

July 14, 2005
Approval: 7/21/05

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 05/32-1

10:00 a.m., April 1, 2005

1. Global Monitoring Report 2005—MDGs: From Consensus to Momentum

Documents: SM/05/102

Staff: Plant and Berg, PDR; Qureshi, World Bank

Length: 45 minutes

Executive Board Attendance

A. Krueger, Acting Chair

Executive Directors	Alternate Executive Directors
S. Al-Turki (SA)	A. Alazzaz (SA) G. Meissner (GR) A. Kohler (FF), Temporary M. Lundsager (UA) S. Naka (JA), Temporary J. Prader (BE) N. Gigineishvili (NE), Temporary C. O'Loghlin (CO)
A. Mirakhor (MD)	A. Herat (IN) V. Srinivas (IN), Temporary A. Tolstikov (RU), Temporary P. Gakunu (AE) R. Murray (AU) L. Rutayisire (AF)
D. Ondo Mañe (AF) P. Padoan (IT)	C. de Silva (BR), Temporary L. Whyte (UK), Temporary E. Valle (CE), Temporary K. Nauphal (MI), Temporary D. Farelius (NO) E. Lopez-Escobedo (AG), Temporary H. Ge (CC)
X. Wang (CC) F. Zurbrugg (SZ)	M. Sukada (ST)

L. Hubloue, Acting Secretary
A. Tarantino/H. Mooney, Assistants

Also Present

IBRD: M. Olarreaga, Z. Qureshi. African Department: J. Christensen, C. Pattillo. Asia and Pacific Department: J. Nelmes. External Relations Department: M. Bell, S. Nardin. Fiscal Affairs Department: A. Segura-Ubiergo. Middle East and Central Asian Department: T. Saavalainen. Policy Development and Review Department: M. Allen, A. Berg, E. Harris, R. Kincaid, C. Leite, M. Plant. Secretary's Department: P. Martin. Statistics Department: L. Fernando. Western Hemisphere Department: E. Flores. Senior Advisors to Executive Directors: S. Bah (AF), S. Beidas (MI), A. Ismael (AF), P. Patrawimolpon (ST). Advisors to Executive Directors: M. Choueiri (MI), C. Crelo (BE), M. Donovan (UA), K. Florestal (BR), G. Francis (AU), P. Inderbinen (SZ), D. Jardaneh (MI), R. Karki (ST), L. Landi (IT), D. Lombardi (IT), O. Mamadou (AF), D. Sembene (AF), B. Seong (AU), S. Wolff-Hamacher (GR), Y. Wu (CC).

1. GLOBAL MONITORING REPORT 2005—MDGS: FROM CONSENSUS TO MOMENTUM

Mr. Mirakhor submitted the following statement:

Five years after the 2000 Declaration to achieve the Millennium Development Goals (MDGs) by 2015, this year's Global Monitoring Report takes on added significance. As the report makes clear, progress toward the MDGs thus far has been disappointing; and poverty, disease, and illiteracy remain endemic in most of the developing world. It is estimated that more than one billion people live in extreme poverty, i.e., surviving on less than \$1 per day, with about eight million related deaths each year. Regarding the geographical distribution of extreme poverty, whereas Asia leads in terms of absolute numbers, Africa has the largest proportion—almost half its population. The situation, whereby so much poverty coexists within a world of plenty, is unconscionable.

The staff report indicates that prospects for achieving the income poverty goal are promising in several parts of the world, particularly in Asia. However, disappointedly, sub-Saharan Africa has been the exception, with the incidence of poverty actually rising between 1990 and 2001. Progress toward the human development goals has been more disappointing, again with SSA performing the poorest. In health, child and maternal mortality rates remain far higher than the targets, while the expanding HIV/AIDS is leading to shortened life expectancy and threatening long-term sustainability of the economies of the affected countries. And, progress has been slow and uneven in education, including in the dimensions of its universality and gender, with serious implications for human resource development and long-term growth of these countries.

The stakes are quite high as the life of hundreds of millions of people is constantly at risk. As the staff report rightly points out, long-term global security and peace are also at risk, since the social consequences of poverty transcend international boundaries. Indeed, the connection between global security and poverty cannot be overemphasized, and global conflicts will be substantially reduced through poverty reduction and economic development. Concerted action by the international community is imperative to move the Millennium Declaration from “consensus to momentum,” and to translate its ideals to reality. The partnership concept underlying the declaration, further underscored by the Monterrey Consensus, highlights the importance of shared responsibilities among developed and developing countries in achieving the MDGs.

Staff's five-point agenda suggests important ways to move the Millennium Declaration forward, reiterating the respective responsibilities for developing countries, developed countries, and IFIs. Developing countries have a responsibility to implement country-led policies and strategies that promote macroeconomic stability, private sector development, good governance, and equitable growth. Under Fund-Bank supported programs, many developing

countries have been implementing adjustment and reform policies focusing on these areas. African leaders have undertaken commendable initiatives to spearhead African-led and –owned development, including in the context of the New Partnership for African Development (NEPAD) and African Peer Review Mechanism (APRM) that merit international support. These mechanisms are also expected to improve policy transparency and accountability, important vehicles for poverty alleviation and development.

Developed countries, on their part, should “raise their game,” as the staff report duly underscores, and, in particular, live up to their Monterrey commitments. As a priority, they should substantially increase the size and effectiveness of development aid, as well as improve its timeliness, predictability, and effectiveness. The contribution of many developed countries still fall substantially short of the UN ODA target of 0.7 percent of GNP, and should endeavor to make up the deficiency in the shortest possible time. Staff underline the need to tailor aid to absorptive capacities. However, this should not be used as a pretext to deny much-needed assistance. It is more productive, instead, to assist countries to increase their capacity to utilize higher levels of aid, necessary to achieve faster growth and poverty alleviation. Reaching early consensus on the various initiatives for providing additional debt relief to LICs is also critical. As staff rightly suggest, this should not lead to a decline in the provision of much-needed new financing.

We welcome staff’s focus on ways to enhance aid effectiveness, which is used often as an argument to limit aid to developing countries. Better aid alignment with country budgets and poverty-reduction strategies (PRSs) as well as enhanced flexibility and predictability are crucial. The staff report further points to the need to operationalize the MDGs in the context of countries’ PRSs, which should form the basis for donor assistance.

Along with aid, and even perhaps more importantly, developed countries should implement the Doha Round and open their markets to developing countries’ products. Reducing tariffs and subsidies, particularly in agriculture, will be helpful in expanding production and alleviating poverty in developing countries. The African Growth Opportunity Act and Everything But Arms initiatives are helpful in this context, although it is necessary to increase their time horizons since investments required to access and utilize the resources provided by these programs need time to bear fruit.

IFIs have a key role in propelling and reinforcing the implementation of the MDGs agenda and assisting developing countries to utilize fully emerging opportunities. They should continue to support country-led development strategies based on PRSs in the case of low-income countries. IFIs should provide strong support for institutional capacity building to foster policy implementation and country ownership of the poverty-reduction and development agenda. It is

also crucial for IFIs to support the harmonization of aid in partnership with country clients and other donors.

Further reinforcement of Bank-Fund collaboration, including regarding PRSs and debt sustainability analyses (DSAs) as well as improved transparency and accountability of their own operations are essential. Moreover, in addition to encouraging developing countries to reduce trade barriers among themselves, the IFIs should continue to press for the implementation of the Doha Round to eliminate distortionary trade policies in industrial countries that adversely affect developing countries. They should also be a strong advocate for increased scale of aid and debt relief, including agreement on the proposals for new financing modalities. The staff report rightly calls for increased harmonization and flexibility of IFI assistance and for support for the development and use of countries' own systems for resource management. Furthermore, IFIs should support monitoring and evaluation of MDGs. In this respect, commendable efforts are being made to build various results-based systems in the MDBs, including regarding development effectiveness, and the institutionalization of independent evaluations. The Global Monitoring Report (GMR) is an important vehicle for informing the Development Committee's oversight in this regard. In order not to lose focus, it will be helpful for the GMR to be more selective, candid, and pointed, with a clear statement of progress made and shortcomings in implementation of the MDG agenda. The report should also indicate ways to move the agenda forward, with stated timelines and assigned responsibility and accountability.

It is worth noting that poverty is not only a low-income-country problem. In many middle-income countries, poverty and inequality remain high. For these countries, the IFIs should improve response to their changing needs by continuing to adapt intervention instruments and policy approaches based on further-streamlined conditionality and better-tailored advice. IFIs should, in particular, support middle-income countries' efforts at better integration with the international trade and financial systems and attracting private capital.

This year is critical for moving the implementation of the MDG agenda substantially forward, and success in this regard should be measured in terms of concrete outcomes. In addition to successful conclusion of the Doha Round, a key outcome in 2005 should be substantial increases in ODA geared to moving closer to the UN target. Also a priority is achieving closure on proposals for additional debt relief. It is important, however, that the agreed schemes provide additionality in debt relief, supplementing the enhanced HIPC relief and traditional arrangements.

Mr. Padoan and Mr. Lombardi submitted the following statement:

At the outset, we want to express our appreciation to Staffs of the Fund and the Bank for this high-quality Report. We welcome its focus on sub-Saharan

Africa (SSA) and, more in general, on the need for creating momentum around the Millennium Development Goals. Following the endorsement by the Board, the Fund has a relevant role to play in assisting low-income members to step up their macroeconomic and growth policies for achieving the MDGs. In doing so, the Fund should meaningfully engage with the donor community and, in particular, with the World Bank. Furthermore, as the achievement of the MDGs requires a choral effort, the Fund, and the other IFIs, also have a key role to play as coordinating fora for the whole membership on issues related to their own mandates.

Growth Accelerations and Implications for the Fund

While the outlook for growth is quite promising for most regions in the world, achievement of the poverty goal in SSA will require a substantial acceleration in growth and/or an increase in the poverty elasticity of growth. Admittedly, the ultimate determinants of growth are, to some extent, a “black box” for the economics profession. In this regard, we have found very interesting the section devoted to growth accelerations. For instance, in SSA the annual probability of a growth acceleration episode was only 2.4, the lowest among all the developing world. However, what is even more surprising is that SSA economies were unable to safeguard such episodes, as most of them were followed by a period of negative per-capita growth, in contrast with other developing regions.

In line with the direction of the strategic review on the Fund, we support the idea that strong institutions matter for growth. One important contribution in this respect will be to identify those specific institutions which fall under the core competences of the Fund and that contribute effectively to growth and poverty reduction. In this respect, the Fund, in its surveillance activities and program assistance, can underpin authorities’ efforts in sustaining growth accelerations also by promoting strong institutions. It is encouraging to see that growth acceleration episodes have been rising recently, although SSA still considerably underperforms with respect to Europe and Central Asia. It is also interesting to note from Box 2.6 that accelerations tend to be stronger and to last longer following sensible improvements in macroeconomic indicators such as inflation and exchange rates. From an operational point of view, it is important to detect growth acceleration at an early stage and intensify surveillance accordingly to exploit the momentum for advising on those policies which are more likely to sustain the episode. Importantly, program design needs to be flexible enough to accommodate such episodes as soon as they materialize to make sure that the macroeconomic framework does not ultimately result in a constraint. Comments from Staff on the implications for the Fund’s “advisory toolkit” would be welcome.

