Statement by

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DEVELOPMENT COMMITTEE
April 25, 2004

Highlights of Ministerial Statements

POLICIES AND ACTIONS FOR ACHIEVING THE MDGS – GLOBAL MONITORING REPORT 2004

Positive global current economic trends notwithstanding, Ministers noted that based on current trends, most Millennium Development Goals will not be reached. All parties must act to fulfill their commitments. The Ministers welcome the first Global Monitoring Report (GMR), which provides an objective assessment of progress achieved to date and pinpoints the gaps between commitments and actions. They endorse the report’s view that there is an urgent need to scale up actions to the Monterrey Agenda.

Priorities for Developing Countries

Ministers endorse the report’s emphasis on the crucial role of economic growth and good policies in developing countries on reducing poverty. They welcome the emerging consensus on the key factors for economic growth, including increased investment in infrastructure, balanced development of the social sectors, enhancement of public/private partnerships, and improved governance. Several ministers noted that growth alone is not enough to solve persistent poverty. Ministers call for the design of pro-poor growth strategies that stimulate employment, promote small business, formalize the “grey” economy, and include appropriate tax and transfer systems.

Ministers emphasize the crucial role of the private sector in achieving the economic growth necessary to achieve the MDGs. Ministers commend the Bank Group’s increased emphasis on private sector development. Innovative programs such as the IDA/IFC initiative to promote small and medium enterprise development in Africa should be replicated elsewhere in the world.

Ministers stress that improved governance and the fight against corruption are vital for economic growth. While overall policies have improved, governance and public institutions often remain weak. Countries should “own” their development priorities, shaping them to their needs, resources, and starting points. The role of civil society should be acknowledged.

Ministers welcome the report’s acknowledgement of the close links between access to basic infrastructure and human development, and the large gaps in the availability and quality of key infrastructure. They applaud the Bank’s renewed commitment to scale up infrastructure financing through its Infrastructure Action Plan.

Priorities for Developed Countries

Ministers echo the report’s finding that developed countries’ actions to date have fallen well short of the Monterrey vision. Post-Monterrey commitments of US$18.5 billion per year by 2006 fall short of the estimated US$30 billion or more annually that could be effectively used by developing countries. Ministers call on all developed countries to increase development aid to meet the UN target of 0.7 percent of their GNI, and make their contribution to MDGs.

They call for a renewed commitment from developed countries to a successful, timely, and pro-development outcome to the Doha Round. Increased trade would sharply and rapidly reduce poverty in the developing world. Market access is key to helping developing countries achieve the economic growth
required to meet the MDGs. Eliminating export subsidies and significantly reducing domestic agricultural support are key, as are addressing high barriers to trade between developing countries and encouraging greater trade among them, and ensuring trade policy coherence. Some Ministers stress the need to focus on the areas with the greatest potential to promote economic growth—agriculture, industrial and consumer goods and services.

**Priorities for International Financial Institutions**

Ministers stress the important role of IFIs in achieving the MDGs. Ministers emphasize the need to continue to simplify procedures, eliminate waste and bureaucracy, and adapt to changing circumstances such as the low interest-rate environment, the increasing availability of financial resources from private capital markets, the lower income from lending and treasury operations, and the increased need for grant financing. They stress the importance of the IFIs’ advocacy role in obtaining increased market access and increased ODA and in reducing global macroeconomic volatility. They welcome the Bank’s continued commitment to “behind-the-border” trade-related assistance and the steps taken by IFIs to address the effects of adjusting to multilateral trade liberalization, including the IMF’s recent Trade Integration Mechanism.

The clearest lesson from decades of development experience is that aid is most effective when targeted at countries committed to good social, economic, and governance policies. More attention needs to be focused on identifying those countries that have comprehensive national poverty reduction strategies and are ready to absorb increased aid and able to use it effectively. A corollary of performance-based aid is a well-developed program of technical assistance and capacity building for countries that are recovering from conflict, have weak policies and governance, or are highly indebted.

Ministers stress the importance of great aid alignment and harmonization and the importance of implementing the action plan put forward at the Marrakech Roundtable on Managing for Development Results (including building statistical capacity).

Several Ministers suggest that the Country Policy and Institutional Assessment (CPIA), which stresses governance and underpins IDA’s performance-based system for allocating finance to client countries, could become a valuable tool for helping bilateral agencies better target their ODA funding to good performers. Several ministers urge the prompt publication of countries’ CPIA scores. Ministers urge the Bank to accelerate disclosure of other aspects of its operations, including Board deliberations and progress on project implementation.

Ministers welcome the Bank’s new lending practices, including participation in sector-wide approaches (SWAps), and encourage all donors to make use of these instruments as much as possible. They call on IFIs to do more to support investment in infrastructure and support development in middle-income countries and improve and simplify operational procedures.

Ministers are of the view that the PRSP continues to be a sound framework for implementing policies and programs, but there is room for improvement. PRSPs should include medium-term goals and take account of the views of all relevant stakeholders. They should also be linked to countries’ medium-term expenditure frameworks and annual budgets. While important progress has been made toward better aligning aid with national poverty reduction strategies, more can be done in this regard.
**Voice Agenda**

Ministers acknowledge the progress made on parts of the voice agenda, but believe that more needs to be achieved. Some Ministers support proposals to increase Basic Votes and consider the composition, structure, and functioning of the Boards. They look forward to the presentation of proposals at the upcoming Annual Meetings.

