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**Statement by Ms. Lundsager and Ms. Donovan on
Global Monitoring Report 2005—MDGs: From Consensus to Momentum
(Preliminary)
Executive Board Meeting 05/32
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We thank the staff for an impressive report on progress toward meeting internationally agreed development goals, including those mentioned in the Millennium Declaration, and the balanced agenda it proposes for moving forward. The wealth of information it contains will be useful in accelerating progress, and the focus on private-sector led growth and public management issues as well as the regional focus on Sub-Saharan Africa were most welcome. We believe the agenda as currently outlined is one where broad consensus can be reached.

Role of the IMF

International development goals are not, and should not be, an organizing principle for Fund work. Not all elements of the MDG agenda are relevant to the Fund, and a clear division of duties between the Fund and MDBs which respects comparative advantage will be essential in advancing the agenda. The IMF's role is often indirect; its most important task is promoting the stable macroeconomic foundation that is a necessary but not sufficient condition for growth through policy advice, technical assistance and, where appropriate, financing. By fulfilling its existing mandate, the Fund can help countries seeking to raise growth and reduce poverty.

We would like to highlight a few points specific to the Fund. Given the shortcomings in PRSPs highlighted in the IEO report, there might be greater emphasis on the need for countries to improve PRSPs if these are to provide more useful input for PRGFs. We hope that the new Joint Staff Advisory Notes will provide guidance on how PRSPs can be improved. More realistic projections in IMF documents also would be helpful. On poverty and social impact analysis, as stated previously, we encourage the Fund to make use of work done by others, but do not believe the Fund staff should undertake such studies given resource constraints and comparative expertise. Given the report's focus on development, as Mr. Prader and Mr. Crelo note, it was unclear why the Argentina study was included in the otherwise helpful box on IEO evaluations of PRSPs/PRGFs and technical assistance.

Growth

The report's in-depth examination of factors relevant to sustained growth was quite useful. As it makes clear, while growth is central to reducing poverty, the relationship between growth and policies, shocks, the external environment, aid, and other factors is complex. Still, the report highlights some important conclusions including the fact that growth in Africa responds to the same policy drivers as growth in other economies and that sustaining higher growth is often more difficult than initiating it. We strongly agree with the policy priorities outlined: macroeconomic stability, and institutions and policies that promote private sector growth. As the chapter makes clear, a climate of macroeconomic stability will deliver higher rates of economic growth, provided profitable opportunities exist and can be taken up. We were struck by the finding described in Chapter 2.79 that Africa could grow by an additional 1.6 percent per year if the average African country improved the quality of business regulations commensurate to that of the average OECD country. Such an increase alone could pull tens of millions of people out of extreme poverty. The report notes that the primary reason for lower growth in Sub-Saharan Africa was "negligible improvement in productivity." Policies that encourage private investment (including greater FDI) can play an important role in helping to close this productivity gap.

The report also makes a strong case for the importance of improved public sector management, including governance, to development generally and to Sub-Saharan African development more specifically. The recent report of the Commission for Africa similarly concludes that without progress in governance, all other reforms and additional resources will have limited impact. The GMR report comes at a time when the performance of many countries in Sub-Saharan Africa reflects both their own progress toward reform and unusually high commodity prices. Improving fiscal management is an urgent priority so that reform momentum can be preserved when external conditions are less favorable. Increased transparency, effective expenditure monitoring and robust sustainability analyses will be key. In addition to improving the business environment, the report concludes that fiscal transparency can potentially reduce financing costs. Although many governance priorities are better addressed by the World Bank or others, Fund expertise is clearly relevant on fiscal matters. The Fund also has an important role to play in financial sector issues. The GMR notes that in Africa, while laws and regulations are largely consistent with international standards, enforcement of regulatory standards is weak and financial systems remain underdeveloped leading to limited and far more costly private sector lending.

Grant financing has an important role to play. While increases in infrastructure investment could help support growth in many countries, fiscal constraints and debt sustainability issues must be kept in mind by donors, including multilateral development banks. A principal objective must be to end the lend-and-forgive cycle and move low-income countries into an era of sustainable debt. The Fund has a critical role to play in the effective implementation of the low-income debt sustainability framework, including by controlling borrowing levels.

Trade

Chapter 4 takes a balanced and objective look at the implications of trade policy for development. The U.S. Government strongly supports multilateral, reciprocal trade liberalization under the Doha Development Agenda and is working toward that goal. The report rightly emphasizes the potential gains for developing countries from lowering their own barriers to trade – a theme that should be better reflected in the Overview – and points out that in order for any significant positive effects to occur, trade reforms must be accompanied by complementary actions targeted at increasing the supply response. Capacity building can play an important role, and the IMF and World Bank have clear responsibilities in these areas.

Aid

The report notes that ODA has been growing, particularly since Monterrey. In fact, U.S. ODA has nearly doubled since 2000, and U.S. aid to Africa has tripled since that time. But it also makes clear that higher aid alone is insufficient to spur and sustain higher growth and that aid by itself does not constitute a growth strategy. As Mr. Zurbrügg and Mr. Inderbinen, Mr. Kremers and other Directors note, increasing the quality of aid is as important as increasing the quantity. We also agree with Mr. Kremers that there seems to be considerable scope for improving the quality of aid delivery and, that perhaps even more importantly than exploring innovative financing modalities, the international community should think of ways to improve the efficiency of existing aid. The report also rightly notes that aid is more effective when aligned with recipient priorities and that harmonized procedures and better coordination can lower transaction costs when there is a clear focus on managing for results.

Innovative Financing Mechanisms. We would have preferred that the report provide a more careful discussion of the policy tradeoffs in addition to technical feasibility aspects. Further, while the report makes note of certain major absorptive capacity problems associated with front-loading, these problems are often discussed in isolation (sometimes in footnotes) rather than in the context of a balanced policy evaluation. For example, Box 5.3 gives the results of a simulation exercise for Ethiopia that points to several significant costs resulting from front-loading aid though differentiating between the case for frontloaded infrastructure and social investments.

Future GMRs

We believe there is a case to be made for changing the format of future GMR reports, though we appreciate the extraordinary effort that has gone into producing this year's report. Development outcomes may take several years to manifest themselves, and we wonder whether a more narrow focus on key themes might be useful in the next few reports before returning eventually to the current, more comprehensive format. For example, next year's GMR might be devoted to public sector financial management issues and combating corruption, including best practices and relevant case studies which could show the complementary nature of Fund and Bank work in these areas.