Economic and Political Governance. Are Incentives Strong Enough?

Another aspect on which we would like to draw attention is that economic governance in SSA is poorer than in other developing regions once their income has been taken into account. This provides a strong underpinning for the Fund's activities in assisting its developing members in stepping up the quality of their economic institutions. However, we are concerned by the fact that economic governance in SSA has virtually not shown any sign of improvement, notwithstanding a considerable involvement of the Fund in its surveillance program and TA activities to strengthen their economic institutions. One is left to wonder whether we are missing something here. Incentives to undertake reforms may not be enough. More generally, would it be possible to explore ways to candidly evaluate the country effectiveness in adopting specific reforms? Would it be useful to identify performance indicators to monitor progress? Would it be useful to identify best practices to be disseminated among countries of similar development levels? Staff comments would be most welcome. In this regard, we also welcome the African Peer Review Mechanism in the context of the NEPAD and hope it will provide an effective regional peer review mechanism.

When it comes to political governance, SSA outperforms some other developing regions. It would be interesting to know what the transmission mechanism is—if any—from one area of governance to the other. In fact, one is tempted to assume that better political governance would feed into the strength of economic institutions, but this is not supported by the available evidence in SSA. Is it an issue of long time lags? Also on this, we would appreciate Staff comments.

Income Inequality and Growth

An aspect not dealt with in the Report is the impact of income inequality on growth. As it turns out, income inequality has increased in SSA and this has been associated with a less satisfactory performance in growth. Has (increasing) income inequality negatively contributed to the growth outlook for this region? If so, then this would call for more awareness of the impact of relevant macro policies on the most vulnerable segments of the society. On fiscal policies, tax design should be aiming towards progressive tax system, with a widening of the tax base and the removal of arbitrary exemptions. Again, the Fund has a key role to play in these instances, in its surveillance program and TA-related activities.

Review of the Role of the Fund on the MDGs

Given the increasing importance of the GMR as a vehicle for assessing progress towards the MDGs, we would like to explore ways for involving the IEO in the section of the Report devoted to reviewing the Fund's role. This would provide the Board with an ongoing and prompt assessment. It would also provide the Board with an effective opportunity to evaluate the mutual consistency of the

Fund's policy toolkit in supporting the low-income members in achieving the MDGs.

Mr. Lynch and Ms. Gust submitted the following statement:

Key Points

- This year's edition of the Global Monitoring Report made for thought-provoking reading.
- For the Development Committee's version of the report, as well as for future editions, it may be useful to:
 - Highlight annual progress or slippage in policy actions by the many actors contributing to MDG attainment.
 - Highlight the key role capacity building will play in advancing the "five point agenda."
 - Highlight the complementary role of macroeconomic stability, good institutions and good public sector governance for growth.

A strategic communications plan to ensure that the main messages and areas for action are not only well-understood by the Development Committee, but also by the public at large, will be important.

As the report makes clear, both developing and developed countries must press forward with a multi-pronged approach to make progress towards achieving the MDGs. In this regard, the proposed "five point agenda" seems to be a good starting point and provides a solid framework for structuring policies across the range of actors, including the IMF. We particularly welcome the emphasis on putting country-owned and led poverty reduction strategies at the heart of efforts to achieve the MDGs, and the emphasis on improving the environment for stronger private sector-led growth.

We see improvements in this version of the Global Monitoring Report (GMR) from last year's inaugural edition, as evidenced by the incorporation of many of the suggestions from last year's discussion. In the spirit of making the report even better, we would like to offer some further suggestions for improvement.

Ministerial version of the GMR should highlight annual progress or slippage

As the GMR is an annual report, it would be helpful to highlight the significant changes, both positive and negative, since last time. Specifically, with

respect to the overview chapter, it is difficult to see what progress, in terms of policy actions, has been achieved by the many actors contributing to MDG attainment. For instance, has progress since last year's report proceeded as expected or has there been slippage in key policy areas? It would also be useful to highlight whether the pace of relative progress over the range of actors is proceeding as hoped. An assessment of progress in this context should be clearly articulated in the Development Committee's version.

Building Institutional Capacity Should be Highlighted for Discussion

A specific item woven through all aspects of the report is the critical role of institutional capacity in developing countries. The report explicitly mentions the need for quality institutions to bolster trade, private sector-led growth, and public financial management and accountability. It is becoming increasingly clear that the quality of institutions and poverty reduction are inextricably linked. As such, it would be useful to highlight capacity building efforts as essential for making progress on the "five point agenda."

Complementarity of Policies to Spur and Sustain Growth Should be Highlighted

The report notes that while a vigorous private sector drives growth, government plays a vital role in creating a climate where entrepreneurship can flourish. Macroeconomic stability, good institutions and good public sector governance play an important role in spurring and sustaining economic growth. Each of these constitutes a necessary condition for growth, but would likely not be sufficient on their own. While we agree that the specifics of the policy agenda for growth at the country level must be defined as part of individual country development strategies, highlighting the complementarity of policies needed for growth would be useful.

A strategic Communications Plan is Needed

We believe the GMR remains an important tool to promote MDG attainment through its capacity to influence the actions of Development Committee ministers. As such, producing a report which has clarity on the main messages and areas for action is clearly a part of any strategic communications plan. But, rather than focusing solely on the Development Committee as the main audience for the report, it would be useful for the staffs of the World Bank and IMF to ensure that the public at large is also an audience. By developing a strategic communications plan of this sort, the GMR could become a vehicle not just for assessing progress in various commitments and progress in their implementation across the range of actors, but for highlighting how the World Bank and IMF are playing their important respective roles.

Mr. Steiner and Mr. de Silva submitted the following statement:

We thank the joint staffs for a high quality report and the clear and resounding message encapsulated in its title and forcefully conveyed throughout the text. The picture painted in the report is one of patchy progress towards attainment of the MDGs, but the weight of the evidence underscores the yawning gap that remains to be bridged before the not-too-distant target date of 2015 is reached. The situation of sub-Saharan Africa provides the starkest reminder of the extent to which the process continues to fall short of its initial promise, and it might be argued that it is developments in this region more than anywhere else over the next decade that will effectively define the success or failure of the global community in meeting the ambitious millennium challenge.

We share the report's view of the centrality of growth to meeting the MDGs and find much with which we can agree in the assessment of what can be considered key growth enabling priorities. The IFIs have generally done a good job of reinforcing the messages of macroeconomic stability, investment friendliness and good governance, which have also been well internalized and embraced by many developing countries. For these countries, the attention needs to be focused more on how best to provide the assistance that would enable them to rise above the institutional and technical constraints that inhibit the scope for growth, rather than on measuring their efforts judgmentally against layers of onerous conditionality or demanding standards and codes that stretch the limits of their human capital and frail institutional capacity.

We welcome the strong recommendation in the report regarding the need to rapidly conclude an ambitious Doha round and to remove barriers to trade that discriminate against developing countries. The case of agriculture is especially pernicious given its importance to developing countries and the fact, as stated in the report, that trade policy in industrial countries is more than seven times as restrictive in agriculture as in manufacturing. While we agree that a successful conclusion of the Doha round will require a commitment to reciprocity from all sides, it is also true that developing countries are in a much more vulnerable position and are considerably less well placed to incur the short-term adjustment costs from deep trade reforms and the erosion of tariff preferences. In this regard, the report floats a very useful proposal for a 'package deal' under which significant liberalization commitments by both industrial and developing countries would be complemented by a credible commitment to transfer some of the resulting gains to the poorest countries. While in principle this proposal appears to offer interesting possibilities for ensuring that the large potential gains from the Doha round are converted into real and substantial progress towards achieving the MDGs, finding an acceptable formula for its implementation would be a difficult challenge at this stage of the negotiations, which are already burdened with a considerable degree of complexity.

The report underscores and clarifies the important role that the IFIs, including the Fund, have been playing in mobilizing resources and delivering support for developing countries' efforts to reach the MDGs. It is encouraging to note that country ownership has generally been accepted as a critical guiding principle underlying the role of the IFIs although, as the IEO has pointed out in the case of the Fund, there are still significant operational tensions to be resolved. While we broadly endorse the approaches identified as priorities for strengthening and sharpening the support of the IFIs, going forward we find it disappointing that there is no mention of the question of financing and of the role of the IFIs in expanding the resource envelope commensurate with the need for additional debt relief and for increasing the quantity of aid and development assistance.

We are pleased to learn from the report that some response to the need to increase aid finally appears to be forthcoming, but the disappointing reality is that aid continues to fall well short of the levels promised at Monterrey. Donors should move speedily to honor their commitments and, as mentioned in the report, should not subordinate the needs of poor countries to their own strategic and security objectives. We understand and fully support the necessity to ensure that disbursements of development aid are in line with the absorptive capacity of recipient countries, but in deciding what this means in practical terms it is important to avoid setting the bar too high in order to satisfy broader agendas. In any event, it is clear from the report that absorptive capacity is not now a binding constraint. The report estimates that current aid levels remain substantially below what can be effectively utilized, and that sub-Saharan Africa can effectively absorb a doubling of aid over the next five years. It is important that this issue be forcefully highlighted in the issues paper that will be based on the overview of the Global Monitoring Report.

Mr. Misra and Mr. Srinivas submitted the following statement:

Key Points

- The sustained and strong growth achieved in India and China has enabled Asia to be on target for achieving the income poverty goal.
- The Five Point Agenda for accelerating progress towards the MDGs provides a degree of intense focus to the ongoing efforts, but implementation hurdles remain.
- The report's call for growth acceleration in SSA to achieve MDGs is justified.
- The increase in aid flows in 2003 falls short of the commitments at Monterrey.

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

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

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.

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.

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. 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.

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.

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.

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.

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

The increase in aid flows in 2003 falls short of the commitments at Monterrey. While the ODA has increased to US\$69 billion, there continues to be a shortfall of at least US\$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 flows. Important contributions are being made to the development effort by increasing South-South cooperation and non OECD countries also.

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.

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

The role of the IMF in LICs is to support the efforts towards meeting poverty reduction and meeting the MDGs through policy advice, 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.

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

Mr. Scholar and Mr. Droop submitted the following statement:

We welcome the paper and commend staff for the extensive work that has gone into producing it, as well as for consultation with the Board throughout the process. We share the vision of the Global Monitoring Report (GMR) as a central element of the framework required to reinforce consensus and momentum, as well as to sharpen accountability, around Monterrey commitments. This year's report marks a big step in the evolution of the GMR towards that vision. We believe that the report should continue to play a central role in the Development Committee's ongoing strategic oversight of the global development agenda in future meetings. The quality and impact of the report will improve as more data and analysis is produced (or disclosed in some cases, like the CPIA ratings) and as familiarity with the product increases.

