DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
On the
Transfer of Real Resources to Developing Countries)

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RECORD OF DISCUSSION OF THE SIXTY-SECOND MEETING OF THE DEVELOPMENT COMMITTEE

Chairman: Yashwant Sinha, Minister of Finance, India

Prague
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Plenary Session Speakers

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RECORD OF DISCUSSION OF THE SIXTY-SECOND MEETING OF THE DEVELOPMENT COMMITTEE

The Joint Ministerial Committee of the Boards of Governors of the World Bank and the Fund on the Transfer of Real Resources to Developing Countries – the Development Committee – held its sixty-second meeting on September 25, 2000, in Prague, Czech Republic. The meeting comprised a short plenary session, a restricted session and the Chairman's lunch for Members. The Members circulated their statements in advance. The plenary session started at 9:00 a.m. and ended at 10:00 a.m.

Introductory Remarks by the Chairman

The Chairman made the following introductory remarks:

Distinguished Members of the Committee and representatives of observer organizations, Mr. Wolfensohn, Mr. Köhler, ladies and gentlemen: It is my privilege to call to order the 62nd meeting of the Development Committee. Let me first express my appreciation and gratitude to the Committee for selecting me to be your Chairman for the next year. It is a great honor and I will hope to emulate the outstanding leadership shown by my predecessor, Thailand's Minister of Finance Tarrin Nimmanahaeminda. I regret he cannot be with us today, but he is instead defending his national budget before the upper house of Thailand's parliament. Given my own experience, let's say our own experience in such matters, I am sure he would be rather here than there today.

In my role as Chairman I would also like to offer a special welcome to the new Managing Director of the Fund, Mr. Horst Köhler, who is also attending this meeting as his first meeting in his new role. Your predecessor, Michel Camdessus, was a great supporter of the work of this Committee, and we look forward to a continued close partnership with you.

I also welcome the Committee's members and their delegations and extend my special greetings to our new members, to the Chairman of the Group of Twenty-Four and to the observers of the Committee. We are happy to have you with us today.

I think we had a very good joint session of the International Monetary and Financial Committee (IMFC) yesterday evening to discuss Heavily Indebted Poor Countries (HIPC), but there is still much for us to do today, and so I think we should get right down to business.

Now I shall proceed to the adoption of the agenda. The provisional agenda for the meeting has already been circulated. I assume that we can take that agenda as adopted.

The agenda is adopted.

Let me summarize briefly the arrangements for our meeting today. In a moment, I will ask Mr. Köhler to address us. We shall then hear from Mr. Wolfensohn, followed by the Chairman of the Group of Twenty-Four. After that, I will summarize the main points drawn from the members' circulated statements.

The restricted session will follow immediately after this, from about 10:15 a.m. to 12:30 p.m. in the Panorama Hall on the first floor. There we shall focus on agenda items Poverty

Reduction and Global Public Goods and Supporting Country Development: World Bank Role and Instruments in Low- and Middle-Income Countries.

The luncheon meeting for members will be held in Club A on the first floor from about 12:45 to 2:30 p.m. The press conference will be in the Small Hall at 4:30 p.m. Interested members of delegations are welcome to attend.

Now let me turn to the statements by heads of our institutions. I would now like to give the floor to Horst Köhler, Managing Director of the IMF.

Statement by Mr. Horst Köhler, Managing Director of the International Monetary Fund

I would like to begin by expressing my appreciation to Minister Tarrin for his valuable leadership to the Committee as its Chairman during the past two years. I also welcome Minister Sinha as our new Chairman. I got to know Mr. Sinha during a visit to India some two months ago. I was impressed with his balanced view-of the need to open India to a globalized world while being aware of and trying to deal with a very difficult situation of poverty in his own land. This was very helpful and gave me an insight.

Since I arrived at the IMF, I have already met some of you in my visits to developing countries. These visits impressed me most because there was not a climate of just asking ~~just~~ for, for instance, money and good deeds, but also a climate of openness, of preparedness to listen to each other. This is my understanding of my own role as Managing Director of the IMF. We can start identifying the reforms that are needed, changes in the international institutions by listening better to each other, and particularly listening to the representatives of the developing countries. That is my commitment.

Yesterday in the International Monetary and Financial Committee (IMFC) of the IMF I got an endorsement of what I call my vision for the Fund. In short, I believe that we have to strengthen global institutions like the IMF and the World Bank so that they can be a very active part of the international effort to make globalization work for the benefit of all. Jim Wolfensohn and I share this common commitment and conviction.

In my vision, I particularly believe that we have to think through again the notion and concept of ownership. If our members are not fully familiar with and do not fully accept what could be good policy advice, it will not work. Therefore, I made clear to the IMFC that while the IMF in its operations has to stick to conditionality, there is no intention, and there should be no intention, to micromanage. Rather, it is better to listen, to let the countries themselves decide what is good for them, but based on a common understanding of shared responsibilities.

This approach will, I hope, strengthen the partnership of our institutions. I believe that for the role of the Fund, and I am sure that is the same for the Bank, our truly universal membership is an asset to cope with the challenges of globalization, to discuss the situation and find common solutions.

I want to strengthen this spirit, this culture of listening, of finding solutions that are of interest of all of the members. In this context, I would also like to assure you that, of course, I am concerned about oil price developments. And I do think that the IMF should have an idea of how it can respond to them. Our idea is to have flexibility, particularly in the PRGF Facility, in how we respond to this development. I was also very encouraged when I met the chairs of the developing and emerging market countries of the IMF for dinner and found out that there is more awareness of a common shared responsibility than may appear to us from the newspaper headlines.

The oil-producing countries know that a high oil price is not ultimately in their interest. The oil-consuming countries know that they should not only cry out when the price is high, but they should also comment when the price is too low. Based on this, I do think that it should be possible to find the solution to bring the oil price down to a sustainable, reasonable level, and thereby avoid an interruption of the positive economic outlook for the world economy.

As you know, as the new Managing Director of the IMF I thought it would be very important for me to get to know Jim Wolfensohn better. Jim Wolfensohn offered me his advice and his partnership and I am grateful for that. We had a very good weekend in his house where we found that our thinking goes in the same direction in broad terms. What I can tell you today is that you have here, at least as I see it, in the heads of the IMF and the World Bank two persons who are working in the same direction, based on the awareness of the respective focus of our institutions.

The focus of the IMF is on macroeconomic stability and promoting sustained growth, and also on doing more, being more proactive to ensure that international financial markets are working for the good and not the bad. I do believe that the stability of the international financial system is a very important public good. And we know after the latest crisis in Asia that crises have an asymmetric impact, with great negative consequences for the poor. Therefore, it is so important that we work to see this international public good, the stability of the international financial system, become a reality. I see this as the focus of the Fund, and I believe it is in the best interest of the developing countries and in the best interest of the fight to reduce poverty.

The Fund together with the Bank is committed to make the HIPC Initiative a success. When I came back from Africa, I sat together with my colleagues in the Fund and with Jim Wolfensohn to review the HIPC process and, as you know, we have accelerated it. Further improvements may be possible, but I feel there is no longer a need to doubt that these two institutions are pulling in the same direction to make the HIPC Initiative a success. We will do everything to help bring another ten countries to their decision point this year. At the same time, I understood from my discussions with leaders from the developing world that they want us to maintain the link between debt relief and good policies, debt relief and poverty reduction. That is your own wish, and I will try to comply with it.

Debt relief will move forward, but I think there should be no doubt that debt relief alone is not enough to fight poverty. Therefore, the other elements of a comprehensive package to fight poverty should not be forgotten. For the IMF, these include first and foremost promoting sustained growth; secondly, to speak up more clearly, steadily, and permanently on the issue of opening markets for products and services from the developed countries so that they can help themselves; and thirdly, to speak up about the scandal that despite all rhetoric, the share of official development aid (ODA) in GDP has declined consistently. I would like to urge any politician who strongly supports debt relief to pay even more attention to the grant element of aid for the developing countries. And this is measured by ODA. Please be aware I will speak up on this.

I will also speak up on the most crucial element, namely good policies in the poor countries themselves. I am not saying this with an intention of lecturing you or being dominant or arrogant, but that is just reality. If the countries themselves are not aggressively fighting corruption and working in the direction of good governance, whatever we do will not work. So, I see this in a comprehensive way . I assure you that the IMF has, and sees, a responsibility to help ensure that the world economy is moving in a direction where the poor have their share, because in the end prosperity in the rich world will not be sustained if there is not access to prosperity for the poor.

Statement by Mr. James D. Wolfensohn, President of the World Bank

I almost feel like seconding the motion put forward by the Managing Director of the Fund but hesitate because I think that Horst Köhler has articulated in a very fine way the common objectives that we share. At the risk of repetition, I would like to underline the particular vantage point of the Bank and to refer particularly to today's agenda.

But before doing so, may I also place on record my gratitude to Minister Tarrin for the work that he has done with us over the years. He has been a really fine colleague. I welcome our new Chairman, Minister Sinha, with whom I have had the great pleasure of working and I, of course, welcome my colleague, Horst Köhler. Our joint statement reflects the views not only of us but of our organizations.

The first item on the agenda today is, of course, poverty reduction and global public goods. And this is at the core of our concerns and at the center, I believe, of a lot of the noise which is outside, which relates both to poverty and to concerns about globalization and its impact. In the papers before you which will be discussed in the restricted session, the backdrop is really very clear and I need hardly repeat it to you. But the extent of poverty is great with 2.8 billion people living under two dollars a day, and the objective of halving the percentage of poverty in the world by 2015 is a daunting challenge for all of us.

