooses to do’. This implies that donors need to work in partnership with governments on shared priorities, rather than attempt to work around them.

Economic growth

World poverty is projected to fall to 10.2 per cent (622 million) by 2015. The GMR presents a useful analysis demonstrating the centrality of growth to poverty reduction (Box 2.1, Ch. 2) and achieving the MDGs (Box 2.2, Ch. 2). The GMR adds that the apparently limited growth impact of aid transfers, in combination with evidence on diminishing returns, implies that aid, by itself, does not constitute a growth strategy. In this connection, we stress the importance of improving the quality of governance - upgrading public sector management and controlling corruption.

Service delivery

Effective service delivery is essential to achieving the ‘human development goals’ (health, education and gender equality). Chapter 3 is to be commended for its relatively-clear

analysis of the nature of the problem, the potential solutions and the constraints to implementing these solutions. It concludes with well-founded strategies for improving education and health services and, therefore, outcomes. However, the proposal for increased aid for recurrent service costs must be conditional upon a country's capacity to manage the funding transparently. Donors must be assured that increased funding will be spent effectively.

Trade

We welcome the GMR's reiteration of the importance of trade reform for development. However, the analysis is detailed and complex, which may weaken this key message. We are concerned that *static* estimates in the GMR ignore the potentially large *dynamic* gains for low-income countries. Similarly, we are concerned that the GMR report results from a *partial equilibrium* framework rather than the more robust *general equilibrium* models. Finally, if the GMR is going to present data on the disaggregated benefits to low-income, middle-income and developed countries, the presentation should be focused on the impact with respect to poverty reduction and the MDGs.

We consider the essential task is to produce a Doha outcome in which both developed and developing countries contribute. The best contribution is to focus on clearly stating the benefits of trade reform to developing countries. It is not only "removing barriers to trade that discriminate against developing countries" (para 1) that is a powerful tool to achieve the MDGs. We would place much more weight, in development policy, of the acknowledgement that most of the benefits of trade reform derive from what countries do themselves (a thought that presently first appears at para 49), and that south-south liberalization is also very important.

We consider that the proposed GMR has built on last year's report, showing how removing the barriers to trade can assist in achieving the Millennium Development Goals, however, further work has yet to be completed in this area of the report. As a balanced approach is required, and with specific reference to the trade restrictiveness index, this is one area where, in our view, a balanced approach has not been maintained. We have concerns about the way in which the trade restrictiveness index is presented; there should be a clearer distinction between non-tariff barriers that restrict trade and those measures that protect health and safety, and the environment. The distinction in the GMR is not always clear in the text and the charts. Further, incorporating WTO-approved health and safety standards into measures of non-tariff protection (para 29) is in our view misleading. We believe that published OTRI estimates should separate out the effects of health and safety standards.

Aid levels and effectiveness

The GMR usefully emphasizes that it is as important to improve aid effectiveness as aid levels. It argues (Ch. 5, p. 2) that 'a sharper performance-based focus by ... donors could strengthen the overall quality of aid'. Similarly, the GMR emphasizes the importance to aid effectiveness of untying aid and of improving harmonization and alignment. The GMR's arguments for increased absorptive capacity may be overstated. Until frameworks improve

for the accountable use of resources, it seems difficult to justify the proposed significant increase in ODA volume. The report itself acknowledges that substantial policy reform is required for some SSA countries to absorb a doubling of aid (Ch. 5, para. 36).

On debt sustainability, we feel the authors are overly sanguine about the ability of post-completion HIPCs to carry new borrowings. We note that under IDA14, six post-completion HIPCs will qualify for 100 percent grant funding based on their debt levels. It is important the GMR does not undermine the debt sustainability framework's valuable message that it is inappropriate for countries with high levels of debt to continue to receive assistance in the form of loans.

We take the point made in the paper that debt relief can be harder to allocate by performance-based principles. However, we do not agree with the proposition that 'donors will need to ensure that debt relief does not crowd out the provision of needed new financing'. New financing in whichever form provides the best stimulus for sustainable growth and development, and we believe that in some cases additional debt relief may be warranted.

IFI support for developing countries

The GMR concludes that the IFIs need to: deepen the PRS framework for LICs; build institutional capacities for LICUS; adapt to the needs of MICs; and to improve research, strengthen partnerships and focus on measurable results. However, in order to fulfill more effectively the purpose of the GMR, namely, to evaluate progress towards achieving the MDGs, the GMR 2005 could probe more deeply into the actions and accountabilities of the IFIs. The discussion of the role of the IFIs should fully address the key strategic questions facing the IFIs such as how to provide effective assistance to fragile states.