We also welcome and concur with the key messages of this year's report, including the need to make a step-change on the trade agenda, double aid levels, boost aid effectiveness and further embed the PRSP approach. The special focus on Africa is also very appropriate. It goes without saying that it is imperative for action on all sides this year if the pace towards the MDGs is to be stepped up. The GMR reinforces that message. It is one central vehicle among a range of events, reports and processes that can contribute to those necessary actions being taken. It is therefore important that the paper is read in this wider 2005 context. To achieve that, the Overview/DC paper will need to set out key 2005 milestones, like the Paris High Level Forum (HLF), the Secretary-General's Report, the Sachs Report and the Commission for Africa (CfA) report, and how they fit together. A final point on the structure of the DC paper is that it should mirror the proposed

structure of the DC discussion. That means three separate sections focusing on the challenges for developed countries, developing countries and IFIs.

Some more specific comments on some of the separate elements of the Five-Point Agenda and on the challenges for IFIs follow. The comments are set in the order we would propose for the GMR itself.

Increasing the Level and Effectiveness of Aid

We endorse the analysis and messages in this section. On the question of levels of aid we would hope that the DC paper could include a firmer call for action by donors to set out firm timetables for moving to the 0.7 percent of GNI target. Additionally, the section on innovative financing modalities should go beyond referring to 'progress on ongoing work' to reflect the need to move towards concrete decisions and implementation.

We welcome the recognition of the role that additional debt relief can play alongside increases in aid in accelerating progress towards the MDGs, and are pleased to see this included in Box 1.1 on the five-point agenda. In our view this box should also recognize the ongoing work on innovative financing mechanisms, including the IFF and international taxes, to deliver increases in aid.

On aid effectiveness, we would hope that the DC paper could:

- Clarify the progress made in Paris
- Place greater stress on the importance of financing mechanisms reinforcing country-led frameworks rather than cutting across them.
- Highlight the need for application of best practice in allocation, procurement and disbursement processes
- Emphasize that streamlining of conditionality is an aid effectiveness issue, and one that applies to all partner countries (rather than just MICs). The conditionality review will obviously be a central element here.
- Point out that developing countries' need for predictable finance implies the need for donors to make medium-term commitments, aligned to national budget cycles

Growth

Clearly development finance alone is insufficient to spur and sustain higher growth. We would emphasize that development assistance and growth strategies need to be considered in a much more integrated fashion than they currently are in many PRSs. Official resources are especially productive when

they leverage private sector investment and decision-making. We would also endorse the report's strong emphasis both on the need for country-specificity in developing growth strategies and attention to institutional strengthening.

An area that needs to be given more emphasis in the DC paper is the question of the environmental sustainability of growth. Evidence shows that one constraint to private sector-led growth that is common to many developing countries, particularly in sub-Saharan Africa (SSA) is poor access to energy. But environmental sustainability is also an MDG in its own right, as well as making a major contribution to the achievement of many of the others, particularly in the area of health. So an important element of the growth agenda is enhanced access to reliable, affordable and 'clean' energy options. IFIs have an important role in supporting this. We would also like to see the DC paper make more explicit recognition of the threat that increased climatic volatility (to which poor countries and poor people are most vulnerable) poses to achievement of the MDGs. Increased incidence of extreme weather events has the potential to constrain the capacity and resources available for the broader development agenda.

Finally, we welcome the references to the importance of fiscal transparency and to the specific role that the Extractive Industries Transparency Initiative (EITI) is playing.

Country-Led Development Strategies

We strongly welcome the emphasis on the centrality of country-led strategies in both LICs and MICs. Priorities for the PRS process include:

- Working towards greater integration with government systems
- Helping the approach to show greater flexibility and responsiveness to different country contexts
- Strengthening PRSs as a framework for aligning donor support, making them more predictable and strengthening accountability on all sides
- Acting as an effective vehicle both for aid to be scaled up in line with local priorities and for any possible constraints, like absorptive capacity, to be addressed in a strategic and effective manner.

Scaling-Up Service Delivery

We welcome the intelligent global priorities that are identified for scaling up service delivery in the GMR. In particular we endorse the stress on the need for financing in this area to be flexible and predictable. The DC paper should stress the importance of services reaching poor people. Policy frameworks need to

be designed with the objective of extending access to water, health and education services by poor and excluded groups.

Trade

We agree that multilateral, reciprocal and non-discriminatory trade liberalization holds out the best prospect for development. Successful agreement on an ambitious, pro-poor Doha Round is therefore critical. Clearly though, this is not costless. The Integrated Framework has demonstrated that resources can be pooled to provide coordinated assistance to developing countries in the diagnosis of obstacles to trade. The Fund should now work with other partners, through the Integrated Framework, to develop proposals for additional assistance to countries, consistent with debt sustainability, to ease adjustment in these countries, based on a systematic analysis of transition costs and consistent with country-owned development strategies, so they can increase their capacity to take advantage of more open markets.

IFIs

The paper sets out coherent priorities for the agenda. The first point in the agenda set out in paragraph 52 should stress the role the IFIs (including the IMF) have in supporting countries in developing ambitious plans to reach the MDGs. We should also be clear that support for building institutional capacity is not just for LICUS but applies to all client countries. Indeed, strengthening support for building institutional capacity is a priority in its own right. The IFIs have an important catalytic role to play in supporting the emergence of strong institutions focused on high-quality service delivery, public financial management and poverty monitoring among other areas. Concrete actions for IFIs in this area include greater coordination behind country-led capacity building efforts and a commitment to minimize the use of self-standing Project Implementation Units (PIUs). Finally, we welcome the emphasis on disclosure at all levels as an important component of the IFI effectiveness agenda.

Mr. Al-Turki submitted the following statement:

I thank the staffs of the Fund and the Bank for a comprehensive report for today's discussion. The report presents a candid account of the challenges facing all parties to the Monterrey Consensus. Since the progress toward meeting the Millennium Development Goals (MDGs) has been slower than envisaged, I welcome the realistic assessment about the work that lies ahead. The Fund has an important role to play in this regard by continuing to foster macroeconomic and financial stability through policy advice, capacity building, and financing. Implementation of additional macroeconomic, trade, and structural reforms should help low-income countries increase growth rate to the level necessary for halving income poverty by the year 2015.

I welcome the five-point agenda proposed in the report to accelerate the progress toward the development goals, namely: country-led development strategies; private-sector led economic growth; scaled-up service delivery; ambitious outcomes for the Doha Round; and increasing the level and effectiveness of development assistance, including the role of the International Financial Institutions. In this connection, the focus of this year's report on sub-Saharan Africa is appropriate. Indeed, the region needs special attention in view of the difficult challenges facing most of the countries in accelerating progress toward achieving the development goals.

I agree that country-owned and -led poverty reduction strategies (PRs) should continue to be the framework for operationalizing the MDGs at the country level in low-income countries. Indeed, the PRs should articulate a clear national agenda and priorities for achieving these goals. In this regard, I welcome the finding that there has been good progress in extending and deepening the PR process. Going forward, further effort is needed to strengthen the links between the PRs and the fiscal frameworks by aligning the budget allocations with the program priorities.

The report makes a strong case on the centrality of economic growth to meeting the MDG objectives. Countries should indeed create the conditions for sustainable high economic growth to help lift disadvantaged countries out of the poverty trap. In this regard, it is encouraging to note that GDP growth in developing countries averaged 6.5 percent in 2004, the highest level in more than a decade. To help sustain this performance, I agree that the policy agenda for growth needs to be prioritized and sequenced in a country-specific context.

Improving market access for developing country exports, especially agricultural products, would provide a major boost to growth and progress toward the MDGs. In this regard, I fully share the report's view that a timely and pro-development outcome to the Doha Round is crucial. Indeed, the report confirms the potential gains from an ambitious Doha Round to the GDP of the low-income countries of about 2 percent and that of sub-Saharan Africa of 1.3 percent. Therefore, the focus should be on a speedy dismantling of the existing barriers to trade, including particularly a widening of world market access for exports from the low-income countries. The report rightly emphasizes the need to support trade-related capacity building in these countries. Here, particular attention should be given to link producers in the developing countries to the international markets.

The report underscores in a very articulate manner the need for more aid and increasing its effectiveness. Two points are worth stressing here: first, in paragraph 14 in chapter 5 of the report, the reference to non-Development Assistance Committee (DAC) donors and the mention of the leading role of Saudi Arabia is welcome, but in future reports, and in light of recent meetings on DAC-non-DAC cooperation, such references should be mainstreamed in the report and

not confined to a single paragraph. Second, on innovative mechanisms to supplement traditional official development assistance (ODA), I note the progress made on the technical aspects of the International Financial Facility (IFF) proposal, but I remain cautious about the merit of delving further into some of the controversial Global Taxes ideas which still lack political traction.

The report has analyzed in a comprehensive and substantive manner the role of international financial institutions (IFIs) in helping developing countries achieve the MDGs and related development objectives. In this regard, I welcome the ongoing collaboration between the Fund and the Bank on PRSs, debt sustainability analysis, and further streamlining of structural conditionality. Further strengthening of Bank-Fund collaboration, based on comparative advantage and a mandate-driven division of labor, remains essential.

Mr. Kremers submitted the following statement:

Key Points

Low-income countries need to develop overarching development frameworks establishing clear links between the MDGs (and/or other development goals) and medium-term strategies, which in turn are translated into specific policy and structural measures with respective budgetary implications.

Within the Fund's core mandate, its work should be part of this framework.

Donors should increase their aid budgets to the agreed UN ODA target of 0.7 percent of GNP. The efficiency of aid delivery could be increased by better prioritization and harmonization of aid with country development strategies, and improved predictability, timing and sequencing of aid flows.

I welcome the timely presentation of the Global Monitoring Report (GMR) 2005 and broadly agree with the suggested five point agenda towards achieving the Millennium Development Goals (MDGs). While some progress has been achieved, more concerted efforts by mutual accountability and close cooperation between developing and developed countries are critical for the results to become tangible in the coming years. To that effect, the agenda needs to be translated into concrete objectives for all parties concerned, including a clear timeframe.

Development strategies

Staff rightly underscore the importance of overarching development frameworks in implementation of the MDGs. The framework should establish close links between long-term objectives—the MDGs and other development

goals—and medium-term strategies, such as PRSPs, map the latter into specific policy and structural measures with appropriate timing and sequencing, and then translate into budgetary terms. Such approach could also trigger more donor resources. The framework should be realistic, country-specific and tailored to the key priorities as identified by national authorities. While, as noted in the GMR, ‘countries are increasingly reflecting the MDGs in their PRSPs,’ one of the reasons for slow progress towards the MDGs seems to be the absence of adequate connection between these objectives and the medium-term development strategies. Linkages between PRSPs and fiscal frameworks also need to be strengthened with clear prioritization of spending. Also, as indicated in the report, Fund programs are not always consistent with PRSPs. Here too, and following the recommendations of the IEO, there seems to be scope for better aligning PRGFs and PRSPs as part of country-owned and country-led coherent frameworks. Within this framework and in line with its core mandate, the Fund will have to continue to focus on sound macro-economic management, financial sector issues and macro-critical structural reforms, particularly in public finance and the financial sector. IFIs and donors can and should play a crucial role in their respective fields by advising governments on best international practices, and providing technical assistance and financial aid. On the latter, I would reiterate that in general the Fund can play a more active role in facilitating donor flows through alternative scenario analysis.