We believe that the issue is framed first by the fact that in the next 25 years our planet of 6 billion will become a planet of 8 billion; of that additional 2 billion, all but 50 or 60 million, will go to developing countries. So we not only have a static situation on poverty, but an emerging situation where the balance of our planet changes. In 25 years' time, you will have around 6.8 billion of a population of 8 billion who will be in the developing countries that we serve, both the low and the middle-income countries.

So the challenge that we face is not just one that we can look at as a static issue today. It comprises great objectives against the background of changing demographics. Over the next 25 years, 2 billion will move into cities and towns. We will face a different management issue, one that entails, for example, problems of running 500 cities that have a million people or more. These are the sorts of issues that we need to address and as this world gets smaller, the identification of global public goods is not only of material interest in the national context but links us internationally. And as you know, the paper that is before you identifies firstly those four priorities that the Bank should adopt, and then deals with the global issues, some of which Horst Köhler referred to, such as trade, health, environment, crime, drugs, migration, and the financial system. All of these issues link us.

And we must look at the issue of global public goods as a group because they are issues which unite us not only nationally but internationally and which confronts this body, and the Bank and the Fund at large, with a very important call to action.

And the second item on the agenda is to extend our thinking from the poorest countries which have drawn so much attention in the context of HIPC and Poverty Reduction Strategy Papers (PRSPs), to look at the middle-income countries where poverty is still widespread, and where in the new concentrations of urban poverty we face a very real challenge in the years ahead.

And that is why we have linked the discussions on poverty and global public goods to try and complete our review of how we are going to address low- and middle-income countries.

There has been a consensus building that the poverty reduction strategies, that is a government-owned broadly-based consensus on what a country should do in terms of meeting its poverty objectives, may well be carried over in terms of the middle-income countries where, at least in our judgment, the approach which is comprehensive and broadly-based and country-owned, as Mr. Köhler said, is the basis on which we should approach middle-income country development.

We have a Task Force that will report to your Executive Directors on this subject, which we will have a chance to discuss at the restricted session.

And I think it is important that we get an overall perspective so that we know where we stand when we come to the poorest and then the poor and then the transition and the middle-income countries and those that, if you like, are graduating, so that we can have an approach which is coherent, consistent and which we all understand. And the fundamental principles are that there needs to be country ownership and partnership. Institutions such as the Fund and the Bank -- and may I say significantly and importantly our partners in the regional development banks, in the UN system, in the European Union and in our invited guests today. All of us need to have the capacity to come together and give service and advice to the countries in a way that is cohesive and one that is based on partnership and mutual respect.

It is very clear to me, as I believe it is to Horst Köhler, that the Bank and the Fund cannot do this alone, nor should we be the sole object of the discussions on the development challenge. We need to expand cohesion and partnership to the representatives here -- to, for example, the WTO on trade issues -- so that together we provide a service that can allow the developing countries to develop their comprehensive plans and then to back them up in an appropriate way.

There is the other point that Horst Köhler alluded to, that the issue is not just a question of money. We have conducted a review about poverty, as you know, in the Voices of the Poor study. And poverty is not just about the provision of money. Poverty is about rights; poverty is about the chance for opportunity. Poverty is about security; poverty is about the opportunity to speak out. Poverty is about the desire to have a chance and not just receive charity. These are the elements that we need to consider to treat poor people as an asset, to empower them to develop their own lives in order to confront the issues that are before them. They know more about poverty than we do. And what we need to do is to work with the people in poverty around the world to ensure that they get a chance.

And what I believe we are hoping for in the review of the middle-income strategy as well as in the PRSP is that that partnership clearly develops.

There is a report on activities in the Comprehensive Development Framework (CDF), regarding the Bank's approach. The elements are that there should be partnership and a cohesive approach with the people that have the greatest reach at the country level in order to better coordinate efforts.

And yesterday there was a press conference of some of the Ministers in the Utstein Group which brought out the importance of this partnership and this cooperation which we hope we will carry forward.

We have also given a report on the Poverty Reduction Strategy Papers. We have a comment on the IBRD financial capacity, and you will be pleased to hear that in that context we are not asking for any more money. The requirements of the Bank have not yet exceeded our capital. We are nevertheless vigilant of the security of the Bank in terms of its access to public markets. But the financial capacity report I think is consoling.

What is not reported on is the IDA funding. And we must really acknowledge the fact that the triennial reviews of IDA funding are becoming more important and more significant as we look at the HIPC debt relief program. The thing we must not allow to happen is the forgiveness of HIPC debt from IDA without adequately compensating additional replenishment. Otherwise, all that will happen is that one will forgive IDA debt, but one will not have the reflows to allow the proper level of IDA lending going forward. This is an issue which we as organizations and Ministers must face. The easy option is just to write it off. In fact, we have US$70 billion to US$80 billion of loans we could write off. But if we write them off, then your IDA Deputies who have been counting on the repayments of some of those for the future projections of IDA lending will find that the cash flow is not coming.

And so, as was pointed out in the meetings in Portugal, I urge you to give very careful consideration to the funding of the IDA and the fund of HIPC because otherwise we will look as though we are doing something but, in fact, we will be retrogressing.

And the final thing, Mr. Chairman, which we have referred to is the role in financial architecture. Here I pay tribute to Horst Köhler and the Fund for their leadership in a number of these areas and where there is a most active partnership ongoing. We have the Financial Sector Assessments Program, the work of the observance of standards and codes. We ourselves are working on the guidelines on public debt management. We are working with our friends from OECD in a series of round tables on good corporate governance. We have an APEC Initiative on social safety nets. We are enhancing the public/private partnership.

On the accounting treatment with IFAD, we have brought about a really global review of accounting practice. I think it has been a busy year. The agenda covers many of the subjects.

For the benefit of those that will not be in the restricted session, I wanted to articulate the nature of it.

And may I say finally that I endorse what the Managing Director said that we are well aware of the impact of oil price increases and commodity price decreases, and that we believe we have the appropriate tools to be responsive and hope that on a case-by-case basis we will be able to do so.

Statement by Mr. Carlos Saito, Special Advisor to the President of the Central Bank of Peru, Chairman of the Group of Twenty-Four

It is an honor to address you as Chairman of the Group of 24. Global economic prospects have improved since last spring, but the benefits of the global prosperity do not reach all developing countries in a consistent and sustained manner.

At the same time, some significant risks still persist, such as the variability of industrial countries' major currencies, the high oil prices and the imbalances among the major economies. Moreover, although the growth performance of developing countries has not deteriorated since last April, recovery has been uneven and capital inflows and consumption are still below pre-crisis levels.

The pending agenda to fight poverty and place developing countries on the path to prosperity is still enormous and, in order to implement it successfully, requires a joint effort of developed and developing countries.

G-24 Ministers are convinced that mutually supportive structural and financial policies of industrial countries can contribute significantly to poverty reduction and growth in developing countries.

Ministers welcome the mainstreaming of trade to the World Bank's work, but they also urge industrial countries to reduce trade barriers to exports from developing countries. The current level of debt relief is not enough to reach the global targets of poverty reduction; it must be complemented with further trade liberalization.

Recent estimates of the potential welfare gains for developing countries--from a 50 percent worldwide reduction in barriers to trade--fall in the range of US$110 to US$140 billion per year. These numbers speak for themselves.

G-24 Ministers welcome the growing involvement of the World Bank and the IMF in the implementation of the Enhanced HIPC Initiative. However, Ministers are deeply worried that the HIPC Trust Fund remains significantly under-financed and urge bilateral donors to quickly step up their contributions.

Developing countries have already contributed to the financing of the Initiative in a greater proportion than their quota share. Likewise, Ministers expect that the World Bank contribution to the Enhanced HIPC Initiative will not compromise financing made available through other concessional windows.

We are concerned with the increasing cost of borrowing from the Bank. The increasing loan charges together with the rising economic and financial costs of complying with safeguard policies are placing a serious burden on borrowers. Ministers are also worried about the significant reduction of World Bank lending.

This could reduce the Bank's development as well as threaten its financial capacity. We ask the Bank authorities to correct this situation and we call for fair burden sharing in the compliance of environmental and other policies.

Another area of concern for the G-24 Ministers is the growing influence of non-economic considerations in the process of approval of and implementation of Bank projects. This is severely restricting the Bank's capacity to fight poverty. In this regard, we expect the Bank to adhere strictly to its mandate, as stated in its Articles of Agreement.

We welcome the greater World Bank involvement in the provision of global public goods. However, since the Bank's resources are limited, we are worried that any new initiative could crowd out some important Bank activities or, what is worse, could end up in higher loan charges to borrowers.

Let me conclude by reiterating that to realize our common objective of global development and prosperity, a joint effort is required. Developing countries must do their part, but industrial countries should also contribute by opening their markets and providing adequate financial aid to ensure that the benefits of globalization can be enjoyed by all.

Chairman’s Summary of Main Points Made in Ministers’ Circulated Statements

As is the custom at these meetings, I will now summarize the main points in your written statements.

Global Public Goods

There is widespread agreement that attention to global and regional public goods should be an important aspect of the Bank’s work, although it should remain small as compared to the Bank’s country focus. The Bank’s proposed definition of global public goods and the criteria for Bank involvement were supported. There is also much support for the four areas of proposed Bank concentration. But many ministers also suggest that the categories are too broad and that more selectivity is needed. In short, it was said that the Bank’s interventions should be selective, disciplined, pragmatic and focused on the Bank’s core issues and comparative advantage. It was acknowledged by some that this is easier said than done.

Some ministers suggest a concentration on the topics which are most poverty oriented and linked to country programs, others on those where the Bank most clearly adds value, others on those where the Bank is the only agency that can take the lead--although it is also suggested that the Bank should encourage partners to develop the capacity to take the lead more often.

