Statement by

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For the Africa Group 1 Constituency
1. Our agenda this year reflects the emerging consensus that achieving the Millennium Development Goals (MDG’s) will, at the minimum, require substantially improved aid flows from both official and private sources, better and increased donor coordination and harmonization, a deeper focus on growth issues and debt sustainability, as well as significant progress on improving governance of the Breton Woods Institutions.

A) Note on Aid Effectiveness and Financing Modalities

2. The paper under discussion reaffirms the points we have made on previous occasions that our countries’ absorptive capacities and abilities to utilize aid have improved and that more aid will be required to meet the MDGs by 2015. At our last meeting, we reiterated the need for a substantial scaling up of official development assistance (ODA) by our development partners to 0.7 percent of gross national income (GNI) and for improved predictability in aid flows. As we meet today, there are several global programs that remain under-funded such as the Education for All and the HIPC initiatives. We believe that the major pre-occupation now for donors should be that of exploring ways to marshal the international political will to scale up aid flows in line with the Monterrey Consensus. To this end, we welcome the fact that some countries have already committed themselves to a clear timetable for scaling up official aid towards the target of 0.7 percent of GNI.

3. We also note the recent increase in aid flows, the bulk of which went to special interventions in a few countries. This is a clear evidence that substantial scaling up of aid to all countries is possible provided the necessary political will can be harnessed.

4. The Global Monitoring Report (GMR) called for a strengthening of the global compact to achieve development effectiveness. We are pleased that research work carried out by Bank and Fund staff confirms the position we expressed during the last Spring meeting that improved policy environment in Sub-Saharan Africa (SSA) has enhanced the capacity of our countries to absorb more aid effectively. With adequate financial resources, therefore, progress towards meeting the MDGs can be accelerated.

5. The issue of delivering aid effectively is intricately linked to that of harmonization. The GMR also called on the development partners to assist with improving absorptive capacity through the alignment of their procedures with country systems and donor harmonization. The experiences of Tanzania and Mozambique clearly confirm the benefits of donor harmonization. However, we note that in many of our countries aid programs continue to be fragmented and full of conditionalities, resulting in countries incurring very high transaction costs. Therefore, we urge our development
partners to expedite the process of harmonization and hope that substantial progress will be reported at the Second High-level Forum on harmonization to be held in Paris.

6. It is our considered view that there is scope for our countries to absorb more aid flows provided the appropriate capacity constraints to aid delivery are identified and dealt with. Also, in order to scale up aid, it is our view that the Bank needs to look more closely on the issue of fiscal space. We urge the Bank and Fund to speed up the technical work in this regard in the context of medium-term development objectives.

7. The PRS framework has helped to enhance the development of country-owned and credible long-term strategies for poverty reduction and growth. However, consolidation of this participatory process is likely to be fundamentally undermined by public frustrations occasioned by donors failing to align their procedures to country priorities and by inadequate and unpredictable aid flows. While faster economic growth and prudent fiscal management should gradually enhance mobilization of domestic resources, including public-private partnerships, this has to be complemented by substantial external resources. For our part, we are committed to continue strengthening our countries’ systems to improve the environment for aid delivery, accountability and for measurement of results. We therefore look forward to the early conclusion of the IDA 14 negotiations which should also address the requirements for special initiatives such as regional integration and contain a larger grant envelope.

8. While a performance-based aid allocation mechanism provides appropriate incentives for all IDA countries, it may in some cases result in substantially reduced donor assistance to countries that need it most. We have in mind LICUS countries which often need to rebuild basic economic infrastructure in order to extricate themselves from a poverty trap. Thus, limiting assistance to such countries to technical assistance and capacity building projects only may not be the most appropriate response. We would therefore urge that such countries be engaged at an early stage to determine, on a case-by-case basis, the most effective way of delivering augmented external assistance.

9. The issue of aid volatility has been identified as a matter of concern for many developing countries as it diverts their attention from dealing with the more pressing issues of social service delivery. Unpredictable aid delivery has also contributed to the growing problem of domestic debt in some of our countries. In this connection, we very much look forward to a timely finalization of the implementation mechanisms for the International Financing Facility (IFF). The IFF as proposed should ensure that aid flows are predictable, long-term and need not compromise the existing aid architecture. Recipient countries must also be consulted and involved in finalizing issues around allocations, operating principles and policies.

