Statement by Hon. Peter Costello, MP
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On behalf of the constituency comprising Australia, Cambodia, Kiribati, Korea (Republic of), Marshall Islands (Republic of), Micronesia (Federated States of), Mongolia, New Zealand, Palau (Republic of), Papua New Guinea, Samoa, Solomon Islands and Vanuatu
Fighting Poverty and Strengthening Growth in Low-Income Countries

Achieving the goal of reducing poverty will require continuing commitment by richer countries through concessional financing, debt reduction and extended market access. The most important determinant of success, however, will be the efforts developing countries themselves make, in conjunction with the multilateral institutions and the support of bilateral donors, to strengthen their institutions and maintain sound economic and social policies.

We now have in place a much stronger framework for identifying the actions required, ensuring country ownership of them and coordinating the provision of support. The international goals symbolise that these efforts need to be across a broad front, including investing in the lives of the poor through improved education and health, as well as measures to provide a supportive environment for private sector investment. Continued efforts are obviously required. Most important will be reform that will allow developing countries to reduce poverty through faster growth. The history of development over the past fifty years has shown that sustained and broad-based economic growth, is the most powerful weapon we have against poverty. It is no coincidence that reductions in poverty have generally been greatest in those countries with relatively open, market-based economies, for it is these economies which have achieved faster economic growth.

Poverty Reduction Strategy Papers (PRSPs)

The processes for drawing up poverty reduction strategy papers provide a framework for developing countries to design and articulate strong country-owned programs based on strengthened participatory processes. This approach offers considerable potential and the first few full PRSPs have been quite impressive. As we move ahead, it will be critical to maintain the focus on quality, as the longer-term success of this process will be determined by whether comprehensive policies to promote growth are implemented.

The Fund’s poverty reduction and growth facility integrates the objectives of poverty reduction and growth more fully into its operations in the poorest member countries. Further, the introduction of new programmatic lending instruments, such as poverty reduction strategy credits by the World Bank, can help support the poverty reduction strategy paper approach in countries with sufficiently developed institutions and expenditure controls. But the shift towards greater use of programmatic instruments should not be pushed beyond the capacity of recipient countries or where it could result in a weakening of growth and poverty reduction policies. It is also important for recipient countries to have adequate budgetary and expenditure monitoring procedures to track the use of resources under poverty reduction strategies to ensure that they reach the poor and provide their intended benefits.

Maintaining Long-Term Debt Sustainability

The progress made by 22 heavily indebted poor countries (HIPC) to gain debt relief under the enhanced HIPC initiative over the past year is an historic achievement. These countries have now qualified for approximately USD 34 billion in relief over time. HIPC countries are also benefiting from additional bilateral debt relief that many countries (including Australia) have
agreed to provide. Taking this and other bilateral relief into account, the total stock of debt of the 22 countries will be reduced by more than two thirds.

The enhanced HIPC initiative provides for a reassessment of a country’s debt sustainability at the completion point with scope for additional relief in exceptional circumstances if there has been a fundamental deterioration in its economic circumstances due to exogenous factors. This gives us an additional safeguard for ensuring that projections remain on track at the completion point. Current indications are that the debt relief provided to date under the enhanced HIPC initiative, together with additional bilateral relief, will be sufficient to ensure that the 22 countries will reduce their debt and debt servicing to sustainable levels, comparable to or below the levels in other developing countries.

But good economic management is necessary if debt relief is to result in debt sustainability and poverty reduction. It requires continuing reform and efforts to foster growth, not just up to completion point but beyond. This is why it is so important that the processes put in place in the lead up to the completion point should be robust, well-designed and provide a strong framework for continuing collaboration between the country, the multilateral institutions and bilateral donors.

**Assistance to Post-Conflict Countries**

Many of the countries remaining to be considered under the enhanced HIPC initiative are seriously affected by conflict. It is important that the Bank and the Fund join international efforts to engage countries as they emerge from conflict in areas where their combined experience and expertise is most relevant. In particular, post-conflict countries have a pressing need for technical assistance to rapidly restore the critical functions of government. In this regard, the Bank and Fund, in consultation with other donors, can play a crucial role in supporting post-conflict countries through assessing and planning their technical assistance needs. The Fund and Bank will also need to explore flexible mechanisms to deal with issues such as the clearance of arrears so they can assist with reconstruction and, where appropriate, clear the way for debt relief.