Donor financing and harmonization

The key responsibility for achievement of the MDGs lies with the countries themselves. Ownership of reforms and sound policy implementation, efforts to strengthen governance and measures to promote private sector development are essential for improving the business climate and attracting private capital. However, due to the lack of domestic resources and the limited access to international capital markets, in many developing and low-income countries, the available private funds are insufficient to make visible contributions. The current level of foreign aid also falls considerably short of the needed amounts to bridge the financing gap, calling for stepped-up efforts on the part of donors to secure additional resources. The obvious and the simplest first step in this respect is for donors to increase their aid budgets to the agreed UN ODA target of 0.7 percent of GNP.

Next to the quantity, the quality of donor financial assistance needs to be improved as well. The experience shows that aid flows are not always channeled to priority areas and are often utilized inefficiently. In many cases, objectives of different development partners overlap and, due to the lack of coordination among them, certain narrowly defined fields receive excessive financial support, while other important goals remain inadequately addressed. Similarly, some critical areas are sidestepped when aid is dispersed and is received in small chunks, each sufficient to cover only minor projects, but not combined and channeled to spheres that are more vital.

There seems to be considerable scope for improving quality of aid delivery and, therefore, perhaps even more importantly than exploring new innovative financing modalities, the international community should think of ways to improve efficiency of existing aid. Aid providers should better harmonize assistance with recipients' development strategies and their priority-spending needs. Staff are right to note that aid to poor countries should be driven by development goals and not by "donors' strategic and security objectives." If aid flows were properly coordinated and prioritized, well-timed and sequenced, and made more flexible and predictable, the already available aid would become more productive and efficient, reducing the need for additional resources.

Aid allocation should be performance-based and result-oriented, contingent on continuous implementation of sound policies and reforms in line with the national agenda. At the same time, performance criteria should be realistic and within the reach of the authorities, taking into account domestic competence and capacity constraints. If absorptive capacity is limited, but otherwise the progress in a country merits additional aid flows, strengthening governance and building capacity should be high on the agenda to attract donor attention. The Fund can add to this in its core area of expertise.

Mr. Torres and Mr. López-Escobedo submitted the following statement:

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.

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.

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.

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.

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.

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.

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.

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.

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.

Mr. Meissner submitted the following statement:

We thank the staffs of the Fund and the Bank for a comprehensive report. In our view this year's Global Monitoring Report (GMR) has improved by taking into account many of the recommendations proposed during last year's discussion of the GMR. We particularly welcome the focus on the "five point agenda" which we consider appropriate. We have the following comments:

First, we support the view that country-owned and -led poverty reduction strategies (PRSS) are central to achieving the MDGs. It is also crucial that a PRS is linked to a medium-term fiscal framework and annual budgets to align budget allocations with program priorities.

Second, the report rightly emphasizes that growth is central to achieving the MDGs and related development outcomes. We also share the view that strong institutions matter for growth. But, as underlined by Mr. Padoan, the Fund should focus on and promote macro critical economic institutions.

Third, as mentioned by Mr. Lynch and Ms. Gust, future GMRs would profit from highlighting further the complementarity of policies needed for growth (macroeconomic stability, good institutions, and good public sector governance).

Finally on debt relief, we believe that the wording on debt relief in the Overview (paragraph 44) should respond to a recent report by the UN Secretary-General to the General Assembly which noted on the debt issue: "To move forward, we should redefine debt sustainability as the level of debt that allows the country to achieve the MDGs..." During the recent discussion on Further Debt Relief for LICs, this chair supported the view (put forth by Mr. Duquesne) that it would not be appropriate to assess debt sustainability on the basis of financing needs to meet the MDGs. At a minimum, we suggest to include in the Overview a reference to the Fund's and the Bank's Executive Boards' endorsement of the key elements of a new debt sustainability framework for LICs aimed at supporting them in their efforts to achieve the MDGs without creating future debt problems and to keep countries that have received debt relief under the HIPC initiative on a sustainable track (as was done in the main text of the GMR). Staff comments would be welcome.

Mr. Wang submitted the following statement:

We would like to congratulate and thank staff of the Fund and the Bank for preparing such a comprehensive report. Although the MDGs set forth clear targets for eradicating poverty and promoting growth, daunting challenges

remain. It is thus the right time to reflect on these challenges and move forward with some concrete steps. To this end, we welcome the action-oriented nature of the report, in particular.

We broadly share staff's opinions in the draft report and would like to make the following comments.

We support the Five-Point Agenda proposed by the staff in Box 1.1 to accelerate progress towards the MDGs. All MDG stakeholders should play their due roles—the developed countries should keep in mind their commitments made at Monterrey and stick to them, while the developing countries need to take the lead in articulating and implementing strategies aimed at a higher level of economic growth and human development. On the other hand, International Financial Institutions (IFIs) need to strengthen and sharpen their support for achieving the MDGs.

Sufficient and appropriate ODA is crucial for helping the needed reach the MDG objectives. Therefore, we welcome the recent results on IDA14 replenishment. This being said, there are huge financing gaps between ODA and the required funds. According to staff, the UN Millennium Report 2005 projects the additional external assistance needed to directly support the MDGs in LICs at US\$73 billion in 2006, rising to US\$135 billion by 2015. To fill the gap, other financing modalities might be necessary and we look forward to more proposals on this issue.

Donor harmonization is essential to maximize the efficiency of the assistance funds, becoming even more urgent due to the segmentation problems. Therefore, the IFIs have a greater responsibility in coordinating development operations and assistance funds with different donors. In addition to financial assistance, we believe that economic growth itself is the key to eliminating poverty. Therefore, it is important for poor countries to improve their business environment and infrastructures, to make the growth more sustainable.

We find the trade policy discussions, especially with regard to agriculture in developed countries, useful. A successful Doha Round will benefit both the developing and the developed countries. Besides, we support the efforts to address cross-border constraints to the trade capacity.

With these remarks, we look forward to further fruitful discussion of this issue at the forthcoming Development Committee meeting and hope it could become a milestone for generating more solid steps towards the MDGs.

Mr. Schwartz and Ms. Valle submitted the following statement:

Key Points

- Sustainable growth is central to meeting the MDG. More broadly, the eradication of poverty depends crucially on three closely interrelated factors: growth, institutions and good governance, and integration in global markets.
- The consecution of a sustainable growth that reduces poverty is a shared commitment of both the developed and the developing countries. Country ownership, access to international markets and well-focused aid are the framework where concrete actions for progress should be defined.
- The proposed “five-point agenda” is appropriate. Nevertheless, we would have welcomed more detail in some of the areas.
- For future editions of the report, an update of annual progress/slippages in policy actions of the actors contributing to the achievement of the MDGs would be useful.
- Access to global markets is at the heart of sustained and stable growth. This includes goods and capital markets.
- Increased aid should be linked to countries’ absorptive capacity and commitment to development. Increased coordination of different sources of aid would lead to increased effectiveness.
- Role of the Fund: surveillance, technical assistance and lending can help achieving sustainable growth and integrating countries into the international financial market.

We welcome the staff’s report and, specially, the importance attained to growth on development and the focus on sub-Saharan Africa.

The consecution of a sustainable growth that reduces poverty is a task of the international community and undoubtedly a result of a shared commitment of both the developed and the developing countries. Country ownership of the development strategies, access to international markets and well-focused aid are the framework where concrete actions for progress should be defined. In this sense, the proposed “five-point agenda” is appropriate. Nevertheless, we would have welcomed more detail in some of the areas.

Sustainable growth is central to achieving the MDGs...

As the report states, growth reduces poverty directly (income-MDG) and expands resources and capacities for achieving the non-income MDGs, and thus,

for improving the living standards. Therefore, the main goal of the international community to reduce poverty should aim at granting sustainable growth, in which, as the report highlights, strong institutions and integration in global markets matter.

In sum, the achievement of the MDGs and the eradication of poverty depend crucially on three closely interrelated factors: growth, institutions and good governance, and access to global markets. Increased efforts on aid, in quantity as well as in quality, allow for a better delivery of human development services, as long as the recipient countries, on their own are not able to sufficiently provide them.

In this respect, and in order to reduce poverty in sub-Saharan Africa, it is necessary that growth increases but also that growth volatility diminishes. One of the risks to the achievement of the MDGs in this region, is that, as stated in the last WEO, growth has recently been underpinned by the strength of the global economy. Hence, further efforts in the region are needed to find more stable sources of growth.

Institutions and Governance

We very much share the conclusion of the report on this issue, namely, that differences in policies and institutions largely explain the differences in growth and poverty reduction among regions and among countries. Progress must be achieved in three major areas: macroeconomic management, business climate and governance.

Integration on Global Markets

From our point of view, external aid cannot substitute endogenous sources of growth. Efforts in the developed and developing countries to both opening an accessing international markets of goods and capitals would boost economic growth, and is the only way to grant a sustainable improvement of the living standards.

Therefore, on one hand, we support the report's recommendation that multilateral, reciprocal, non-discriminatory trade liberalization offers the best way for all countries to win from trade. This requires north-south and south-south market opening.

But, as important as that for LICs to achieve sustainable growth, and somewhat not as deeply discussed, is the access to international financial markets. This option deserves consideration when, as it is common business in many developing countries, the starting capital stock is very low and the own financial markets are not big enough to finance growth. Hence, we are convinced that, together with external aid in the short run, the PRSs should consider, in the long

term, strategies to access international financial markets as a means of more enduringly financing growth.

As an example of the importance of capital markets integration, let us refer to the last WEO set of papers¹. According to it, one of the factors magnifying the negative impact of macroeconomic volatility in sub-Saharan Africa is, precisely, having underdeveloped domestic financial systems and limited integration with global financial markets.

Increased Efforts on Aid

The recommendation of substantially increasing the level and efficiency of aid is well taken. In this respect, we would like to highlight two issues.

On one hand, increased aid should be linked to countries' absorptive capacity and commitment to development. In this respect, country ownership gives an incentive to commitment to reforms and, in turn, shows donors the seriousness of the country's development strategy and encourages them to increase aid flows and technical assistance. On the other hand, and very much linked to the former thought, we support the idea of discussing financing modalities and concur with the report that mechanisms to enhance the role and effectiveness of voluntary private contributions in supporting development should be explored. Moreover, we think that increased coordination of different sources of aid would lead to increased effectiveness.

The Role of the IMF

The role of the IMF in meeting the MDGs and reducing poverty is related to promoting sustainable growth through its main activities: surveillance, lending and technical assistance. In particular, the IMF has a role to play in helping countries to integrate in the international financial markets.

We support the idea of Mr. Padoan and Mr. Lombardi on exploring ways for involving the IEO in the section of the Report devoted to reviewing the Fund's role, since this would provide the Board with the opportunity of evaluating the consistency of the Fund's policy toolkit in supporting the low-income members in achieving the MDGs.

Mr. Zurbrugg and Mr. Inderbinen submitted the following statement:

We thank the staffs for this second number of the Global Monitoring Report. With the stocktaking of progress towards the MDGs to be undertaken later in the year, the 2005 GMR's findings are of particular relevance. Along with a series of other recent reports, it points to the need for increased efforts by all involved to achieve the MDGs. Importantly, the report emphasizes that an increase in aid is not the only requirement for a more rapid progress. The overall

policies of developed countries towards low-income countries will be decisive for better outcomes, as will improved economic management by the developing countries themselves.