Ministers also express a wide variety of views about which particular areas cited by the Bank for current and future attention should be given highest priority. Environment, HIV/AIDS and other communicable diseases, and knowledge development receive quite wide support; trade and architecture receive support from a number of ministers, as does increased attention to financial abuse and to core labor standards. But clearly views are widely dispersed, and perhaps in our restricted session we can gain greater clarity on priorities.

Financing of global public goods is of considerable interest. Many ministers emphasize that the concessional resources needed for these programs should be largely additional to the Bank's own resources and not result in excessive use of Bank net income, while others are less concerned with this aspect and think the Bank is best placed to put significant additional resources into these programs. One minister suggests that raising new resources for development is in itself one of the Bank's most important contributions to global public goods.

Many ministers request a further discussion of global public goods in April after the Bank has established a more complete program.

Supporting Country Development

There is broad agreement that it was timely to discuss support for country development, given the great diversity and change in Bank member countries. There is significant support for the PRSP process in IDA countries, although concern was also expressed that countries with existing, well-developed poverty strategies should not be asked to create a new strategy document for the Bank. The PRSP-CAS linkage has been broadly endorsed, although it was also suggested the July 1, 2002 deadline should be considered with some flexibility.

There is considerable support for establishing the proposed poverty reduction support credit (PRSC) including especially its link to country budget cycles, although it is recognized that greater clarity is required in its definition and operational role. Many support a move towards more programmatic adjustment lending for countries with strong track records, but express concern that this not unduly limit the number of investment projects or neglect attention to safeguards and other policy concerns. In discussing country programs, many ministers stress the importance of enhanced donor coordination, based on the country's PRSP, and the need for greater harmonization of MDB and donor procedures to increase efficiency and reduce burdens on poor countries.

There is a strong consensus that the Bank has an important continuing role to play in middle-income countries. The establishment of a Bank task force to address key issues and develop new ideas on this role has been welcomed. There is widespread agreement on a broad agenda for the task force; particular stress is placed on the need to examine how the use of conditionality can be made more productive; on the cost of doing business with the Bank; and on how best to support countries in times of market dislocation, including through the development of new instruments. The Task Force has been encouraged to consult closely with borrowers to determine their priorities. Many ministers note the recent decline in Bank lending levels as a problem needing close attention by the Bank and this task force.

All ministers stress the importance of country ownership, although it was quite clear from some statements that this did not mean that the Bank should relinquish its concern for quality and the benefits that derive from its global experience and knowledge.

Many other points have been raised which I am sure will arise in the restricted session.

Comprehensive Development Framework

The progress made in introducing the CDF concept in pilot countries has been welcomed and strong support was expressed for the CDF principles and approach. The difficulties of implementing some CDF programs on the ground have also been noted, and the fact that it will take many years for the ambitious agenda set forth in the CDF approach to be fully accomplished. While additional countries are urged to join the pilot process, some ministers caution that countries should be given adequate time to ensure full ownership and the necessary widespread popular participation in CDF development.

HIPC/PRSP

Yesterday we had a very useful discussion of HIPC and PRSPs and issued a joint communiqué, and our communiqué today is quite comprehensive. As we are already fully committed to this process, in the interest of time I will not report further on the key points in this area.

IBRD Financial Capacity

There is general agreement that the Bank's finances remain sound. Many members believe, however, that it is prudent for Bank management and Board to keep the situation under careful review, particularly given the very important role they believe Bank lending has played at times when borrowers' access to private funds has been more limited. They also consider it important to build up Bank reserves at this time against such a future need.

Financial Architecture

Ministers give broad support for a continuing Bank role in helping to strengthen international financial architecture. Some emphasize that the Bank's work should be focussed on working with countries to build capacity, and on those issues most directly relevant to the Bank's mandate. Close collaboration with other agencies, particularly the IMF, is considered essential. And while development of common standards was encouraged, many ministers also want it to be clear that the acceptance of the resulting standards should remain voluntary.

Other Areas

There are also a number of very interesting comments on globalization, the impact of high oil prices and other terms of trade shocks on poor countries, the special needs of Africa and of small states, proposals for further reform of the MDBs, political pressure on the Bank, and many other subjects. I urge you to read these statements in full as they are rich in advice and ideas.

Prepared Statements Circulated by Members

Statement by Mr. Hamad Al-Sayari, Governor, Saudi Arabian Monetary Agency (Saudi Arabia)

I will begin by conveying a few words on recent economic developments. World economic growth continues to outpace expectations, and the prospects for the next two years are very promising. World inflation remains contained and is well below the average for the last twenty years. This encouraging performance is a result of improved economic policies, strong recovery of world trade, and a firming up of non-agricultural commodity prices, including oil.

Nonetheless, instability of primary commodity prices is a major concern to developing countries and a source of vulnerability, especially for the economies of exporting countries. Low agricultural prices adversely affect some of the world's poorest countries. Many of these countries suffer from prohibitive trade barriers in the industrial countries. Removing such barriers would contribute to growth and poverty reduction. Indeed, the annual benefit to developing countries from free access to industrial countries' markets is estimated to substantially exceed the total benefit from the enhanced HIPC initiative.

As I explained in my statement to the International Monetary and Financial Committee, the price of oil today in real terms is less than half its level in 1980, despite its recent rebound from the very low level reached in 1998. Indeed, between 1986 and 1998 oil markets were in a low price environment, which impeded investment in capacity for infrastructure. This, together with problems with inventory management, explains the recent price increases. To moderate price increases, OPEC and non-OPEC countries increased their output by close to 4 million barrels per day since last April. For its part, Saudi Arabia has invested heavily at substantial costs to secure the necessary production capacity, and has continued to spearhead the effort to stabilize oil prices.

It is imperative now that the major oil consuming countries, especially those with excessive taxes on petroleum products, play their part in ensuring stable market conditions. They can do so by reducing the tax burden on consumers, who pay up to 300 percent in taxes on petroleum products, and by improving the dialogue with oil producers on how to avoid sharp swings in oil prices. To this end, Saudi Arabia is hosting the Seventh International Energy Forum next November.

Turning now to today's agenda for the Development Committee, it is indeed timely to take stock of the progress made in implementing the Comprehensive Development Framework and the initiative to support the highly indebted poor countries. It is also timely that we review today the Bank's role in supporting global public goods, including its support of the international financial architecture. To be more effective, the Bank needs to align its instruments and processes, and adapt its way of working with other key multilateral, regional and bilateral partners.

It is encouraging to note from the report on country experience that the pilot countries have made good progress in implementing the principles espoused by the CDF, since March of last year. As expected, however, progress has not been even and some countries have progressed farther than others. Of course, cross-country comparisons are not appropriate given the very nature of countries' starting points as characterized by their institutions, history, cultural norms and socio-economic structures.

Notwithstanding the progress made, there remain a number of difficult challenges. Foremost among these challenges are weak implementation capacities in developing countries; enabling developing countries to have true ownership of their development programs and strategies; defining the rules of engagement between the government, donors, and civil society; and developing better coordination and partnerships that will support more effectively the development efforts of borrowing countries. Here, the gap between intentions and reality remains large. Although development agencies are in principle committed to partnerships, old attitudes and ways of doing business persist. Individual donor countries' pre-occupation with visibility and their insistence on financing particular activities, often pre-empt better partnership with other donors and undermine government leadership of the reform agenda. Under normal circumstances, donors' insistence in financing particular activities need not raise too many concerns. However, unfortunate experiences caused by external pressure on donor institutions and politicization of the development process, could lead to concentration of donor efforts in a few sectors, leaving important sectors unfunded. This could undermine development, and therefore should be monitored regularly.

While there has been good progress in the pilot countries in implementing the CDF principles, it is not clear how these principles have contributed to GDP growth and poverty reduction. It is therefore difficult to draw conclusions as to whether to broaden the application of the CDF far beyond the pilot countries. Of course the period of the pilot stage is too short to enable an informed judgement and needs to be extended by a year or two. More time is needed to overcome some of the challenges that I mentioned above and to win a broader support from the major donors, in practice as well as in principle. This would also provide a better basis for the planned three-year evaluation of the CDF by the Bank's Operations Evaluation Department and Development Economics Department. This evaluation will be critical in determining how to proceed with the implementation of the CDF.

Having noted this, it is interesting to observe that more countries have made more progress in preparing Poverty Reduction Strategy Papers than in preparing the CDF, although the PRSP is based on similar principles and faces similar challenges. It would be important, therefore, as the Bank and the IMF move to mainstream the PRSP process to low-income countries, to look into the reasons for the relative success of the PRSP. In this regard, I can support the proposal by the Bank to provide support to low-income countries' poverty reduction strategies through the proposed Poverty Reduction Support Credit (PRSC). The PRSC would be a programmatic vehicle that complements the IMF's Poverty Reduction and Growth Facility. This stated, it would be important that the PRSC be underpinned by strong economic and sector work and that a fiduciary framework for the use of Bank resources be in place before accelerating the expansion of programmatic lending.

The introduction of the interim PRSP is in recognition that preparation of a full PRSP can be time consuming and would delay the benefits that HIPC-eligible countries can receive under the initiative. We, therefore support the proposal that will enable countries to receive debt service reduction in the period between decision point and completion point by allowing them to present interim PRSPs and yearly progress reports if a full PRSP has not been completed.