These situations pose particular challenges, and while the policies of the Fund and Bank are sufficiently flexible for assisting these countries, we recognize that there are areas where they can be enhanced. In particular, we welcome the Managing Director’s initiative to establish a multi-donor administered account to provide interest subsidies for the Fund’s emergency post-conflict assistance. In bringing post-conflict HIPC countries to decision points - where they become eligible for debt relief - it will be essential to balance the need for early debt relief with the necessity for an established track record and assurances that the resources freed will be used for poverty alleviation. Furthermore, treatment of these countries should be comparable to other HIPC countries. We need to be careful, therefore, to ensure that decisions on final relief at the completion point are taken when they can be soundly based on a demonstrated track record and when economic data are not unduly distorted by conflict conditions.

The Bank and Fund also have a role to play in providing support for post-conflict countries outside the HIPC initiative. The World Bank has played an especially effective role in East Timor in coordinating donor activities as well as through the establishment of a trust fund. This
helped to leverage considerable donor funds for the reconstruction effort. The task in East Timor remains large, as it requires re-establishing basic economic and financial systems, but is essential for reducing poverty and providing the foundations for future economic growth and prosperity.

**Strengthening the World Bank’s Support for “Middle-Income” Countries**

We welcome the report by the Task Force on middle-income countries and the consultative manner in which this exercise has been conducted.

Overall, the middle-income countries are home to over three quarters of the world’s poor and are highly diverse. Some very small and remote states are highly vulnerable to economic fluctuations and natural disasters and will require continuing assistance. Several very large countries are also included because their size allows them to access funding on commercial terms even although they have average incomes of less than USD 2 per day. There is a strong case for greater assistance for such countries, which are middle income in name only. Yet they currently receive, on average, just over 10% of the per capita allocation of the average IDA borrower. Even including the non-concessional lending such countries are able to access, their total borrowing from the Bank remains, on a per capita basis, significantly less than the average for other relatively poor countries. In aiming to meet the international development goals, there are strong potential gains to be achieved from shifting resources to the larger, relatively under-funded, blend countries undertaking reform.

Just as it is critical to ensure that assistance to low-income countries supports sound policy environments, so it is important that the Bank encourages and supports middle-income and blend countries to introduce more open, market-oriented economies. Bank lending should continue to be linked to overall performance and focused strategically on activities that will reduce poverty. The introduction of Letters of Development Policy may provide a useful device for countries better to articulate their development agenda, and for reducing the overlaps that currently occur between Bank and Fund programs. At the same time, it will be important to ensure that this process does not place undue burdens on governments.

New instruments will also help to meet borrowers’ needs. A gradual shift toward programmatic lending will allow the Bank to support adjustment programs in a flexible manner. Similarly, deferred drawdown options offer the potential to support continuing policy dialogue and reforms where the need for borrowing fluctuates due to the volatility of private capital flows. In developing deferred drawdown options, it will be important that they are not used to provide exceptional support in times of crisis or overlap with the role of the IMF in providing balance of payments support, including through contingent credit lines. To this end, the size of loans using the deferred drawdown option will need to be watched carefully and tied stringently to the quality of the reforms to which they are related.

**Leveraging Trade for Development**

Trade must be an integral element of any broad growth and poverty reduction strategy. Increasing developing countries’ access to markets has the scope to generate significant benefits for all. Trade is not a zero-sum game, where gains by one country are losses for another. While greater openness can in some cases have short-term social costs, trade will ultimately generate
greater global growth. The Bank is able to perform a valuable role, in close collaboration with other international agencies, in advancing developing country trade issues at the multilateral, regional and bilateral levels.

The Bank has a particular responsibility in helping to ensure that developing countries are able to benefit from greater openness. The link between trade liberalisation and capacity building can not be over-emphasised. If this link is absent, the prospects of increasing economic growth, so necessary to reduce poverty, will be undermined.