**Sub-Saharan Africa**

Ministers note the special challenge posed by Sub-Saharan Africa, where growth rates are still not sufficient to achieve the MDG targets. It is hoped that initiatives such as the African Peer Review Mechanism of the New Partnership for Africa’s Development will help improve governance, which would provide the foundation of a better business climate and a more productive environment for higher levels of aid.

**Low-Income Countries Under Stress**

Ministers welcome the Bank’s efforts to refine its role in Low-Income Countries under Stress (LICUS), including the establishment of the LICUS Trust Fund. Ministers urge increased priority be placed on the development of LICUS programs.

**Global Monitoring of Progress on MDGs**

Ministers firmly support the concept of global monitoring of progress on the MDGs. Some Ministers suggest that updates of the GMR should contain a clearer framework, with specific actions to be taken by both all parties against which progress can be assessed the following year. Some Ministers suggest monitoring other relevant factors, such as women’s empowerment, democratization, human rights, the impact of HIV/AIDS on development, the link between the PRSPs and the MDGs, the development of redistribution systems, the impact of remittances, the effects of multilateral labor market liberalization, and an agenda for prioritization and efficiency improvement for IFIs that identifies clear deliverables for the coming year.

**EDUCATION FOR ALL – FAST TRACK INITIATIVE PROGRESS REPORT**

Ministers welcome the progress report on establishing a global framework for the Education for All Fast-Track Initiative (EFA-FTI), particularly its focus on concrete actions and results. Success of the initiative will depend on the ability to maintain this focus and link external assistance in education to country performance in achieving enrollment, completion and quality goals.

Several Ministers remain concerned about inadequate financing. Some Ministers warn that by refraining from financing recurrent cost, donors put the initiative in jeopardy. While Ministers are looking closely at the financing alternatives under discussion, they call for a greater commitment from donors if EFA-FTI is to produce results by 2015.

Ministers welcome the extension of FTI to all lower-income countries and the establishment of the Catalytic Fund to provide up-front financing to countries which receive limited donor support for education and are at risk of not reaching the education MDG. Many Ministers agree that the focus should now shift to the country level within the framework of PRSPs. Some other Ministers believe that the focus of FTI should continue to be on global efforts, with flexibility for recipient and donor countries.

Ministers agree with the need to strengthen country capacity for monitoring the performance of the education sector.
FINANCING MODALITIES TOWARD THE MDGs

Ministers note the work on Financing Modalities for Achieving the MDGs carried out by the Bank and the IMF and look forward to further work to be completed by the Annual Meetings. They applaud the progress made in improving the efficiency and responsiveness of existing development assistance, which can help to reduce the financing requirements to meet the MDGs.

Many Ministers endorse the International Finance Facility (IFF) as a novel concept and a feasible mechanism to mobilize additional international aid and frontload resources to meet the MDGs. Some Ministers, however, point to challenges and conceptual weaknesses associated with front-loading development assistance. The frontloading mechanism presumes that the bulk of the development challenge will have been met by 2015 and that development assistance can decline in subsequent years, which may not be the case. Massive aid mobilization is likely to increase aid fatigue, making it difficult to raise development financing after the IFF horizon, when donor countries would have to pay the bill for frontloading and launching a new mechanism would have legal issues and high associated transaction costs which might be reduced by channeling IFF funds through multilateral institutions.

Global Tax Schemes

Some Ministers believe that it is premature to discuss globalization proposals prior to receiving assurances from national parliaments that they would in principle support such a tax. In the past, such schemes have failed to resonate with the international community. Some Ministers conclude that the broad consensus against such proposals should redirect the focus to ideas that are more realistic.

Increased Aid

Current levels of ODA as a percentage of GNI are much lower than those that prevailed in the early 1990s. Lately, increases in ODA flows have been accounted for wholly by special-purpose allocations. There is a need for more flexible, longer-term aid commitments that can be used for meeting the incremental costs of achieving the MDGs. Ministers stress the need for all donors to honor the commitments made in Monterrey in 2002 by increasing their official development assistance to 0.7 percent of GNI by 2007 and eliminating all HIPC’s debt to them.

Trade Liberalization

Ministers emphasize that any analysis of financing for development is incomplete unless trade liberalization in goods and services is taken into account. Lowering trade barriers and improving the business climate in developing countries can do more to generate self-sustaining economic development and reduce debt than any feasible increase in aid volumes. Well-designed ODA (particularly designed to improve governance and develop human capital) is best seen as playing an important complementary role to trade and investment.

Ministers congratulate the Bank on its continued analytical work on the costs of trade restrictions and export and production subsidies. The Bank’s technical assistance and project lending help strengthen trade capacity and lower “behind-the-border” impediments in logistics and customs that often prevent developing countries from making the most of their market access.
**Remittances**

Ministers note that remittance flows contribute to poverty reduction by enabling more locally driven, private sector-led growth. Current at US$93 billion, remittances of foreign workers to their home countries are almost double ODA flows, despite significant restrictions on the cross-border movement of labor. Yet most remittance channels are expensive to use and difficult to access. Ministers call on the Bank Group to lead efforts to address the impediments in this area.