Indeed the progress made in implementing the enhanced HIPC initiative is encouraging. As the progress report on the HIPC initiative notes, more countries are benefiting from deeper and faster debt relief packages. In this context, the progress made in securing confirmation of participation by multilateral creditors is welcome. Regional development institutions, in which Saudi Arabia is a major shareholder, such as the OPEC Fund, have been the first to participate in the original HIPC, and are now participating in the enhanced framework. Regarding the non-Paris Club bilateral creditors, the Bank and the Fund should continue discussing with them the modalities of their participation, while at the same time encouraging borrowing countries to negotiate directly debt relief with such donors.

While reviewing the HIPC initiative, I have noted that the two Executive Boards of the Bank and the Fund have agreed to extend the sunset clause. This is welcome. The two institutions should encourage the countries that are affected by this clause to make every effort to fulfil the so-called entry requirements so that they could benefit quickly from debt relief under the enhanced HIPC.

In a world economy that is becoming increasingly integrated, national efforts need to be complemented by global actions and investments in global public goods. Indeed, the Bank is already participating or leading efforts to strengthen the links between country and global programs. The Bank, for example, in collaboration with the IMF has made important headway in three initiatives: the Financial Sector Assessment Program, the Reports on Observance of Standards and Codes, and debt management. Needless to say that in the work on codes and standards, the Bank should bring the perspective of developing countries to the discussions.

Other examples where the Bank is participating in or leading global programs include: the Consultative Group on International Agricultural Research, the Global Environment Facility, UNAIDS, the Roll Back Malaria Program, the Riverblindness Program in West Africa, the Global Water Partnership, and the Global Alliance for Vaccines and Immunizations. Although by no means exhaustive, this list is impressive, and the demands on the Bank continue to increase. The challenge for the Bank is to become more selective, to confine its involvement to areas within its mandate, to lead in areas in which it has a comparative advantage, and to follow, if need be, others in areas in which they have the primary responsibility.

The Bank can serve its member countries better by scaling up its efforts in areas that have the greatest direct benefits to its client countries. In this regard, trade integration, communicable diseases, and research and knowledge dissemination offer good opportunities for an enhanced Bank role. On global governance, it is necessary to make a distinction between corporate governance and political governance. The Bank does have a role in corporate governance, but it should avoid getting entangled in issues related to political governance, which is outside its mandate. It should, however, be mindful of the concerns of developing countries in all these areas and bring these to the discussions.

Financing global collective action and public goods pose special challenges, especially for the Bank. In this regard, the Bank needs to carefully balance its support for local national programs with support for global initiatives. In doing so, it will be important not to divert resources away from country initiatives deeply involved with poverty reduction to promising but less directly poverty-related global initiatives. The Development Grant Facility may provide a good vehicle for financing global initiatives but it is important to develop clear and transparent criteria for including new initiatives, graduating old ones, and for establishing partnerships.

It is also important for the Bank to study the implications of its increased involvement in global public initiatives for its administrative budget; for its lending program, which has been showing a declining trend; and for the cost of doing business with the Bank. These are issues of major concern, especially to the Bank's client countries. I am pleased to note that the Executive Board and Management will take up these issues during the upcoming discussions on the Bank Group's Strategic Framework and Action Plan. I look forward to receiving a progress report for our next meeting in April 2001.

I want to conclude by thanking Minister Tarrin for having served this Committee well during difficult times, and to wish him success in his future endeavors. I also want to thank Minister Sinha for accepting to chair this Committee at a very short notice. I am confident that we will see continued progress during his tenure in each of the areas I discussed above.

Statement by Mr. Pascal Couchepin, Federal Councilor, Minister of Economy (Switzerland)[1]

A New Corporate Strategy

Despite some successes, poverty persists, and it has become uncertain whether we will reach our goal of halving absolute poverty by 2015. This is why I remain convinced that the World Bank needs to play an even more important role in today's interdependent world. The Bank needs to adapt continuously to new challenges. It has to define more clearly how it will lead and coordinate the fight against poverty and how it should support the countries that wish to undertake social and structural reforms benefiting the poor. The internal organization will need still more changes. For example, decentralization has made progress but should become more systematic, particularly in Africa and Eastern Europe and Central Asia. The Bank still goes in too many directions; more focus is a must.

The time has come to prepare a new corporate strategy. Concrete elements for a strategy are coming together. The emerging country models to reduce poverty (Poverty Reduction Strategy Papers, PRSP) and to better coordinate external assistance (Comprehensive Development Framework, CDF) are providing sound building blocks for such an exercise. Better criteria have been defined to use the Bank's "convening power" and to engage in international partnerships. A growing number of sector strategies have been elaborated relating sector goals to poverty reduction and providing a sense of the Bank's future efforts. A policy on global public goods is emerging, and different program approaches and instruments for low- and middle-income countries are being discussed. Finally, using the findings of the new World Development Report, operational goals and methods for poverty reduction can be elaborated.

If we are serious about such a long-term strategy, we also have to be prepared to support it with resources that correspond to the complexity of the task. We need to determine the right administrative budget. I will be quite flexible on future budget proposals as long as they are based on a convincing corporate strategy.

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1 On behalf of Azerbaijan, Kyrgyz Republic, Poland, Switzerland, Tajikistan, Turkmenistan and Uzbekistan

My remarks are made with the intention of strengthening the multilateral framework for development cooperation. Increasing the budget of the World Bank should not come at the expense of other multilateral institutions. Really, the efforts must be complementary. In particular, I also welcome the efforts undertaken recently to strengthen UNDP and other UN agencies. A deepened partnership with the UN system will be an important asset in our fight against poverty.

The Fight Against Poverty

I am encouraged by the new poverty focus of the Bank. The preparation of "homegrown" poverty strategies (PRSP) is a major step towards making international cooperation more relevant and successful. I fully agree that this instrument should become central for the Bank's work in low income countries.

The PRSP can also play an important role in middle income countries by focusing the Bank's efforts on the poorest groups of society. In this case, however, making the PRSP the sole planning instrument is questionable since often countries have defined already their development strategy. Similarly, some low-income countries may not have the capacity or commitment to develop adequate PRSPs. In such cases, it would be appropriate to provide capacity building assistance. We need to ensure that the PRSP remains a trademark for sound development practices and standards.

Challenges remain great. To develop a meaningful PRSP can require years. Often, the process is as important as the result, since it will foster ownership and thus improve the chances that the adopted policies and measures will be effective. The donor community, including the Bank, must become aware of these challenges and decide what role it wants to play. In particular, it needs to identify how it can support the process without jeopardizing ownership. Capacity building, technical assistance, data collection and studies have to address more systematically the institutional weaknesses and gaps associated with the PRSP process. At the same time, donors should gain confidence in borrowers' capacity to work out poverty strategies on their own. In this respect, I wonder about the rationale that PRSP documents are presented by the staff of the Bank and the Fund, rather than by a country representative.

Recent experience with the enhanced HIPC initiative confirmed an important tension between the PRSP and the HIPC process: the time required to prepare a PRSP is usually quite longer than the completion of the HIPC cycle. I therefore welcome the proposal to look at the Interim PRSP primarily as a road map for a full-fledged participatory PRSP. Extending the interim period will also help to link debt relief to sound poverty reduction. But the risk is high that the PRSP will be seen by many debtor countries exclusively as a means to obtain debt relief. This is why I recommend that at the "completion point" of HIPC, a debtor country should be accountable for a limited package of intermediary institutional changes and policy results. Debt relief should much less depend on government decisions to be implemented in the future.

Enhanced Debt Relief (HIPC)

I continue to be a strong supporter of comprehensive debt relief that will help countries to reach a sustainable level of debt. I note with satisfaction that substantial progress has been made in implementing the enhanced framework. However, in the next months it will get more difficult to strike the right balance between speed of delivery and quality of the process, since countries are involved that have not been able to follow consistent policies over time. In spite of the urgency of debt relief, it is crucial that they adhere to sound economic policies, implement measures to fight poverty and improve governance.

The cost of HIPC debt relief has not increased significantly since our last meeting. However, I fear that the recent deterioration of the terms of trade in many countries will eventually jeopardize the debt exit strategy under HIPC. In any case, it is crucial that we fully secure as early as possible the financing of the enhanced initiative. I therefore call upon the Bank to monitor the situation closely, and to report back on this matter next spring.

Commitments to fund the HIPC initiative have improved over the past six months. Still, I remain concerned. From 2005 on the HIPC Trust Fund will no longer be able to cover the cost of relief for debt with the Bank. Resorting to IDA potentially means transferring resources from new support to debt relief. This undermines the credibility of the international initiative all together. We also must find considerable amounts for some regional institutions, in particular the African Development Bank, to cover their part of the initiative.

The delay of parliamentary approval in certain donor countries not only put the initiative on an uncertain financial footing, it also meant that the real value of forthcoming contributions will be significantly lower than at the time of their pledge. I therefore appeal to all countries that have yet to make a contribution to do so in a fair burden sharing manner according to their economic capacity. This appeal also includes non Paris-Club creditors.

I would like to point out that some poor countries currently not considered under the HIPC initiative have an unsustainable level of debt. A solution should be found for these countries, for example Kyrgyz Republic and Tajikistan.

Governance and Corruption

The experience in transition countries and the sometimes limited impact of structural programs has shown how important good governance is. Widespread systemic corruption is a major impediment to economic growth and hurts the poor the most. I welcome the Bank's progress in formulating a new strategy for public sector reform, which recognizes that public institutions are at the heart of a strong and accountable market economy. I also welcome the support by the Bank to governments that wish to fight corruption.

Having said this, I would like to add a word of caution. As the Bank is entering the highly complex and sensitive area of governance, it will be important to have the proper expertise to arrive at sound judgements and sensible policy advice. Similarly, the Bank's measuring of country performance and good governance has to be carried out with full transparency of the borrowing countries and the Bank's Board of Directors. Further research should be carried out to make the indicators more objective and reliable.