Recent initiatives, including the decision by New Zealand, to remove tariffs on imports from the least developed countries are a very positive development. Australia also provides trade preferences for all the least developed countries as well as for developing countries more broadly. We need to remember that the majority of the world's poor do not live in least developed countries and greater market access should not be limited to these countries alone. Restricted market access and domestic subsidies in wealthier countries, particularly for agriculture - which provides the mainstay of many developing economies - continues to limit significantly the ability of developing countries to grow further and reduce poverty. As a joint World Bank/IMF study demonstrated, the complete liberalisation of global agricultural trade would yield benefits to developing countries of over USD 40 billion per year. This is equivalent to almost eighty per cent of total world aid flows.

Global Public Goods

We welcome the progress report on the Bank’s work on global issues. Prime responsibility for addressing many of these issues must rest with national governments, the private sector and civil society working within countries, and with specialised international institutions. The Bank can, however, play an important role in many areas, consistent with its comparative advantage as a lending and knowledge institution focused on support for country development. Its work on trade and HIV/AIDS are important examples of the international collaboration necessary if global development challenges are to be addressed effectively.

In developing partnerships with other national and international actors in addressing global challenges, the Bank needs to be selective based on its comparative advantage. Partnerships need to be based on clearly defined roles that reinforce rather than diffuse responsibility for specific issues and be formulated within a comprehensive framework that minimizes the risk of program fragmentation.

HIV/AIDS

The past year has seen some progress in the battle against HIV. One significant achievement was the reduction in drug prices negotiated by UNAIDS and its co-sponsors with drug companies. Another was the Bank’s multi-country AIDS loan for Africa. There is a greater willingness in many countries to discuss the problems in public and initiate action. However, more needs to be done. HIV is having devastating effects not just in Africa, but in regions such as South Asia and Southeast Asia. The Pacific islands, which have a high incidence of STDs and are often overlooked in international efforts to fight HIV, are also very vulnerable. Further prevention efforts are especially important. This constituency supports efforts to leverage
greater funds for HIV and consider a common global trust fund to be an initiative worthy of very close consideration.

**Enhancing Contributions to Combat Money Laundering**

Money laundering is a global concern that requires concerted international action. Much is already being done, most notably through the OECD Financial Action Task Force (FATF). The activities of the Bank and the Fund in this area therefore need to be focused, selective and linked directly to their core mandates. Although money laundering activities are in themselves unlikely to pose a risk to financial or macroeconomic stability, measures that the Bank and Fund are taking to strengthen financial supervision and encourage robust legal and institutional frameworks have the added benefits of helping to combat money laundering. Enhanced technical assistance to complement other international initiatives in this area would be useful, particularly for many small countries.

**Harmonization of Operational Policies, Procedures and Practice**

There is much scope for increasing the effectiveness of development cooperation through harmonization of operational procedures by multilateral and bilateral donors. So far progress has been limited. Gains have been made to date in standardizing procurement documentation for goods and equipment, but a more specific program will be necessary to make further progress. In particular, greater collaboration at the operational level between the IMF and the World Bank remains a pressing need.

A key issue is the appropriate level at which standards should be set for procurement, financial management, environmental assessments and the like. It is important that standards are globally acceptable and that core principles of transparency and accountability are maintained. But it is also important to reduce transaction costs. The most exhaustive standards are not always the best. And it may not always be appropriate to harmonize procedures at the high water mark. In some instances, the potential development benefits that might be gained through greater harmonization of procedures may justify a greater tolerance for risk. The World Bank in particular may need to show a degree of flexibility in striking the appropriate balance as it moves to harmonize procedures with other multilateral agencies.

Given the specific problems faced by small states, Australia and New Zealand have agreed to bring their procedures for delivering aid in the Pacific islands more closely into line with each other. Over time, further coordination with other major donors may help to minimize the burden to the Pacific island countries.

**Guidelines for Public Debt Management and Effective Insolvency Systems**

Prudent management of public debt is an important element in managing financial vulnerability, and effective insolvency systems are needed to resolve insolvency situations quickly so that dislocation is minimised and credit can continue to be mobilized from both domestic and international sources. In developing guidelines for public debt management and insolvency systems, the Bank has filled significant gaps. It is appropriate that both sets of guidelines are not overly prescriptive. We support the proposed further work to provide more detailed guidance for
effective insolvency systems. This work should be closely coordinated with the activities of UNCITRAL in this area.