We gladly note the improvements compared with the 2004 GMR. In giving special emphasis to sub-Saharan Africa, the report is better focused on key issues at the regional and country level. Also, the Five-Point Agenda to accelerate progress should serve to guide Ministers' discussion on how to move ahead. Nonetheless, like Mr. Lynch and Ms. Gust, we believe that the GMR would benefit from further improvement.

For one, the GMR should feature a more detailed set of benchmarks and indicators. That way, progress could be tracked year-to-year, including—to the extent possible—at the country level. The report could thus serve more as a management tool, rather than a listing of what would be required for attaining the MDGs. Also, priorities for concrete action could be defined. This is not to question the overall relevance of the Five-Point Agenda proposed in the report. But the recommendations it contains are too general to be of much operational value.

A more specific concern we have is with the last point of the proposed Agenda. We agree that the aid provision continues to fall short of pledged increases, and that the aid that is forthcoming should be better targeted to the MDGs. But, as in other discussions on ODA provision, the Agenda in its present form gives precedence to quantity over quality. In our view, the need to improve the quality of aid can not be emphasized too strongly. With donor countries facing budgetary constraints, every effort needs to be made to maximize the impact of available resources on development. The report does call for faster progress on alignment and harmonization, but it could be more concrete.

The Agenda also includes the question of further debt relief. We currently see no compelling economic reason for a new round. If the aim is to provide a channel for additional ODA, we believe that other instruments would be more effective. Also, given past outcomes, we doubt whether further debt relief would be truly additional.

We welcome the report's increased focus on policies and actions of the international financial institutions. This is precisely the area where the Executive Boards of the Fund and the Bank should provide guidance. It is right to emphasize that the IFIs should take the lead in efforts to make aid allocations more performance-based and better aligned to the recipients' PRSPs, and to harmonize procedures for ODA provision. At the same time, the chapter on the IFIs is relatively uncritical on the institutional barriers that currently impede a more effective division of labor between the different multilateral institutions. The GMR may not be the right place to treat this matter in detail. But the report could have provided some guidance what needs to be done in order to better delineate

the respective responsibilities of the various IFIs. Doing so would be important to improve the overall effectiveness of aid.

As to the IMF, Box 6.11 identifies the areas where further work is needed to strengthen the Fund's activities in low-income countries. We believe that primary attention should be given to further tailoring these activities to countries' individual needs. This would correspond to the findings of the IEO's recent work on the Poverty Reduction Strategy approach and on technical assistance by the Fund. A better tailoring to countries' circumstances should help towards a clearer division of labor with other actors. It would also allow the Fund to focus on its main competencies, i.e., macroeconomic policy advice and capacity building in its specific areas of expertise. In the end, we believe the Fund can best contribute towards the MDGs by focusing on these core competences.

Mr. Mozhin and Mr. Tolstikov submitted the following statement:

We thank the IMF and World Bank staff for the comprehensive report on monitoring the MDGs. While the Global Monitoring Report (GMR) is becoming a regular exercise, it is important to focus on the new developments and major challenges. We are encouraged to see some progress in the core areas of the IMF's competence, though a lot is to be done to sustain this momentum. Improving the perceptions of aid effectiveness is critical for considerable increase in the ODA. In order to be able to better inform the international community, it is necessary to strengthen the development statistics and to improve measurement of governance effects.

The 2005 GMR is organized around five principal areas of the development agenda which helps to focus on the main problems. We found such form of presentation appropriate, as well as the special attention to sub-Saharan Africa. The report is instrumental for informing the Development Committee on the broad picture, providing comprehensive analysis of the factors essential for attaining the MDGs. On the other hand, many of these factors do not differ from those of last year's report, and the same is true for its conclusions. As the GMR is a regular annual exercise now, and taking into account work already done in preparation of the 2004 GMR, we would welcome more emphasis on recent developments and special attention to the progress achieved since last year's GMR.

Though there are few doubts that in order to achieve the MDGs a substantial increase of donors' assistance is necessary, there are still doubts whether the increased flow of resources could be effectively absorbed, or whether greatly expanded aid would result mainly in waste. The development of absorptive capacity is therefore a prerequisite to increased aid. We support the report's emphasis on measures to create an environment for stronger, private sector led economic growth, including stronger fiscal management, removing regulatory and institutional constraints and improving governance.

The IMF has its own special role in this process. The main responsibility of the Fund is to promote sound fiscal management and macroeconomic stability through Fund advice and technical assistance. More needs to be done to improve financial market infrastructure, and to reinforce the credibility of the monetary and exchange rate regimes in low-income countries in order to raise their capacity to attract and absorb growing financial flows.

We welcome the progress of the IMF and World Bank work in developing benchmarks for measuring countries' capacity to manage priority public spending. This is critical for ensuring donors' confidence that resources can be traced and used efficiently.

The Fund should be selective in its lending. Though Fund programs may have a catalytic effect for the willingness of other donors to provide additional assistance, the Fund should resist pressures to ease its quality requirements as regards countries' policies. The increase in aid selectivity is likely to provide additional incentives for low-income countries to make extra efforts to improve their economic policy.

In the 2005 GMR the issue of trade liberalization was brought to the forefront as one of the five principal areas of the development agenda. We agree that it is one of the most important elements in reaching the MDGs. Reducing trade barriers is likely to affect not one, but a host of MDG targets, with this positive effect being particularly strong if trade liberalization is conducted on a non-discriminatory basis. This raises the need to revitalize multilateral trade negotiations. The alternative—regional and bilateral trade agreements—is not likely to contribute as significantly to the goals of growth and poverty reduction.

The monitoring of development results should be further improved. In many developing countries the statistical capacity is still insufficient. At present there are major gaps in data, especially with respect to human development. It is difficult to assess the efficiency of aid due to the lack of reliable data. There is a need for more research to strengthen the analytic underpinnings of the monitoring framework, especially the links between policies and outcomes. We, therefore, support further efforts of the IFI's to deliver technical assistance in the area of development statistics.

We still need to improve our understanding of the effects of cross-border labor migration. Some developing countries are starting to receive larger amounts in remittances than in foreign direct investment. This trend is observed, among others, in some CIS countries, where inflows of remittances provide a crucial source for reducing poverty. Judging from staff's estimates made in these countries' Article IV discussions, the volumes of remittances are likely to be larger than estimated thus far. Therefore, the IFIs should improve the monitoring of these developments through better data collection and greater coordination with donors and recipients of remittances. Given the potential returns, greater technical

assistance to developing countries in using the flows of remittances to boost economic growth and fight poverty would be welcome.

Mr. Duquesne submitted the following statement:

At the outset, we would like to thank the IMF and the World bank's Staff for their work and high-quality report. We found the report to be comprehensive, well documented, and broadly balanced. I think like Mr. Mirakhor that it adequately stresses that we are far from reaching the MDGs and that if there are some improvements, the progress is not evenly notable in all regions. For that reason we welcome the focus on Sub Saharan Africa like Mr. Padoan and Mr. Lombardi.

We would only have one general question on the format of the report. It tends to look increasingly like as a new flagship report in the vein of the WEO in the IMF or the GEP in the Bank. It computes a lot of recent research findings, highlights many concrete examples and provides with of thorough information. However, we wonder if it is not distancing itself from a monitoring report on the commitments made and on the progress achieved towards the MDGs.

The overview of the report will be helpful to guide the Ministers' discussion on the priorities but will give them little idea on the progress achieved towards the MDGs. We think that there are striking figures and graphics that could better describe the current situation than any report. They also constitute the best demonstration of the need for additional, stable and predictable ODA.

Turning now to the substance of the report and in particular of the five point agenda, we would like to raise two issues of particular importance to us:

On ODA, the agenda calls for doubling ODA and refers to aid efficiency, absorptive capacity and debt relief, but gives little consideration to innovative financing mechanisms. These mechanisms are not even mentioned in the box! We therefore believe that this box should be amended, as suggested by Tom Scholar. We think it is important to reflect the progress that has been achieved in this area and the possibilities through the IFF and global taxes to meet the need for some urgent needs. The recent joint Bank-Fund Staff report presented at the Bank Board confirms that there is no more ground for considering that these mechanisms are not credible and feasible. As far as debt relief is concerned, we are of the view that, if it could provide low-income countries with additional resources, it should be delivered on the basis of the new framework to assess debt sustainability (which is not to be based on assessment needs to reach the MDGs).

On trade, the successful completion of the Doha round is undoubtedly an objective for the international community. The report gives data on the possible benefits of trade liberalization. However, it is well known that low-income countries would not evenly take advantage of trade liberalization, even in

agriculture. There could be some winners and some losers. As highlighted by the World Bank in its recent report on trade : trade reform is not a panacea that axiomatically delivers growth or poverty reduction. Therefore, the report should insist on the need to ensure that trade liberalization is effectively conducive to progress towards the MDGs, through an appropriate support to low-income countries, especially in Africa.

As far as the section on strengthening and sharpening the IFI support is concerned, the priorities seem appropriate. The IMF has a major role to play in the perspective of the MDGs through its programs, its expertise, and its technical assistance. It is important that, in line with the conclusions of the August 2004 on the IMF's implication in low-income countries, further progress is made in securing the financing of the PRGF and developing an adapted facility to help vulnerable countries to deal with exogenous shocks. It is also key that the IMF's Staff be closely coordinate with the World Bank Staff. We agree that the PRSs, on which two policy papers are to be discussed in the Board this year (the role of the IMF Staff in the PRSs process and the review of the PRSs), is an appropriate instrument to structure this collaboration in low-income countries.

Of course these comments complement and do not substitute to those made last week during the World Bank Board discussion.

Mr. Farelius Mr. Ólafsson submitted the following statement:

We commend the Fund and Bank staff for the Global Monitoring Report 2005. The Report contains a wealth of information and analysis that effectively underpin the main messages and recommendations. The focus on sub-Saharan Africa is also appropriate as it is clear that strengthened efforts by all parties involved are necessary for the countries in this region to have a chance of coming close to meeting the MDGs. The five point agenda is useful as a broad outline for focusing on the way forward. The Report demonstrates the interactive relationship between various MDGs, the need for donors to coordinate and align their efforts and the need to improve coherency between aid and trade policies.

We welcome the priority given to the need to accelerate economic growth and improve quality of governance and macro policies in the developing countries. The Report rightly concludes that getting the economic fundamentals right—improving fiscal management, respect for property rights and rule of law—are key areas for implementation. The emphasis on private sector led growth and the benefits of trade liberalization are also appropriate. We welcome the discussion on strengthening and sharpening IFI support and take note of the clear commitment to contribute to further harmonization, alignment and results. There is an appropriate focus on ownership and the developing countries' own policies as primary determinants of the prospects for achieving the MDGs. We are, however, surprised that the report does not provide status of policies put in place to reach the MDGs target on environmental sustainability. Like Mr. Scholar

and Mr. Droop, more emphasis should in future reports be placed on the importance of environmental sustainability of growth.

