



Remarks by Rodrigo de Rato
Managing Director of the International Monetary Fund
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1. Mr. President, Secretary-General, Excellencies, Ladies and Gentlemen, I am very pleased to be here on behalf of the IMF, with so many distinguished leaders. The world is represented here today, and the citizens of the world share an intense desire: to eliminate extreme poverty. I hope that at this summit we can get closer to satisfying this desire.
2. As a partner in the global effort to reduce poverty, the IMF is a strong supporter of the Monterrey Consensus, and is committed to helping countries meet the Millennium Development Goals.
3. To maximize its contribution, the IMF has during the past year reassessed its role in low-income countries, with the aims of better adapting its instruments to meet their needs and better defining the IMF's role in its work with low-income countries. As part of this process, together with the World Bank, we have conducted an in depth review of the Poverty Reduction Strategy (PRS) approach, which provides the operational framework for our work in low-income countries. Poverty Reduction Strategies are home-grown, and should lie at the heart of each country's development plans. The review of the PRS approach concluded that it will be an especially important tool as donors and developing countries intensify their efforts to meet the MDGs. The review also concluded that the PRS continues to be useful in ensuring the realism of plans and in balancing domestic accountability and ownership with the external accountability that is important to donors, other development partners, and the IMF.
4. What have we learned? What actions are needed by the international community—low-income countries, donor countries, and multilateral institutions like the IMF—to make faster progress toward the MDGs?
5. First and foremost, we need policies in low-income countries that promote economic growth. Growth is the main engine that drives development. To achieve economic growth countries need at a minimum three things: economic and financial stability, structural policies that help the private sector to flourish, and a supportive external environment. The IMF's policy advice and financial assistance in low-income countries will continue to promote policies that support stability and growth, and our technical assistance will continue to focus on developing key economic institutions.

6. Among the elements of a supportive external environment are global financial stability—and promoting this is central to the IMF's work—and more open trade. History has shown that a country's economic growth depends crucially on the external economic environment, that is, on global trading and financial conditions, which must be open, stable, and secure. The IMF is in the forefront, striving continually through its surveillance activities and through its work on the international financial system, to ensure that these conditions prevail. With regard to trade, when I was in Benin in May, I learned first-hand from farmers and government officials from all over West Africa about the damage being done to agriculture in developing countries by protectionist policies in the developed world. But even if these barriers were to disappear many African countries would still be limited in their ability to compete: trade between these countries is among the most expensive in the world. All countries, including developing countries, need to work together to lower trade barriers and eliminate trade-distorting subsidies. The next vital step in achieving this is agreement on ambitious reforms in the Doha round. This would dramatically improve the prospects for growth and poverty reduction.

7. For our part, the IMF will continue to support trade liberalization through policy advice, and with finance, including finance to offset the short-term balance of payments costs of trade liberalization. Bangladesh and the Dominican Republic have already benefited from such support through the Fund's Trade Integration Mechanism (TIM), which was approved in April 2004. The TIM is designed to address concerns among some developing countries that their balance of payments positions could suffer, albeit temporarily, as multilateral liberalization—for example in textiles or agriculture—changes their competitive position in world markets.

8. We need more aid to developing countries, and the recent pledges of the G8 countries are indeed welcome. The IMF has long been an advocate of increases in aid flows. As this year's Global Monitoring Report concludes, aid needs to double in the next five years to support faster progress towards the MDGs. Nor is aid the only source of financing that can support the achievement of the MDGs. In many countries, private investment—from both domestic and foreign investors—helps boost growth. This is why the IMF emphasizes the importance of creating an environment conducive to private investment. There are also international efforts underway to find innovative sources of financing, and the IMF continues to contribute to analytical work on possible options.

9. We need smarter aid, and smarter use of aid. Aid is more effective when it is aligned with recipients' priorities and is predictable, and when donors harmonize their aid to ease the administrative burden on recipients. Low-income countries must improve their capacity to absorb higher aid flows, for example by strengthening their public expenditure management systems. Countries will also have to meet the macroeconomic challenges of managing higher aid inflows in order to maximize the benefits of aid. As aid is scaled up, it is especially important to be aware of the complex relationships between aid flows, the macroeconomic framework, national budgets and the spending needed to meet the MDGs. The IMF can help countries improve macroeconomic policy and public expenditure management so that they can use aid more efficiently—for example for targeted spending on education and health-

and realize its full benefits. The IMF will need to deepen its involvement in these issues as aid increases.

10. The IMF has been working throughout this year on the instruments that we have for engaging low-income members, to make sure that they meet members' needs. The Poverty Reduction and Growth Facility (PRGF) will remain the main instrument for assisting these members. Our Executive Board has also agreed in principle to the creation of a new window in the PRGF to provide financial support to low-income members dealing with exogenous shocks like higher oil prices and natural disasters. In addition, the Executive Board has also agreed in principle to establish a new non-financial mechanism, the Policy Support Instrument (PSI). This would be available to PRGF-eligible countries with a poverty reduction strategy and a policy framework consistent with macroeconomic stability and debt sustainability, which do not need or want financial assistance from the IMF. These new instruments would add to our existing mechanisms to help low-income countries—for example emergency assistance for natural disasters and post-conflict cases, which was used recently to give financial support to Sri Lanka and the Maldives, following the tsunami.

11. The IMF has also long been an advocate of debt relief, and we are working intensively on how to best give effect to the G8 debt forgiveness proposal. In discussing the proposal, the IMF's Executive Board has emphasized the contribution that the proposal could make in freeing up resources to help countries meet the MDGs. The Executive Board has also emphasized the importance of preserving the IMF's ability to provide concessional financing to its low-income members, and the principle of uniformity of treatment, to ensure that all low-income members are treated in an even-handed manner.

12. A poet once wrote that "no man is an island, entire of itself." We are gathered here on an island—on Manhattan—but it is an island intimately connected to the rest of the world. In today's world of globalization, the wellbeing and security of all of us are connected. Actions taken here, or in Brussels or Beijing, will change the lives of children in Benin and Bangladesh. We must meet our responsibilities—we must work for better policies, more trade, more aid, and smarter use of aid—so that these children can create a brighter future.

13. Thank you.