Finally, we will need to find a new approach to deal with countries affected by conflicts. Clear criteria should be elaborated to allocate IDA resources and choose the right instruments in those special circumstances.

Supporting Country Development: Low and Middle Income Countries

I welcome that the Bank takes the structural differences between borrowing members as a point of departure, when reviewing country policies.

The agenda proposed for the low-income countries is appropriate, and I particularly support the emphasis on greater consultation and coordination between all development partners. However, I am not yet fully convinced about the advantages of the proposed new budget support called Poverty Reduction Strategy Credit. While I understand the rationale for establishing a closer link between the Bank's lending and country strategies for poverty reduction, I question whether this objective can be achieved through annual program lending. I therefore suggest that we continue the discussion on the design and modalities of the PRSC. In particular, the Bank should clarify how the PRSC relates to the parallel facility of the IMF (Poverty Reduction and Growth Facility, PRGF) and to other of its own instruments. Will there be cross conditionality between the PRSC and the PRGF? More generally, we should avoid excessive conditionality. Only a small number of benchmarks under the PRSP should trigger the PRSC. Finally, the PRSC should not come at the cost of investment lending. The Bank needs to remain in the business of doing projects, since projects contribute to institutional development and higher productive capacity. Yet, of course, they have to be part of coherent sector strategies. Thus, the Bank needs to clarify how the PRSC can be accommodated within its current lending options.

It is urgent to reassess the role of the Bank in the middle-income countries. A more differentiated approach is in order since this is a very heterogeneous group. Even a look at our own Constituency makes this patent. The role of the Bank in Poland has to be very different from its role in Azerbaijan, Turkmenistan and Uzbekistan. It is a positive step that the Task Force will look into the Bank Group strategies. I call upon the members of the Task Force to consult carefully with borrowing countries and other development countries on the proposed modalities. I still need to be convinced that a differentiation of loan pricing can be reconciled with the Bank's cooperative nature. Similarly, the proposal of a new program loan (Development Support Loan) is interesting, but deserves more substantive discussion on policy conditions and the fiduciary process.

Comprehensive Development Framework (CDF)

The CDF provides a useful platform to make more systematic efforts, and more importantly, to encourage recipient governments to engage in more comprehensive planning and broad consultations to define their development strategies.

I would like to reiterate my support to the CDF process. I note with satisfaction that the main elements of the CDF are not only implemented in the pilot countries but are present in most of the Bank's recent country work. Before extending the CDF to more countries however, I would like to ask the Bank to evaluate carefully the experience so far, and to highlight the role that each partner can play in the process. For this purpose further work is required in strengthening monitoring and evaluation.

I encourage the Bank to further clarify how the CDF relates to the CAS and how it complements the PRSP. At the local level, there is room to further improve both CDF and PRSP, for example by supporting governments in shaping the consultations. The business sector and civil society should be more systematically consulted. The CDF should build on existing consultation mechanisms, if they exist, and embrace rather than dismiss them. So far, capacity building efforts have not paid sufficient attention to this aspect.

There is considerable scope to further improve the impact of development assistance by ensuring that donors harmonize their activities.

It is not sufficient to coordinate at the local level. The World Bank should launch also an international dialogue based on its experience with the CDF. The next Spring Meeting could be an opportunity to present concrete proposals.

Poverty Reduction and Global Public Goods

Global public goods are not new to the Bank, but the fast changes in the economic and political environment require a rethinking of the Bank's approach. I therefore welcome the opportunity to discuss this issue today.

I can see an important role for the Bank to play in the area of global public goods. To ensure that the Bank's involvement is commensurate with its mandate, I think we need to work on and clarify a number of issues. First of all, we need to make sure that the Bank's activities are part of a global consensus comprising all relevant actors, including the IMF, UN agencies, regional development banks, bilateral donors and the private sector. The Bank should use its convening power to foster such collaboration.

The Bank should better define in which fields it is appropriate to intervene. For this it needs to have a clear understanding of its comparative advantage as well as that of other actors. It may also decide to deliberately develop its capacity. However, the Bank should be very selective and take into account costs and benefits. It also has to find ways to leverage private resources and expertise.

Finally, we need to evaluate the options for financing global public goods. A method has to be found to identify the best instruments and institutions for their delivery. This would help also to define inside the Bank what should be financed through regional or sectoral budgets, trust funds or special initiatives. I look forward to an early presentation of modalities that are more operational. The UN Conference on Financing for Development will also have to address this matter.

The Bank's Role in International Financial Architecture

I welcome the active role of the Bank in support of a stronger international financial architecture. The Bank has contributed significantly in this particular field of expertise. Moreover it has established an exemplary cooperation with the IMF and standard setting bodies in the context of financial assessments and the reports of countries' observance of standards and codes (ROSC).

Now we have to ensure that the rich diagnostic work will be followed up by concrete action. The Bank should spare no efforts to make sure that country authorities participate actively in the assessments. I have noted that recent CAS better reflect on the needs and means to improve national financial systems through capacity building and technical assistance. I welcome this development.

Finally, I would like to request the Bank to ensure that the experience and capacities of IFC are fully used when the prevention or resolution of financial crises is dealt with.

IBRD's Financial Capacity

I appreciate the regular information by the Bank's Management on the IBRD's financial capacity. This represents a crucial information on the financial strength of our Bank. I am pleased to note that the Bank's risk-bearing capacity remains adequate this year, as reflected by an improved ratio on equity capital to loans, and taking into account the additions to the General Reserve out of the FY2000 net income.

Yet, caution is in order. The recent recovery of the equity-to-loans ratio was achieved mainly through a lower-than-projected loan level. This reflects more on the current difficulties faced by many borrowing countries than on the prospect of a sustainable reduction in financing requirements for development and transition. On the other hand, the share of high-risk countries in the Bank's portfolio has dramatically increased over the past year, to reach a record high of 69 percent in FY2000. This will be a key prudential challenge for the Bank in the years to come. I encourage the Bank to provide the Development Committee with an early warning if and when needed. These considerations will have to be made in the context of the future Bank strategy, which should better identify the Bank's lending prospects.

Statement by Mr. Nicolás Eyzaguirre, Minister of Finance (Chile)

Comprehensive Development Framework

We believe that the Comprehensive Development Framework is an effective management tool. We can only agree with its holistic vision, its search for partnership with other development agents, the coordination with donors and lenders, the search for comparative advantage in choosing the leader, its grass-root participatory approach, push for transparency, drive for accountability, and concern for cost-efficient delivery.

The CDF is a process that requires for nationally owned participatory poverty reduction strategies to serve as the basis for concessional lending and for debt relief. The CDF is embedded in the PRSP, and we are hopeful that this approach will prove more successful in combating poverty than previous strategies.

Some middle-income countries are also adopting the CDF, as a way to establish development programs and priorities consistent with their needs and expectations. The international community has responded with equal concern. Today many organizations, such as the UN agencies, OECD/DAC—and others, like regional development banks—have expressed their support to build partnerships and better coordinate their efforts.

Democratic systems of government have spread worldwide, and civil society is gaining ground and a more prominent role in the expression of a development vision and conveying local conditions. Many NGOs are instrumental in identifying needs and may be very useful in the delivery effort. But on the other hand, they cannot be considered a surrogate for the development effort.

It is very important for the coordination and partnership agreed between the top echelon of development agencies and Banks to trickle down and permeate the technical staff of those institutions. There seems that a lot still needs to be achieved at that very important level.

Ownership can be assumed when there is leadership, civil society participation and institutional capacity to implement programs and projects. Public administration and private organizations have to improve their structures and profiles in order to deliver and better help low-income groups.

Little will be achieved with weak institutions and implementation failures. Institutional capacity has to be strengthened to take full advantage of the Bank's programmatic lending. The initial conception of the programs might be very good, but implementation and follow-up are crucial. The capacity to anticipate problems related to delivery is of great importance. The sooner this capacity is developed in the countries, the sooner the international community will be able to channel resources more efficiently. However, the process of institutional building is difficult and time-consuming. It should not be imposed, and local brainpower should be brought to the fore in its development.

The main engine for poverty reduction is economic growth. Distortions affecting investment have to be eliminated in order to produce more and create more jobs. Stability is a necessary condition, as is the rule of law. International trade can make a very significant contribution to poverty reduction and, therefore, market access by the more developed countries should not be restricted or hindered by high tariff and non-tariff measures.

The international community, including multilateral institutions and bilateral donors, has arrived to the conclusion that its assistance can only be formulated and delivered in a coordinated manner. Comparative advantage and selectivity should gear assistance, allowing each to play an important role and make an effective contribution.

There is a compelling need to harmonize Bank's policies and procedures, especially in the fields of procurement and financial management, to avoid cost increases in doing business with the Bank. The adoption of one set of policies and rules for everyone could be the solution; the untying of aid has also being proposed, but fiduciary problems have to be resolved beforehand. Having said that, it is also important to stress that each institution has to be prepared to assume this new responsibility and to be more responsive to the real needs of poor people. This will allow the forging of strategic partnerships, which are essential for the CDF.

Even before the CDF was launched by the World Bank and IMF, Bolivia had already embarked --with a long-term vision and mid-term strategy-- in the implementation of an action plan focused in poverty reduction. The country has taken substantial steps within the CDF and is in the course of a successful implementation.

We believe that the CDF is an effective management tool that will help developing countries achieve their goals.