Progress towards the MDGs has been uneven and disappointing, especially in human development indicators. Prospects for reaching the income target are more promising, except in sub-Saharan Africa where a special effort is needed. While accelerated economic growth is necessary, it is not a sufficient condition for poverty reduction. Good governance and an efficient institutional framework must be in place to ensure that growth benefits the poor and is compatible with sustainable environment. Pro-poor growth strategies and actions are important for achieving more equity within countries/regions as well as between countries/regions. The Fund has an important role to help countries achieve the MDGs inter alia by assisting in institution building within its core mandate.

The lack of progress regarding human development goals is alarming, especially in sub-Saharan Africa. Progress has been too slow in mobilizing resources for primary education and a health personnel crisis affects many African countries. We strongly encourage further harmonization as well as alignment of global health initiatives with national policies and strategies. Within the context of scaling up service delivery we acknowledge the need for mobilizing flexible and predictable financing and the need for changes in donor support in this area.

We urge countries to work towards the timely finalization of the Doha Round. To translate an ambitious Doha Round into tangible benefits for developing countries, measures are needed to improve the macroeconomic climate and the business environment, strengthen supply capacity and reduce transactions costs. Improvements in infrastructure such as the transportation network are fundamental to enable developing regions to respond to trade liberalization. Some countries face the choice between necessary investment in infrastructure and investment in human development. Here, future Reports could be of benefit by reflecting on issues such as trade-offs and sequencing.

Growth requires investment. As saving rates are insufficient, increased aid and its effectiveness remain central to achieving the MDGs. Unfortunately, current levels of ODA fall short of estimates of what is needed to meet the MDGs. The sub-Saharan countries, especially, will need a substantial increase in ODA to improve their prospects for progress toward the MDGs. However, as recognized in the report, some positive trends are emerging; ODA volumes are augmenting; donors are becoming more performance focused; sub-Saharan Africa is receiving more attention and budget support and sector wide approaches are on the rise.

While we urge all developed countries to aim at the UN target of contributing 0.7 per cent of GNI to ODA it is also important to recognize that

commitment and contribution to the stability and order of the global system are a prerequisite for the achievement of the MDGs.

Mr. Prader and Mr. Crelo submitted the following statement:

We thank the staffs of the Fund and the World Bank for a very good report.

We agree with Mr. Lynch and Ms. Gust that the overview chapter would be better suited if it assessed whether progress has been made or not since the previous report and gave the underlying reasons for the observed developments. The basis for this could for instance be the table comprised in the progress report of the UN, which shows progress achieved per region in the eight MDG goals. Also, the next GMR could incorporate an action matrix reflecting the relevant actions that the different stakeholders need to take.

The staffs' choice of theme for this year's GMR is well picked. Indeed, in spite of significant progress made, the MDGs will not be reached if current policies continue. Instead of 2015, the MDGs in sub-Saharan Africa would be met around 2150. As the UN Secretary General reported to the UN General Assembly in September 2004, "overcoming human poverty will require a quantum leap in scale and ambition." Whereas one of the main conclusions of the 2005 GMR is that Official Development Aid (ODA) remains well short of what poor countries will need, it also stresses that the quantity of aid is not a panacea, it is only one element of the big puzzle. Hence, the report rightly underscores that making progress hinges on a shared accountability among the developed and developing countries. In this vein, the five-point agenda suggested to strive at a faster pace towards achieving of the MDGs presents a balanced view of the responsibilities everybody has to bear. The International Financial Institutions (IFIs) will continue to be key players in this process.

At the Monterrey Conference on Finance and Development, donor countries committed to gradually increase ODA to the ultimate target of 0.7 percent of GNI. As noted in the report, the recovery in ODA that started in 2001 is holding but it still remains insufficient. The European Union, which is, collectively, the world's largest donor, has shown a clear commitment to provide assistance to poor countries. As mentioned in paragraph 11 of chapter 5 on aid and its effectiveness, five European countries have achieved ODA targets of 0.7 percent of GNI or even more and six European countries have seriously committed to the timetable for achieving that target by 2015. As noted in footnote 4 of the same chapter, EU countries committed to achieve an average of 0.39 percent by 2006. This objective will probably be surpassed at the EU level. In the recent IDA 14 and AfDF 10, EU Member states decided to provide respectively 55 and 59 percent of the total external resources. The willingness of developed countries should be based on a collective effort. This means that all donors should deliver their share. Concomitantly, the momentum that was

gathered at the High-Level forum in Paris on harmonization and alignment must be adhered to.

As underscored in recent discussions and as recalled by Messrs. Padoan and Lombardi, sound institutions are conducive to growth. Hence, improving governance should be high on the agenda of all countries. Good governance and upgraded business environments are crucial for attracting complementary financing in the form of FDI and thus spurring private-sector growth.

The Poverty Reduction Strategies (PRSs) of poor countries will be critical in translating goals into reality. To that purpose, these countries will have to encompass clear medium-term priorities to achieve this reality. The Fund and the Bank will continue to play an important role in supporting countries in their endeavor of poverty reduction while respecting the overarching principle of program ownership by individual countries. To reflect the idea of ownership, Joint Staff Assessments (JSAs) were transformed into Joint Staff Advisory Notes (JSAN). Thus, it is surprising to come across the old terminology in paragraph 101 in the chapter devoted to IFIs.

One of the few clear messages that has emerged from the recent discussions on the Fund's medium-term strategy is that the Fund should continue to be strongly involved in LICs. The HIPC Initiative and the joint scheme with the World Bank have continued to reduce the debt overhang in countries with unsustainable debt and a consensus was established on the new debt sustainability analysis (DSA) framework. We look forward to the forthcoming discussion which should lead to the rapid implementation of this framework. The outcome of the upcoming policy discussions, as described in box 6.11, will further guide the Fund's role in LICs. In this context, we regret that the discussion on the signaling role of the Fund and donor coordination could not take place at an earlier stage.

We agree that a successful Doha round is an important element for reaching the MDGs. The Fund has continued to highlight the benefits of an open international trade system and trade liberalization, in support of the current trade round. It should continue to do so while sticking to its areas of core competence. A successful outcome of the current round would entail benefits in terms of productivity, growth and development for all countries. As during the recent review on the Fund's work on trade, we would once again encourage the staff to step up its research on the relation between trade and poverty.

Let me conclude with three final remarks.

While welcoming the itemization of the innovative financing mechanisms proposed to increase aid flows, the report could have made a cost-benefit analysis of such aid schemes, and also addressed the questions about their implementation.

While we would certainly not contest the relevance of the findings of the IEO report on the Fund's role in Argentina, we wonder whether the GMR is the appropriate place to mention them (cf. box 6.10.).

To close on a purely editorial note, the staff should check in paragraph 94 of chapter 6 which policies are still planned for 2005 and which have already been discussed in the meantime.

Mr. Ngumbullu and Mr. Ukpong submitted the following statement:

The Global Monitoring Report shows that less than satisfactory progress has been made towards the attainment of the Millennium Development Goals (MDGs) to which developing countries and development partners made a commitment in the year 2000. The inadequacy of progress is buttressed by the grim reality of continuous high incidence of preventable diseases, poverty, illiteracy and despair in many low-income countries, especially in Africa; a continent considered most unlikely to achieve the MDGs. It is obvious from the staff report that without early meeting of the MDGs as agreed at Monterrey and by not fulfilling the commitments made, most countries in Africa will be seriously jeopardized.

A five-point strategic agenda, proposed in the report for accelerating progress toward the MDGs, is not only timely but requires broad international support and concerted action. Such a step would help avert the disastrous prospect of more than one billion people around the globe continuing to live in abject poverty, with the incidence of poverty projected to increase significantly in Africa by 2015.

We support the call on donors to make use of the first strategy for anchoring supportive actions to achieve the MDGs on country-led development programs of poverty reduction, with linkage to medium-term fiscal frameworks. The other planks of the agenda, i.e. improvement of environment for private sector led growth, scaling up human development services, dismantling trade barriers, and increasing the level of official development assistance also deserve broad-based support. Such support could range from technical assistance in articulating MDG-related development policies and provision of financial resources in the form of grants for execution of education and health projects to hasten progress towards the MDGs.

The staff paper while elaborating on the service delivery aspect of the agenda, suggests the establishment of a stable funding framework to fast track initiatives toward the MDGs. Although any potentially effective initiative to enhance full attainment of the MDGs is welcome, care needs to be exercised not to dissipate efforts in making several new and overlapping funding arrangements while some previous pledges have not been fulfilled.

We would like to emphasize here that Africa has been a committed reformer; and growth rates in many African countries have been impressive in recent times, yet the continent is unlikely to achieve the MDGs by 2015. Donors have largely been slow or reluctant in meeting their commitments. What is needed at this point is meaningful support to the genuine efforts of these countries to achieve the MDGs. In this regard, the various funding initiatives on the table should be concretized into an action plan with both parties meeting their commitments on time.

We appreciate the call on international financial institutions (IFIs) to play a more active role, especially in coordinating donor assistance for the MDGs. Such a catalytic role by IFIs would send a positive signal to the donor community and galvanize the type of support necessary for developing countries to enhance prospects for achieving the MDGs by 2015.

Mr. Ondo Mañe submitted the following statement:

We thank the staffs of the Fund and the World Bank for their informative and insightful monitoring report 2005 on the achievement of the Millennium Development Goals. We welcome the analysis presented in the report and in particular its focus on African region. We note that East Asia has already achieved the poverty goal, and South Asia is in target while in sub-Saharan Africa, the momentum has been much slower and most countries in that region are at risk of falling far short. This situation sheds light on the daunting challenges facing African countries. But the success recorded in the performing regions provide reasons for hope and underscore the urgent need for African countries to speed up the already recognized culture of macroeconomic stability to sustain economic growth with improvement on governance and transparency. We also note that for many regions, the human development goals are not yet met and they require further intensified efforts.

The Board discussion on the outcomes of this report is appropriate as we are in 2005 meaning only one decade before the deadline set out in five years ago towards the achievement of the MDGs. Based on the current trend in mobilizing external financing and if this is to continue we remain concerned that most of the developing countries would not meet all the MDGS at the due date. Therefore we broadly agree with staff on the five-point agenda set out in the report with a view to accelerate the MDGs' achievement.

On dismantling barriers to trade, it is important to be cautious as in some developing countries the bulk of government revenue derived from import duties. In this regard, there is need to strengthen fiscal administration with a view to enhance revenue collection. While we recognize the equal importance of the five points highlighted in the agenda, developing countries should further put emphasis on operationalizing the MDGs in their owned and led poverty reduction strategies. In this regard, better coordination of donors' programs with PRSPs is

needed in order to ensure improvement in funds allocation in accordance with PRSPs. This will lead to an enhanced coherence in setting and implementing national priorities as well as in increasing donor's support to countries.

On spurring and sustaining economic growth, there is a need to strengthen fiscal management, improve business climate for private activity and enhance good governance. To this end our authorities are committed to further deepening progress on macroeconomic management, notably achieving fiscal consolidation and improving the structure and quality of public expenditure. We share the view that sound fiscal management and macroeconomic stability is a key element in improving the conducive environment for private sector activity and growth.