10. We also welcome other efforts to diversify sources of funding such as global taxation and voluntary contributions and are encouraged by the finding by the staff of the two institutions that the innovative financing mechanisms are technically feasible.
B) Note on debt sustainability in low-income countries

11. We take note of the efforts made by both the Bank and Fund to come up with a debt sustainability framework that will assist in assessing the debt carrying capacity of borrower countries, with a view to better determine the appropriate mix of financing. This committee has previously addressed the issue of the debt overhang that continues to constrain countries to graduate from concessional to non-concessional sources of financing. We also agreed on the need to avoid situations where countries that had graduated from HIPC for example, find themselves with unsustainable debt situations. Today, the heavy debt burden in SSA continues to constrain policy makers from investing in public infrastructure and human resources needed to support growth. Therefore, for the proposed debt sustainability framework to be effective, it also needs to be buttressed by efforts to unleash the economic growth of developing countries.

12. However, as we seek ways and means of ensuring debt sustainability, and as the HIPC Sun-Set Clause is approached in 2006, we are disappointed that not much attention has been given to non-HIPC low-income countries whose debt stress levels continue to undermine their effort towards achieving the MDGs.

13. We welcome the recently announced measures towards complete debt cancellations, particularly those that would ensure the additionality of aid commitments. This is a major step in the right direction towards addressing the burden of debt in poor countries.

C) Note on the Elements of the growth agenda: Investment Climate and Infrastructure

14. There is a renewed recognition of the role that the private sector can play in assisting countries to meet their developmental objectives. Besides improved macroeconomic environments, enhancing private sector businesses in SSA will require, on the domestic front, the creation of sound investment climates including adequate infrastructure. To this end, we welcome the work that both the IFC and MIGA are playing to improve the investment climate of our countries.

15. We also applaud the efforts of the international community to bring the Doha Negotiations back on the Agenda. In anticipation of the negotiations, therefore, we call for the finalization of the issues related to trade facilitation, including development of supply capacity and competitiveness, thereby enhancing market access that is necessary to unleash the growth potential of our countries.

16. More innovative financing instruments are needed, including the use of local currencies as well as lending instruments at the sub-sovereign government level while taking into account regional dynamics.

17. While we recognize that both IDA and IFC have made commendable progress in improving the effectiveness of their assistance programs to the private sector in SSA,
more still needs to be done for the two institutions to make a significant contribution to the Region’s economic growth and development. In this connection, we call upon both IDA and IFC to work together towards implementation of their joint initiative for promoting micro, small and medium scale enterprises in SSA. Further, to succeed in promoting significant private sector growth for poverty reduction, there is a need for improved coordination of the WBG’s efforts.

18. We note, however, that MIGA is yet to articulate an engagement strategy for SSA. In the meantime, the Agency’s scale of operations in the region remains too low to have any significant impact on economic growth and poverty alleviation. Thus, to enhance its effectiveness, MIGA requires to urgently formulate an engagement strategy for SSA. Furthermore, MIGA needs to coordinate its strategy and activities with IDA and IFC to exploit synergies.

D) Note on Infrastructure Action Plan

19. We have taken note of and would like to express appreciation for the progress made in increasing financial commitments and instituting new Bank procedures and processes related to the infrastructure action plan, in FY04. We particularly welcome the Bank’s engagement with NEPAD in a regional approach to infrastructure development and encourage a design that exploits economies of scale where possible. We are also happy to learn that pilots have begun to explore the use of country systems in infrastructure projects.

20. We wish however to encourage the Bank to focus on results and delivery on the ground. For the most part, progress made so far is still on paper rather than in terms of tangible actions to support business activity, competitiveness and growth. In real terms, actual disbursements for infrastructure to SSA are still relatively low. We therefore welcome plans to increase lending levels in real terms. Improvements in delivery will require the combined effort of the Bank, governments and the private sector on agreed actions related to implementation. We therefore encourage the Bank to act on project implementation constraints identified jointly with the private sector players in SSA.

E) Note on VOICE

21. We commend the World Bank for continuing to keep the VOICE issue on its agenda. We welcome the support to African chairs, however, we should recognize that further progress on the structural issues is necessary for developing countries to have a meaningful voice.

22. We endorse the recommendation to pursue all options regarding basic votes, selective capital increase and its equivalent selective quota increase, special majorities, board composition and membership as part of the set of issues to be resolved within the proposed time frame.
23. The review of the quota formula by the IMF is a pre-requisite for making progress on the structural issues. In considering a way forward, we call upon both institutions to work together on the structural issues and present a joint WB-IMF paper at the next spring meeting.