Heavily Indebted Poor Countries (HIPC) Initiative and Poverty Reduction Strategy Papers (PRSP)

On September 1999 an enhancement of the HIPC Initiative was adopted, aimed at accelerating the delivery of its assistance and linking debt relief more firmly and transparently to poverty reduction. As a consequence, the pace of implementation has hastened and many more countries have reached their decision and completion points. Others have had their debt data analyzed in order to assess their sustainability and eligibility for the Initiative. In that sense, it can be concluded that the Initiative is well on its way to achieving its objective; the final conclusion will depend on how some related aspects evolve.

Initially, the entry requirement was a proven record of at least two years of programs of adjustment and reform supported by the IMF and IDA. This requirement worked as an incentive to adopt adjustment programs supported by IDA and IMF. However, experience showed that only few had started programs supported by the Bank and IMF. It would be more effective to treat those countries that still need to meet this entry requirement on a case by case basis within the enhanced HIPC framework. Once they embark on programs in the context of their PRSPs, they can still adopt programs supported by the Bank and IMF.

The Initiative has changed its completion point from a fixed three-year track record to a floating one, allowing countries to reach a completion point when they have in place a final Poverty Reduction Strategy. Also, it is the assessment of particular outcomes rather than the length of the track record that will establish the completion point. If the reform agenda is overloaded, the needed debt relief might be postponed, creating conditions that would make it even more difficult to reach a completion point. The interim relief given after the presentation of an I-PRSP can mitigate this process, but does not correct it altogether.

One of the main purposes of the Initiative was to resolve the debt overhang of poor countries and to ensure their debt sustainability. The weakening of commodity prices since 1997, combined with a sharp increase in oil prices, adversely affected a large number of HIPCs that rely heavily on commodity exports and petroleum imports. It also affected macroeconomic stability and the preservation of a good track record for qualification under the HIPC Initiative. The continuance of sound economic policies is a must, including timely adjustment to economic shocks, prudent debt management and adequate financing on appropriate concessional terms. But in those cases such a policy also entails action by donor agencies to provide financing for expenditures on poverty and development projects.

The participation of multilateral creditors is important, as is the participation of developed countries, in particular those who launched the initiative. Also, the specific situation of IDA debt relief has to be looked at more closely, since the HIPC Trust Fund is required to reimburse IDA for the debt relief projected to be provided up to 2005. Beyond 2005, donor funding will be needed to further reimburse IDA for the forgone debt service on IDA credits.

Countries have responded positively to the requirement that nationally owned poverty reduction strategies (PRPSs) serve as the basis for debt relief under the enhanced HIPC Initiative. But most country documentation to date has been in the form of interim PRSPs, the minimum requirements for a commitment on the part of the authorities to poverty reduction. An important element of a poverty reduction strategy is tracking poverty-related public spending; it requires improvements across budgetary and financial management practices. A full PRSP should integrate a fully budgeted poverty reduction strategy into a consistent macroeconomic framework.

Update on IBRD Financial Capacity

The demand for lending has slowed down significantly since the Development Committee discussed the summary report on IBRD's financial capacity during the 1999 Spring Meetings. The main reason for this development was an unexpected and faster global economic recovery that contributed to restore the access of emerging countries to international capital markets. This relieved the potential demand for Bank sources, and at the same time the level of lending for both IBRD and IDA in FY00.

In the current period, the recent steady improvements in the equity-to-loan ratios through higher allocation to reserve, and the revision of total loan loss provisions in FY00—from 3.0 percent to 2.8 percent of loans—mean that actions are being taken more effectively, with a greater beneficial impact on maintaining the risk-bearing capacity of the Bank.

Nevertheless, in the long term the evaluation remains the same, the inflexibility of the capital structure limits the Bank's ability to respond to a potential crisis situation. The debate may deal with, among other things, an increase in capital and/or loan charges. The timing for the final debate is uncertain but some preventive actions and continued discussion might be appropriate.

International Financial Architecture

A crisis always opens an opportunity for learning. From the recent financial crises we have learned that transparency, timely disclosure, proper financial supervision and the involvement of the private sector in forestalling and resolving financial crises were among the most relevant issues to be tackled by the international community.

These elements are now part of an extensive agenda to consolidate a reform of the international financial architecture. An effective judicial system, a reinvigorated corporate governance strategy and sound accounting and auditing practices, together with good structural and social policies, are of paramount importance to reinforce financial systems around the globe and to harness the benefits of globalization. These issues are also within the main purpose of the World Bank's efforts against poverty. It is the same groundwork that put in motion our strategy for economic development and poverty reduction, which reveals that financial stability rests on vigorous economies.

Financial integration is at the heart of the globalization process. To enhance capital markets is, *per se*, a developmental issue that is intimately related to other important areas, such as trade liberalization, market access, labor and product market rigidities. During the last decade, the flow of private capital exploded because developing countries were growing and, as a result, investment returns skyrocketed. Yet, small increases in the efficiency with which the flow of private capital is allocated in the economy have enormous social benefits. In our view, a sound financial system is therefore needed to support a competitive economy based on competitive markets. But that is not all. We must also complement our efforts by widening our strategies to achieve trade liberalization and to enhance market access.

To achieve those goals the World Bank must rest not only on its own experience but on the work being implemented by its peers as well. The synergies with our partners help in avoiding duplication and providing a more powerful set of recommendations to achieve financial stability and sustainable economic growth.

The diffusion of best practices helps crisis-prevention efforts. The World Bank is rightly using the comparative advantage of the International Monetary Fund in Surveillance; of the OECD in Corporate Governance; and of IOSCO in Accounting and Auditing. The usefulness of the IMF's Special Data Dissemination Standard, as well as the contribution provided by the Code of Good Practices on fiscal transparency and the Code of Good Practices on transparency of monetary and financial policies, are not to be underestimated. These codes and standards constitute by themselves a robust set of crisis-prevention proposals to cope with the social effects of financial distress while providing strong policies and promoting international cooperation. We believe that the role of the World Bank Group in strengthening the financial system through the implementation and diffusion of standards and codes is a key aspect of the wellbeing of humankind.

The most important step that the international community might take towards preventing crises is to encourage sound domestic policies to reinforce the market-based regulations of financial systems and to strengthen enforcement codes. Moreover, it is very important for the exchange rate regime to be consistent with the monetary and fiscal policies, to minimize flow and stock vulnerability.

The Bank document does not put enough emphasis on enforcement. Enforcement is one of the most important problems we face today in emerging economies as the credible means of contract enforcement are at the base of good financial systems. Enforcement mechanisms can only be effective when property rights and corporate laws are strengthened**,** bankruptcy codes are effective, and officials unconstrained to apply the law.

There is much left to be done, especially in terms of the development of best practice on insolvency regimes and the social dimensions of crises. The challenge is how to set measurable benchmarks for general principles and how to make them operational in the context of Bank operations. In sum, market performance, volatility and instability are linked to the progress made on standards that involve public as well private institutions.

The World Bank should restrict itself to using its comparative advantage and to monitoring only the standards and codes falling within its specific domain. So far the experience arising from the Bank's joint work with the IMF on surveillance is providing an opportunity for regulatory and supervisory agencies to advance on capacity building.

We would like to reiterate our position on standards and codes: the role of assessing standards is not helpful in isolation. An overall assessment of observance of standards should take into account the circumstances of the country; the task is idiosyncratic by nature. As an example, there are economies showing high scores in standards but with structural weaknesses that may affect the financial sector and make them highly vulnerable to crises.

The Financial Sector Assessment Program (FSAP) should encompass Reports on Observance of Standards and Codes (ROSC). Effective implementation depends on the stage of expansion of the financial sector and the development of its capital market. By assessing weaknesses in the financial sector, the FSAP is the natural framework for the assessment of the observance of standards. The latter should be considered a tool to assess vulnerability and developmental issues. For that reason, we hold to the idea of conducting FSAPs together with ROSC modules.

Today the international community is broadening and consolidating the agenda of the international financial architecture. In this setting, strong regulatory frameworks for financial institutions, both in emerging and advanced economies, are of utmost relevance, particularly in lending operations to highly leveraged institutions (HLIs).

Statement by Mr. Laurent Fabius, Minister of Economy, Finance and Industry (France)

I want to plead again for ambitious development policies -- not limited solely to the concept of aid -- and for their focus on poverty reduction.

The record remains bleak: 2.8 billion people live on less than two dollars a day; in certain African countries the average per capita income has actually declined in the last few decades; inhabitants of developing countries are suffering a large scale expansion of infectious diseases-- AIDS, malaria, tuberculosis.

All this is interwoven into the economic difficulties of these countries. It is my conviction that the fight against poverty should more than ever remain central to our development strategies.

1) The oil price increases constitute a new threat to world growth, notably for the poorest countries.

I want first of all to share with you my concern about the impact current oil prices are having on the global economic situation. At a time when we have entered a period of promising rapid and non-inflationary growth, the abrupt rise in the oil prices over the last few months has raised worries in public opinion, can derail economic expectations of economic agents, and put public budgets in danger of new imbalances. And, this everywhere in the world – in industrialized countries, in emerging non-producing countries, in transition countries, and most of all in the poorest countries. This should be, for us, Development Ministers from the world over, a shared responsibility, a pressing responsibility to search for and find the escape route, which will allow the IMF’s positive forecasts to become reality.

What are the causes? The main factors are well known. There has been a recovery of global demand, the result of a period of low prices followed by another, in which real capacity had not yet sufficiently increased. In this context, pressures have progressively reappeared, which together with a market environment in which non-competitive mechanisms have provoked price increases beyond those which even the producing countries themselves would judge desirable. Added to this are the market fluctuations which accompanied OPEC’s recent positive decision to raise its production by 800,000 barrels a day; overtaken by jitters - perhaps due to fear of insufficient stocks this winter, or to other more complex reasons - the market has slid into an additional, self-maintained spiral. We have strayed far from a rational market equilibrium and it is our duty to reset this market's reference points, which would provide oil producers as well as consumers with stability and growth.