While such a framework is of critical importance for attracting foreign direct investment flows, however we are also of the view that country specific policies are required in order to align specific foreign direct investment with specific country endowment. Furthermore, we take good note that to help achieve strong economic growth and speed up the delivery of social services policies to be put in place should be aimed at encouraging knowledge and technology transfer. However, would the needed technological transfer take place if there is no spending on tertiary and higher scientific education? It is in this spirit that sub-Saharan Africa countries through the African Union have resolved to create an African network of centers of excellence. We appreciate donors who have already pledged support. Moreover, we would like to underscore the fact that industrial manufacturing is another key medium for conducting technological transfer.

In addition it is important to state that in order to move the agenda forward, the key outcomes to achieve in this year is to put in place a permanent and sustainable solution for debt problems as well a system to increase financial assistance to Low-Income Countries. The international community should convince creditors to cancel external debt with a view to allow countries to start afresh. There is also a need to help countries wipe out their domestic debt whose amount and negative impact can put the debt sustainability at risk. At any rate, to ensure debt sustainability in heavily indebted poor countries that are implementing sound policies a larger proportion of additional assistance should be provide in form of grants. We welcome the US Millennium Challenge Account with its reliance on grants, which we think, will contribute significantly to long term growth. We also welcome the recent British initiatives towards canceling the debt of low-income countries to multilateral institutions and putting in place an additional financial facility such as the International Financing Facility(IFF). In the same vein we support the French initiative for the implementation of international taxes in order to help finance this facility as well as the Japanese proposal promoting the development of a strong African private sector playing the role of an engine of economic growth in the continent. We see merit for more active role of other trade and financial instruments that can support the private sector and protect export and investment in developing countries.

As regards the support from the international financial institutions, we welcome the analysis and recommendations stated in the report. Indeed there has been progress in supporting countries development but there is need to do more and step up the efforts. The World Bank and the IMF need to continue and strengthen their support to Low income countries in their efforts to implement the poverty reduction strategies. While we agree with the priorities recommended in order to strengthen and sharpen the IFIS' support for action and monitoring progress, we see these institutions, in particular the Fund, helping low-income countries establish and maintain macroeconomic and financial stability as well as playing its signaling role to donors and private sector to attract foreign direct investments which is essential to foster sustainable growth, reduce poverty and achieve the MDGs. As underlined in several occasions, achieving the MDGs will require a significant increase in development assistance. In this regard, we welcome the increased efforts of the Bank and the Fund to assist low-income countries through the PRGF arrangements and the HIPC Initiative implementation. However regarding the latter serious concerns have been voiced as many low-income countries, even after reaching the completion point will not reach debt sustainability due to the vulnerabilities of their economies to exogenous shocks. In that context meeting the MDGS raise serious concerns. In accordance to the Monterrey consensus, low-income countries are doing their part in maintaining macroeconomic stability and in pursuing structural reforms but the external financial assistance is not delivered as promised. It is important to note that for low-income countries, building of appropriate and strong institutions is crucial in the meeting of the MDGs. Therefore, IFIs and the international community should strengthen their assistance in this area and put in place a conducive framework meant to promote the human resources development. Moreover, on the trade issues we recognize that strong efforts are needed to improve market access for developing countries exports in particular their agricultural exports. In this context, we call on developed countries to eliminate their agricultural and export subsidies. The Bretton Woods Institutions are invited to intensify their efforts to develop clear strategies to assist low-income countries in adjusting to greater trade liberalization. On regional integration in particular in sub-Saharan Africa, the BWIs should enhance their support to help these countries to integrate better and more efficiently.

In concluding, we reiterate our call for the IFIs and the Fund in particular to elaborate more clearly its role in mobilizing the aid flows needed to meet the MDGs. The Fund should play an advocacy role by assessing how much aid is already pledged, how much more is needed, how much debt service the country can serve and how the aid could be timed to minimize or caution macroeconomic disruption. In this regard, it is important to encourage the Fund to participate actively in the United Nation Summit on the MDGs scheduled to take place in New York in September of this year.

Mr. Oh and Mr. Seong submitted the following statement:

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 HIPC's to carry new borrowings. We note that under IDA14, six post-completion HIPC's 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.

Ms. Lundsager and Ms. Donovan submitted the following statement:

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.

Mr. Srinivas made the following additional statement:

MDB financing has been gradually and steadily growing, but has also shrunk in relation to private financing over the past decade. Since the MDBs represent the "good Samaritans," different from private capital flows, MDBs finance low-income countries, which generally do not manage to extract growth from concessional financing and, in fact, are weak performers over time. We wonder if the selectivity in aid allocation by the MDBs has altered the MDB client profiles?

Conceptualizing and operationalizing a results agenda within the institutional framework of the MDBs should be a priority. The GMR rightly focuses on the issues of a common yardstick for judging bank performance across MDBs and the need to establish country result indicators.

Given that, under the traditional rules, aid is mediated by recipient governments and is almost exclusively targeted at capacity building rather than capacity utilization, the GMR's call for systematically keeping track of capacity gaps seems appropriate.

On the issues of scaling up delivery, the GMR could have highlighted the role of "south-south" cooperation. Nurses hailing from China and India can train nursing staff in Africa, for example, which would go a long way toward improving health care. The IFIs could also have faster procurement procedures. To demonstrate, when 5,000 veterinary compounds were established in the Great Indian Dessert, the World Bank program managed to secure an immediate supply of liquid nitrogen cylinders.

As part of the effort to scale up aid, blending mechanisms seem to have high appeal, especially in cases of project-specific arrangements and guaranteed support. The power project in Tajikistan is a good example. However, blended mechanisms can operate better in non-IDA countries, which are less aid dependent and more credible with respect to promoting the private sector. In this regard, Mr. Mirakhor has called for greater IFI support to middle-income countries for better integration with the financial system, to attract private capital. While associating our chair with Mr. Mirakhor's views, we support the GMR's call for a reduction in the cost of doing business with banks—as well as other transaction costs—in other middle-income countries.

Mr. Nauphal made the following statement:

We thank the staffs of the Fund and Bank for an insightful and comprehensive report. Five years after the Millennium Declaration, this report comes at a timely moment to assist with stock taking and help in the formulation of strategies to mobilize the international community in supporting the attainment of the MDGs. It is important to take note of both the success of the developmental strategies in Asia—especially in China and India—and the disappointing results in many sub-Saharan African countries. There is a broad consensus that more can be learned from the success stories, and that more can be done to help in the other cases. The Fund has the responsibility to contribute to this process within the areas of its core competencies. We will be brief in our remarks, as we agree with the five-point agenda proposed in the report and associate ourselves with the statements by Messrs. Duquesne, Lynch, Mirakhor, Misra, and Ngumbullu.

There have been many discussions at the Board in which we have established that aid alone is not sufficient to achieve growth and development, as sound macroeconomic policies and institutions have a critical role to play. But, it is equally true that these policies are unlikely to lead to the attainment of the MDGs without substantially higher levels of aid, as the report makes clear. We, therefore, support the call for countries to strive in expediting their progress toward meeting the UN target for ODA. Like Messrs. Duquesne and Scholar, we

would have welcomed an elaboration of the innovative ways to channel increased resources to developing countries, which are being discussed in various international fora. Moreover, we also agree with Mr. Zurbrügg, that the importance of the quality of additional aid should also be emphasized.

On trade issues, we agree with Mr. Al-Turki on the critical need for a timely, pro-development outcome from the Doha Round, and that prompt action to reduce subsidies in industrialized countries will be key. In particular, the recent WTO ruling on cotton price subsidies, if implemented in a timely manner, could contribute quickly to lifting the income of cotton growers in many African countries.

Finally, we welcome the attention given in the report to growth, and would encourage an attempt to distinguish between various growth strategies with a view to determining which type of growth has the strongest effect on poverty reduction. The identification of measures that would help to reduce poverty directly, rather than through an indirect “trickle down” process, would be important. For example, the recent Fund report on microfinance makes the case that helping microfinance institutions in developing countries could contribute to both growth and the attainment of MDGs, and we encourage the staff to continue to look at such innovative measures.

Mr. Sukada made the following statement:

I thank the staffs of the Fund and the World Bank for a comprehensive report on monitoring Millennium Development Goals. As the staff noted, progress has been made in some areas, but I agree with Mr. Mirakhor and other Directors that the achievements made to date are far short from reaching the MDGs.

Daunting challenges remain. The report correctly emphasizes that all parties concerned, namely, developing countries, developed countries, as well as international financial institutions, including the Fund, need to step up their effort to achieve the MDGs by 2015. I share the staff opinion in the draft report and would like to make a few comments.

The five-point agenda in Box 5.1 seems appropriate to accelerate progress toward the MDGs. The Monterrey Consensus created a framework for mutual accountability between developing and developed countries.

Developing countries have a responsibility to implement country-led policies aimed at achieving a higher level of growth and human development while improving governance. As the staff report underscores, the developed countries should also raise their contribution and keep the commitment they made at Monterrey. Many low-income countries have limited domestic resources and are unable to tap international capital markets, so foreign aid has become essential to support the MDGs. I support the view that country-owned and -led poverty

reduction strategies should be the framework for operationalizing the MDGs at the country level in low-income countries. Development programs set out in the PRS should be linked to a medium-term fiscal framework by aligning budget allocations with program priorities.

With regard to trade, improving market access for developing countries, particularly in agriculture products, would provide a major boost to economic growth and help progress toward the MDGs, as the staff estimates that the ambitious Doha Round would boost the GDP of low-income countries by about 2 percent, and that of sub-Saharan Africa by 1.3 percent. Therefore the timely and pro-development outcome of the Doha Round is crucial for progressing toward achieving the MDGs.

The staff representative from the Policy Development and Review Department (Mr. Plant), in response to questions from Directors, made the following statement:

As a word of introduction, I would first like to note the excellent level of cooperation between the World Bank and IMF staffs in the preparation of this document. Staff from both institutions provided input to the various chapters and served as lead authors, and the overall the process was expertly guided by Mr. Qureshi at the World Bank. On the Fund's side, this was an interdepartmental effort, with inputs from the PDR, the African Department, Fiscal Affairs, and the Research Department.

Let me briefly report on last week's Board discussion of the GMR at the World Bank. Directors at the Bank broadly supported the report, including the five-point agenda. They made a wide range of suggestions and comments, including with regard to growth, infrastructure, the performance of developed countries, trade, financing, institutions, the problems of small states, environmental stability, and the role of other similar reports in the discussions on development that are going on this year. They also commented on how the GMR should evolve over the medium term, and suggested there should be further reflection by the staffs after the Spring Meetings.

Broadly, the staff sees the report as having three roles—monitoring, assessing, and advancing recommendations—but after the Spring Meetings we will consider whether we have the balance and the relationship between these three roles right. The staff will also consider the GMR's role in relation to other reports produced not only by the Bretton Woods Institutions, but by other multilateral institutions. Fundamentally, the report is intended to focus on monitoring, as the title indicates, although adequate monitoring does require that an assessment of the contextual environment be made and that the implications of monitoring be fully evaluated.