**LONG-TERM DEBT SUSTAINABILITY IN LOW-INCOME COUNTRIES**

Ministers welcome the progress in designing a forward-looking joint Bank/IMF operational framework for lending and external assistance to low-income countries on the basis of maintaining debt sustainability, which they describe as an important first step toward reducing the risk of debt crises in low-income countries while preserving their access to external finance. The key challenge now is to refine the framework and make it operational.

The new framework highlights the importance for full implementation of the HIPC initiative. Some ministers reiterate their call to the Bank and the IMF to consider an extension of the HIPC Initiative’s sunset clause to the end of the year. Debt sustainability should be seen in the context of helping countries achieve the MDGs and should guard against simply setting caps on new financial flows. All countries committed to poverty reduction should receive adequate financing to meet the MDGs. This will require substantial volumes of additional financing.

Ministers believe that going forward, debt sustainability analyses (DSAs) should be based on objective, robust, and transparent criteria with realistic growth, export, and fiscal revenue projections. The methodology needs to be further refined and tested. The assessment should include all financial flows and should take into account both overall debt stock and debt service burden. Some Ministers question the objectivity of the CPIA and its use as a tool for estimating the limits of the debt burden. To develop best practice and improve information flows in this area, a Minister suggested the creation of a Consultative Group on Debt Management.

Some Ministers hope to see DSAs developed jointly by borrowing countries, the Fund and the Bank. The process should not remain official or confidential; all market participants deserve timely access to the information yielded by debt sustainability analysis.

There is a need to reduce low-income countries’ dependence on external debt financing, i.a. by increasing domestic savings and attracting non-debt-creating forms of external resources, such as equity flows, FDI, and grants. Productive use of all resources is key to ensuring the future capacity to honor debt service obligations. Bank/Fund joint staff assessments should give adequate attention to how the authorities have addressed the medium- to longer-term structural challenges related to reducing dependence on external debt financing and vulnerability to external shocks. In this respect, the importance of export diversification should be given particular attention.

Ministers underline that debt sustainability is a function of both the cost of debt repayment and the opportunity to export in order to meet those repayments. Consequently, trade liberalization is central to debt sustainability. One of the best ways for developed countries to address debt sustainability is to remove trade barriers and subsidies that impede developing countries’ earning opportunities.
The HIPC Initiative

Ministers call for full implementation of the HIPC Initiative. For various reasons, implementation has taken longer than envisaged. Moreover, some countries which have completed the HIPC process have ended up with debt ratios exceeding the HIPC thresholds due to internal and external factors. Other countries are expected to do the same, if no corrective action is taken. Ministers ask all bilateral creditor countries to provide 100 percent cancellation of debt contracted before the initiative was enhanced in 1999. Financing of debt relief should not compromise the financing made available through concessional windows such as IDA. All creditors which have not yet provided their share of the financing are urged to do so.

Ministers stand by their commitment to full and complete implementation, including the possibility of providing additional debt relief by topping up at the completion point. Some Ministers argue that the current methodology of calculating topping up distorts burden sharing and deprives debtor countries of additional debt reduction: additional bilateral debt relief on top of and beyond HIPC relief should be excluded when calculating the need for topping up.

OTHER BUSINESS

The Bank’s Role in Middle-Income Countries

Ministers applaud the Bank’s efforts to strengthen its support to middle-income countries, including increasing flexibility and simplifying procedures, lowering financial costs, and reducing front-end fees. They urge management to implement these measures as soon as possible.

Ministers suggest ways that the Bank can support middle-income countries, including serving as a catalyst for private financing and a quality insurer of environmental aspects of large-scale infrastructure projects and engaging in dialogue on an array of issues where the Bank has a comparative advantage vis-à-vis other financial or development institutions. Ministers also welcome the Bank’s proposal to simplify investment lending. They concur with the proposal to certify countries to apply their own fiduciary and environmental safeguards to Bank projects, make CAS composition more flexible, and expand the CAS envelope to well-performing countries.

HIV/AIDS

The fast and continuous spread of the HIV/AIDS epidemic threatens to undermine collective development efforts and poses a growing threat to economic development and political stability. Ministers reiterate the call to the international community to step up efforts to reverse the spread of HIV/AIDS and reduce its impact on societies. Better country-level coordination and harmonization are a top priority.

Anti-Money Laundering/Combating the Financing of Terrorism

Terrorism remains a threat to economic confidence. Ministers welcome the Bank and the IMF’s role in reducing this threat, as embodied in the recent decision for more effective organization and resourcing of measures to counter money laundering and the financing of terrorism (AML/CFT).

Afghanistan

Some Ministers are encouraged that the international community has reaffirmed its commitment to the reconstruction of Afghanistan. Afghanistan has adopted a new constitution, will hold elections in September, and is building its market-based economic infrastructure. There will be a key role for the Bank and the international community to play for a long time.