The current chain reactions carry the seeds of serious macroeconomic consequences. If the current pressures were to be perpetuated, they could threaten the pursuit of global growth, as we have learned in a different context from past oil market shocks. The IMF, in the World Economic Report, takes a prudent stance, but recognizes that a 10 percent hike in oil prices (in fact we must keep in mind that this price has actually tripled since January 1999) reduces growth by 0.1 percent in the richest countries and by 0.2 percent in Asia (with a strong impact especially on India). In certain regions of the world, growth could be especially impacted, notably in the non oil-producing countries of Asia, Africa and the Caribbean. We must do everything possible so that this temporary excess of volatility does not transform itself into a new global shock. We should especially keep in mind the potentially adverse consequences for the least advanced countries. In sum, it would be illusory to concentrate on mechanisms of financial aid to these countries if at the same time a petroleum shock were to destroy their efforts and ours.

We are all determined to see oil prices return to a level of stability – I insist on this notion of stability – in conformity with a good balance between the interests of producing and consuming countries. A price bracket between US$22 and US$28 per barrel was proffered a few months ago; mechanisms of self-regulation had been invented. I will not comment here on the details of the measures which would be appropriate, but I want to state at this gathering of the principal ministers in charge of the economic health, that we have been given a responsibility by our public opinion, by our people. In the face of market disorder such as we observe today, we cannot ignore the risks of inaction. It could cause us to again slip into a situation wanted by no one. Let us today, between Development Ministers, agree to define the terms of a common diagnosis and to act in such a way that tomorrow, through a fruitful dialogue geared to find together solutions within our reach, the market will be able to regain its balance.

2) With poverty reduction as our common goal, we must be vigilant that our actions are consistent

Development-related issues are complex. It is not surprising that the institutions charged with them mirror this complexity. In the international financial architecture, enhanced complementarity should help us to best utilize limited financial resources, to increase the understandability of our action, and most of all, to meet the expectations of developing countries.

Complementarity means neither separation nor competition. The World Bank and the IMF are universal and our aspirations for development are universal as well. These two sister institutions share an obligation to be consistent in their strategies.

The idea of the IMF specializing in macroeconomic reform, leaving the World Bank to manage their social consequences, would not create the conditions of harmonious complementarity. Fighting poverty and inequality must be at the core of economic reform. They must not limit themselves to social safety nets, simply mitigating the shock of adjustment policy.

Such consistency should be found throughout the issues of development finance. The Lyon initiative on debt relief for the poorest and most indebted countries, because it seeks to establish a direct link between poverty reduction and debt relief, establishes the connection between macroeconomic variables and essentially local social interests.

When confronting globalization, it is necessary to strengthen international financial regulation in order to reduce financial instability and to direct financial flows towards economic development. It is also necessary to increase the resources available to promote development in the poorest countries. Thus, we must pursue our collective action to promote a better-regulated globalization, whose fruits are more equitably shared between north and south.

3) Solidarity towards the poorest countries should be at the heart of our action in the fight against poverty

If the financial flows toward developing countries have appreciably increased over the long term, the overall record masks a variety of situations. With less than 1percent of world trade, Africa is still the continent where the challenges are doubtless most difficult to face. And where the poor are still most vulnerable according to the latest World Development Report on poverty.

The economic divide, the commercial divide, the technological divide: the breaches multiply, widening the distance between the poorest countries and the industrialized ones.

Conscious of the complementary links between trade and development, the European countries were among the first to try to bridge the commercial divide. The Lomé Agreements, then, more recently, those of Cotonou opened European markets to African exports.
We must further weave this commercial solidarity to integrate the poorest countries into the world economy. It is an effort which takes many forms: at the global level by a genuine representation of these nations in the World Trade Organization, and through the establishment of bilateral free trade agreements; but also, on the local level, through mechanisms of regional integration permitting the coordination and harmonization of a large scope of sectoral policies.

France invites the industrialized nations to join Europe in this effort at opening trade in manufactured products coming from developing countries.

4) I want to stress particularly the scourge of AIDS

The issue of the fight against infectious diseases, particularly AIDS, will not be resolved without an upswing of solidarity in the international community.

HIV/AIDS has reduced life expectancy in Africa from 65 to 45 years, wiping out the effects of 30 years of development on this continent. This represents a terrible backslide. At least three obstacles impede our action today: the absence of coordination between the actors dedicated to this cause; insufficient financial means; and, sometimes, a lack of local government mobilization.

We must do the necessary to be in a position to respond:

- The World Bank's consideration of global public goods has allowed a more global approach to the problem and should help us to solve the present lack of coordination.
- As regards financing, the international community, developed countries, development institutions, developing countries, must dedicate US$10 billion over the next few years to consolidating public health systems and the fight against AIDS. This financing is available; we must use it effectively and with vigor.
- For instance, it is essential that developing countries use the margin of maneuver created by debt relief to include in the PRSPs, actions to fight this disease at the national level;
- We must help them to do so, and for this, mobilize the concessional and non-concessional resources of the World Bank. Africa is the continent most severely affected by AIDS. IDA has considerable available resources that should normally be assigned to the African countries. A great part of these resources, which we have wanted to dedicate to poverty reduction, should serve to conquer a disease, which is also the major generator of large-scale poverty, especially on the African continent.
- I am sure that each of us will pay particular attention to the priorities in bilateral programs, which also go in this direction: it is the primary need in poor countries. It's our duty to help them.
- It is equally incumbent on us to take appropriate decisions to ensure that these resources are not wasted. Shouldn't the World Bank be charged to coordinate this effort to complete the financing, in close coordination with UNAIDS in which the Bank is already a participant and also with the WHO, which has exceptional specialized knowledge in the field? Isn't the Bank the international organization best suited to take charge of coordinating the available resources against AIDS, in close cooperation with its competent partners, notably the organizations of the United Nations? It has the competence, the will, and the political capacity to succeed. It will assure that the actors on the ground use their resources in the most effective and transparent ways.
- As to the mobilization of governments, which is a central issue, France has proposed that under the auspices of the United Nations, a conference be held on access to treatment, thus completing the efforts at information dissemination and political mobilization already realized or underway.
- After others, along with others, I am therefore, here sounding the alarm: AIDS is neither just a health problem nor a financial one, it is a question of survival.

5) The fight against financial delinquency and money laundering

The Bretton Woods institutions must be strongly involved in this fight. This involvement can be done in different ways. At the minimum, it should result in taking this question into account in the analytic and diagnostic work done for each country. Beyond that, we have to question the pertinence of continuing to aid countries on the list of the Financial Action Task Force and which would not change their behavior.

Confronting economic globalization, our discussions are useful in conceiving a more global approach to development, which is a step toward recognizing the idea of global political, economic and social governance. A decisive advantage on making progress toward global governance is the architecture of the international financial system: we must consolidate it through confirming the roles and responsibilities of each institution that is part of it.

It is the time to make concrete progress on the most urgent subjects like the fight against AIDS or, in a completely different area, money laundering.

I have confidence in the World Bank and in the international financial institutions as a whole to take up this challenge.

Statement by Mr. Antonio Fazio, Governor of the Bank of Italy (Italy).

An Expanded Development Agenda

This year, the rate of growth of the world economy is projected to reach record levels and world trade to expand at a rate more than double that of economic activity. However, together with persistent vulnerabilities in international financial markets, the recent acceleration of globalization has raised new risks and challenges that policy-makers need to confront. The increase in the demand for commodities and in particular of crude oil has brought about a sharp increase in prices. The surge in crude oil prices will further negatively affect the situation of some of the poorest countries. Furthermore, the social and human costs of the recent crisis have been huge and will take long to be reabsorbed, while some of the poorest countries have only marginally been touched by the exceptional expansion of the world economy.

This situation requires a strengthened collective action in the area of global public goods: orderly financial conditions, open and equitable trade, protection from infectious diseases, preservation of the environment. The time has also come for a thorough discussion of the role the World Bank and the other multilateral development banks can play and the instruments they can use in order to more effectively alleviate poverty in developing countries.

Focusing on the Provision of Global Public Goods

International trade and global integration always bring substantial benefits in terms of greater investments, better allocation of resources and more efficient production. However, they also give rise to a number of cross-border externalities, both positive and negative, which require collective action, since merely local or domestic responses are often insufficient or inadequate. The issue is certainly not new. The first problem is the distribution of the advantages. Some countries benefit more; some less; some may even lose from sudden liberalization in certain areas or sectors. At the same time, new phenomena with their specific risks arise. The revolution in the digital and biotechnologies, while offering great opportunities, gives also rise to new categories of cross-border vulnerabilities, and may widen the gap between rich and poor countries. In the area of infectious diseases, great progress has been achieved in the last century, but new threats, like AIDS, may put at stake the development perspectives of most countries in Sub Saharan Africa.

A strong commitment for joint action in the area of global public goods, by all the parties involved, is of great value. The mechanisms for international co-operation among different institutions should be improved and all the parties involved, including the donor community, should stand ready to contribute to a greater international effort aimed at responding to the greater demand of global public goods.

The World Bank has an important role to play in this area. This requires that its operational practices evolve from a country-based approach to greater emphasis on a regional and global purview. This can be done without putting at risk its identity as an institution catering to the developmental needs of borrower countries. Furthermore, the Bank should make an increasing use of policy advice and technical assistance, as part of a process to define mutually agreed policies among different countries rather than to set conditions complementary to the loans and grants provided.