With respect to the question of how the Fund can identify an episode of growth early and help to ensure that it is sustained, there is no easy means of

achieving this goal. The Fund's policy advice draws on a wealth of theoretical and empirical evidence and practical experience, gained during the course of Fund missions. Nonetheless, the available systematic evidence on growth acceleration appears to confirm the applicability of conventional Fund policy guidance.

Initial results are consistent with the view that an enabling environment for the private sector and careful public expenditure and macroeconomic management are critical, especially insofar as government consumption tends to be lower and private investment higher in the first few years of those episodes of growth acceleration that have turned out to be more sustained. In particular, there is no evidence that supports the view that larger fiscal deficits are necessary to sustain periods of growth acceleration, but the upcoming Review of PRGF Program Design will provide another opportunity to discuss monetary and fiscal policies and the Fund's role in development and growth.

As to whether increasing income inequality has negatively contributed to the growth outlook, in particular, for sub-Saharan Africa, the economic literature does not provide clear guidance on the causal relationship between income inequality and growth. Over time, the main determinant of change in regard to poverty, however, has been broadly determined to be the average per capita income growth. Moreover, cross-country growth regressions and World Bank studies find that the policies of institutional reforms aimed at promoting growth do not generally lead to higher inequality. Nonetheless, a central part of our efforts, and those of the Bank, recognize the need for targeted strategies to make certain that poor people participate in and contribute to economic growth. Specifically, the Bank and Fund carry out regular public expenditure management assessments and Poverty and Social Impact Analysis to ensure the adequacy of pro-poor spending.

The staff representative from the Policy Development and Review Department (Mr. Berg), in response to questions from Directors, made the following statement:

On issues related to governance and investment, some Directors asked about the possibility of identifying best practices and developing indicators to monitor the progress of improvements in economic governance, which could be used to make candid assessments. The Fund has a number of initiatives geared to disseminating good practices in economic institutions as well as measuring them, such as data dissemination standards and monetary and fiscal policy transparency codes. In addition, under the HIPC Initiative, there are periodic assessments of the progress of strengthening public expenditure management systems.

Elsewhere, the Bank has also developed a number of indicators measuring some of the key characteristics of economic institutions: the worldwide governance indicators, the investment climate surveys and doing business indicators, as well as the CPIA, which is less widely disseminated. At the international level, there are additional important initiatives (some of which

borrow from efforts at the Fund and Bank), such as EITI and those of Transparency International.

All of these indicators can be useful in helping the staff to make candid evaluations. There is no substitute, however, for a textured and country-specific evaluation that takes into account all available information, including—but not limited to—quantitative indicators.

In regard to the questions on the transmission mechanism between political and economic governance and the apparent lack of evidence of transmission in sub-Saharan Africa, to some degree, there is a time lag effect at play. There is substantial evidence that institutions—and economic institutions in particular—are critical for growth. The economic impact of specific institutions, however, is less well known, as is how economic governance can be improved; much is surely country-specific. We also know relatively little about the relationship between political and economic institutions, although there is strong evidence that political institutions that encourage accountability and place checks on political leaders tend to be associated with better economic institutions.

Let me just stress a few points. Effective institutional change is often gradual, and it may well be that the transmission mechanisms are such that improvements in political institutions take time to show up in economic indicators. It is also likely that institutional change is easier when there is economic growth, although some types of income—such as from natural resource discoveries—may actually undermine institutional development. Finally, there is no one recipe for good institutions; a variety of institutional reforms can serve the same useful function.

The staff is also asked to comment on the statement in the GMR that private investment has offset the drop in public investment in sub-Saharan African in the last two decades. The fall in the ratio of public investment to GDP since the mid-1980s in sub-Saharan Africa is actually a worldwide phenomenon. At the same time, there has been a general tendency for private investment to increase around the world. Nevertheless, the increase in private investment is lower in Africa than in South Asia and Latin America, and has not reversed the fall in public investment. The report, therefore, suggests the need to encourage the climate for private sector investment.

Mr. Padoan asked whether the authorities consider the indicators, such as those that the staff had discussed, when designing their programs.

Mr. Mirakhor stated that although there perhaps was no hard evidence of a direct link between strong institutions and growth, there was evidence of an indirect link. The empirical evidence pointed to a direct link between financial sector development and growth as well as private investment and growth. Both of these chains of causation included a link to strong institutions. For example, well-functioning institutions were required to provide creditor

protection and enforce contracts, both factors that would help to encourage investment and ultimately growth. It was disconcerting that the Fund continued to focus on the direct chain of causation, even in light of this evidence concerning the importance of institutions. Moreover, it might be confusing to outside observers that the Fund emphasized to a high degree the importance of financial sector development, even while being hesitant to acknowledge the obvious link between financial sector development and growth.

Mr. Meissner raised issue with the wording in paragraph 44 of the report's overview section, as it did not reflect the endorsement by both the Board of the Bank and that of the Fund that the new DSA framework was the appropriate vehicle to assess debt sustainability. A change was in order, especially in light of a recent report from the UN Secretary-General, which included references to this same subject.

Messrs. Padoan, Prader, and Kohler supported Mr. Meissner that the report should reflect the most recent evolution of the debate on the issue of debt relief.

Mr. Kohler also insisted that the fifth point of the five-point agenda, as presented in the box in the overview section of the report, be modified to better reflect the evolution of the discussions on innovative financing mechanisms as well as the progress that had been achieved in this area.

Mr. Zurbrügg noted that the last paragraph of the report's overview section stated that the Fund was considering how to conceptualize and operationalize the concept of "managing for results" in the institution, and wondered if the implementation of a results-based framework had begun. An example might include something along the lines of the Independent Evaluation Office's suggestion for ex post assessments. In addition, the last bullet of the overview section appeared to be, inappropriately, suggesting that other MDBs should adopt to the operation of the Fund.

Mr. Rutayisire stated that, although the report focused on multilateral development institutions, there had been innovations with respect to bilateral instruments. He asked how these bilateral innovations would complement the efforts and activities of multilateral development institutions.

The staff representative from the Policy Development and Review Department (Mr. Plant), in response to additional questions from Directors, made the following statement:

We also agree with Mr. Meissner's statement that the new DSA framework is the appropriate vehicle for assessing debt sustainability. At the same time, we have problems with the formulation in the UN Secretary-General's recent report and will make the appropriate changes to the GMR text. The various textual changes suggested by Executive Directors of both the Bank and the Fund will be made, as appropriate, to the report, and in particular for that version of the report that is to go to the Development Committee later this month.

With regard to Mr. Mirakhor's comment, the staff agrees that there are links between institutions and growth, but hesitate to make the connection because of the tendency thereafter toward prescriptions (i.e., that if certain measures be taken in a certain order, growth will result). The nature of effective institutions is a country-dependent phenomenon and depends largely on context. Perhaps the staff has backed a bit too far away in trying to make that point, but we certainly do not deny the paramount importance of institutions, particularly financial institutions.

With regard to the question about evaluation frameworks, those that have been developed by the multilateral development banks target assistance that has been provided for development projects and budgetary development, which have directly measurable outputs. In the context of the role of the Fund in low-income countries, the effort needs to be more to make clear what our accountability might be toward achieving the MDGs than coming up with a specific evaluation framework. We will look at ways of considering what the Fund's performance will be, but, at this point, it is at a general level.

The staff representative from the Policy Development and Review Department (Mr. Berg) stated, in response to a question posed, that governance indicators, on the whole, often did have influence and were given consideration by authorities in the development of their programs.

Mr. Mirakhor agreed that there was no substitute for textured, country-specific analysis, but there was also no reason why the Fund could not identify institutional factors that would be critical for growth acceleration for a specific country.

The staff representative from the World Bank (Mr. Qureshi), in response to questions posed by Directors, made the following statement:

On the issue of blending arrangements and the role of IFIs in assisting bilateral efforts for structural and lending mechanisms appropriate for country and program circumstances, there are three areas where blending can play a particularly important role in giving impetus to scaling up efforts to meet the MDGs. First, a blend of concessional loans and grants can help the poorest countries—IDA-only countries, in World Bank terminology. Second, with respect to middle-income countries, many of which still have large pockets of poverty, blending can be used to give impetus to the MDGs agenda and to finance regional and global public goods. In World Bank terminology, this is the IBRD country group. Third, blending can address the need of the so-called gap countries, which are above the IDA assistance cutoff of US\$895, but are not yet creditworthy for IBRD lending.

There is activity and progress in each of these three areas, although more can be done. The project in Tajikistan that was mentioned is one example where IDA financing was combined with grants from Switzerland. But, there are several

other examples, For instance for health and education sector projects in China, IBRD loans were combined with DIFFID grants to effectively reduce the interest rate loan. Similarly, health sector projects in Nigeria and Pakistan combine grant funding and loan financing.

With regard to the progress toward improving country ownership and leadership, Chapter 5, Figure 5.11 provides results of some country surveys, which were conducted by the OECD in follow-up to the first meeting, held in Rome two years ago, on alignment and utilization. The results indicate that progress is being made in aligning donor support to country-owned priorities, as well as in harmonization and coordination among donors in the context of country-owned and-led programs. Also, paragraph 64 of this chapter provides some detail on the country surveys that were conducted in the framework of the Strategic Partnership for Africa. These results indicate that, although progress has been made, further progress is required.

I would also point to a survey conducted last year by the Bank on the comprehensive development framework, of which country ownership and leadership are fundamental elements. That survey also shows progress being made, as well as, again, the need to do better on that score.

With regard to the apparent discrepancy in the figures contained in Table 4.11 and the text, the Table is in the process of being updated and revised, and this discrepancy will be resolved. The figures show that, of the total gains from trade reform, roughly half arise from liberalization by developing countries themselves and the other half from liberalization by developed countries.

Mr. Mirakhor asked the staff representative from the World Bank if there was a mechanism by which the indicators developed either within the Bank or externally were used to reevaluate a country's particular rating or position. The staff was asked whether, in the context of the Country Assistance Strategy, there was a mechanism by which the Bank could reassess a country's ranking in the corruption index.

The staff representative from the World Bank (Mr. Qureshi) responded that there were 16 indicators relating to economic policies and governance that were regularly monitored in the context of the Bank's country policy and institutional exercise. In this annual exercise, countries were rated on all individual policy and governance dimensions and assigned a rating according to their weighted average. Those results informed Bank activities, including the determination of a country's share in IDA financing and the CAS process.

The Bank had moved in the direction of results-based CASs, which, in addition to setting out specific indicators for monitoring country performance with regard to policies and institutions, also set out some indicators by which the Bank monitored its own goals in a project country, the staff representative from the Bank added.

The Acting Chair (Ms. Krueger) thanked Directors for their comments and the staffs of the Bank and the Fund for their work on the report. As indicated, the report would be the basis for an issues paper and background documentation to be provided to the Development Committee for consideration at its meeting on April 17, 2005. The documents would be revised as necessary to reflect the comments made by Directors today, and also for the views expressed by World Bank Directors at their meeting of March 24. Both papers would then be published on the Development Committee's website prior to the Development Committee meeting.

APPROVAL: July 21, 2005

SHAIENDRA J. ANJARIA
Secretary