Greater involvement of the World Bank in the area of global public goods should be accompanied by a parallel, strengthened participation of other international institutions. For some global public goods, the primary responsibilities rest with UN organizations other than the World Bank. Clear rules governing the interaction of different international institutions are required and coordination mechanisms should be established to ensure cohesion and resolve possible conflicts of competence. Important progress has been made in clarifying the division of labor on financial sustainability issues between the World Bank and the IMF. Further steps are needed to improve the coordination between the World Bank and the other regional development banks and between the multilateral development banks and the UN agencies.

Financing global collective action requires a commitment from all the parties involved and an innovative drive in the design and implementation of funding policies. For the World Bank, given its presently more favorable financial situation, there is some scope for a limited expansion of its grants program, which will have to be decided in the yearly income allocation discussions. Grants can be a useful instrument to leverage partnerships and fund activities whose returns may be greatly deferred in time or highly uncertain. We will however defend the principle that any additional provision of grants should be delivered only when and if it is consistent with the need to preserve the financial integrity of the institution. In part, also IDA credits can be redirected to the area of global public goods, when they are strictly complementary to the poverty reduction objective of IDA programs or when they can be instrumental in mobilizing other market and public participants in these programs. Another possible instrument is the creation of dedicated trust funds, which in the Bank experience have been a useful tool to mobilize and prioritize donor resources. Furthermore, as in the case of vaccines and immunizations, the creation of specific trust funds has helped mobilize contributions by foundations and the private sector.

Let me finally stress one point. Global action in the area of international public goods cannot be successful without the full and convinced participation of individual countries. This action should not be viewed as an imposition of the international community on developing countries or as a concession of the latter to the former, since in most cases the greatest benefits of joint action in this area accrue to the developing countries themselves. Therefore, it is in the ultimate interest of each individual country to undertake policies consistent with the need to limit or internalize, on the basis of mutually agreed schemes, cross-border externalities. Global concerns should be aligned with countries' priorities and should be embedded in sound national programs. Needless to say, the private sector should be directly involved in any effort to fully cope with the international externalities.

Main Areas for Bank Activity in Global Public Goods and Trade

The Bank should intervene only in those areas where there is a clear impact on development and poverty reduction and where it can best exploit its internal expertise. These include financial stability and good governance, trade, the prevention and cure of infectious diseases and other health hazards, the environment, the sharing of knowledge and information.

Financial Stability and Good Governance

International financial stability requires that each country strengthen its domestic financial system. An extension of the financial assessment exercises jointly conducted by the Fund and the Bank is necessary to verify compliance with internationally agreed rules and standards. It is also crucial to complete the work carried out by the Bank in co-operation with the IMF on developing guidelines for public debt management and supporting countries in building the infrastructure for primary and secondary markets of government securities.

Poor governance, corruption, and financial crimes represent major obstacles to development. Special attention needs to be paid to cross-border financial abuse, including money laundering, which can hamper the correct functioning of market mechanisms, distort competition, and undermine the integrity, efficiency, and stability of entire sectors of the financial system. The International Financial Institutions should give explicit consideration to policies aimed at curbing financial crime and to compliance with internationally recognized supervisory and anti-money laundering standards. The World Bank can play a significant role by including this issue in the policy dialogue with borrowing countries and by assisting them in building institutional capacities necessary to comply with the international recommendations.

Trade

A crucially important global public good is a system of trade rules and infrastructures that can ensure the extension to all of the benefits of globalization.

It is necessary to soon launch a new round of trade negotiations within the framework of the WTO, which would open international markets to the products manufactured by the poorest countries. World Bank support to facilitating market access for developing countries' exports, together with the removal of trade barriers to their exports, would give these countries a real opportunity to reap the benefits of globalization.

Health

The World Bank can greatly contribute to fight the spread of AIDS and other communicable diseases in many developing regions. The recent decision to increase the Bank's capacity to support investment in HIV/AIDS, malaria treatment and vaccines is an important step in the right direction. Greater leverage of resources can be achieved by strengthening partnerships and collaboration with other international institutions, such as WHO, multilateral and bilateral donors, and the private sector, or by supporting initiatives like UNAIDS.

Environment

The Bank should step up its efforts to promote cleaner energy development, investments in renewable energy and energy efficiency, and bio-diversity conservation programs. There is a need for greater alignment between countries' sectoral investment projects and overarching environmental sustainability goals.

Knowledge

The Bank, with the donor community and the private sector, should devise strategies that would allow the poorest countries to gain wider and deeper access to new information technologies. The priority is to significantly improve their connections with the rest of the world, and their ability to generate and disseminate information. An important role for the Bank is to support countries in developing policies aimed at mitigating possible risks arising from the application of the new technologies. Since this area is relatively new for the Bank and the development community, a careful analysis of the strategic implications of the various initiatives should be undertaken, before embarking in any new major program.

Growth and Poverty Reduction in Lower-Income Countries

The question of how to improve the assistance we give to the poorest of the poor should be a primary concern of the international community. Poverty reduction policies presently rest on two pillars. First, the HIPC Initiative, which relieves countries of the burden of unsustainable debt freeing up resources that can be redirected into programs aimed at improving human capital and bettering social conditions. Second, official development assistance, whose structure, objectives and instruments are being reassessed in order to increase the effectiveness of developmental programs.

The new framework of the HIPC initiative approved last year is being implemented and it is expected that up to 20 countries will qualify for assistance by the end of the year, for a combined debt service relief commitment well above US$30 billion. The Italian Parliament has recently approved legislation allowing the cancellation of outstanding credits for up to US$ 6 billion in the next three years. Italy is committed to provide US$70 million to the HIPC Trust Fund. The improvements brought to HIPC countries by the debt relief initiative can only be sustained in the presence of a credible commitment to good macroeconomic and structural policies. Low inflation and sound fiscal policies are essential preconditions for growth and ultimately for poverty reduction. They should be accompanied by appropriate structural and social policies. Continued attention to the quality of the policies adopted by these countries is needed to ensure that the benefits derived from debt cancellation are maximized and that the conditions which in the past led to an unsustainable debt are permanently removed.

A radical shift in the way aid is used to promote development is needed in order to overcome the shortcomings of traditional assistance mechanisms. The Comprehensive Development Framework approach, recently launched by the World Bank, emphasizes institution building, a transparent and rule-based policy-making, an active participation of the civil society, and better coordination within the donor community. The new programmatic adjustment-lending instrument (denominated Poverty Reduction Support Credit) which is being developed by the Bank could be a useful tool to implement the CDF and support poverty reduction strategies in IDA-eligible countries. The new tool will complement the IMF's Poverty Reduction and Growth Facility and allow a better coordination between the Bank and the Fund. More work is needed to clarify a number of issues, including the division of labor with the Fund, and the relationship with other Bank instruments. It will also be important to assess how to synchronize the activity of the Bank with the budget process of borrowing countries, without appearing as interfering into a process which should be fully owned by the countries themselves.

Providing Assistance to Middle-Income Countries

In the past decades many emerging economies have benefited from greater trade and financial integration, thereby succeeding in raising the incomes level and standard of living of the population. It has been argued that the Bank has outlived the era when the major function of the institution lay in providing capital and resources to the developing countries to fill their savings gap. Nowadays, an overwhelming share of the funds directed towards these countries represents private sector investments.

However, the improvements in these countries have been uneven and a large part of their population still lives in dire poverty. While many developing countries have become increasingly able to raise funds on private financial markets, some countries still have very limited or no access to capital. Certain sectors, particularly those related to social investments that are essential to poverty reduction and to better quality of life, do not attract sufficient private capital. Furthermore, the flow of private funds towards these economies can be discontinuous and subject to wide fluctuations and sudden crises. The impact of these crises is most strongly felt by the weakest segment of the population.

The World Bank could still play an important role in correcting imperfections and harnessing market forces for poverty alleviation in these countries. There are large areas in middle-income countries with depressed economic conditions and significant pockets of poverty. The Bank should focus its assistance on social services, governance and institution building, and in those infrastructure sectors, such as transport, where private investors are more difficult to attract.

Appropriate mechanisms for providing assistance at the time of crises should also be explored. The Bank's role should be clearly differentiated from the interventions of the Fund and focus on social and structural areas. Furthermore, while the present financial situation of the Bank has greatly improved, the capacity of the institution to respond to a major financial crisis is still severely limited.

In addressing the issue of how to assist middle income countries in fighting poverty, the Bank should undertake a thorough assessment of the financial instruments at its disposal. This calls for a review of the pricing policy that would consider the possibility of differentiating the conditions applied to loans provided to different sectors.

Conclusion

Some of the issues previously raised are relatively new and require further analysis and elaboration on the part of the Bank.

In the area of global public goods, key priorities are financial stability, health and the environment. For each of these, it is crucial to clarify and where possible formalize partnership arrangements with other international organizations and development partners. A broad range of financial options should be examined, including the creation or strengthening of specialized trust funds in the priority areas.

For low-income countries, it is crucial that the strategy presently based on the HIPC Initiative and the use of official development assistance be soon complemented by a third pillar: the removal of obstacles to trade and the assistance to poor countries to fully reap the benefits from trade.

Finally, it is important to soon address the issue of a renewed World Bank assistance strategy towards middle-income countries, including the review of the pricing structure.

Statement by Mr. Jorge Giordani, Minister of Planning and Development (República Bolivariana de Venezuela)

Progress in the HIPC Initiative and Poverty Reduction Strategies (PRSP)

I should like to pay tribute to the progress made with the ambitious enhanced HIPC program that we adopted one year ago. The objective of providing swifter, more extensive, and deeper debt relief is being achieved and the Initiative is already lowering the debt burden for the beneficiary poor countries. We also welcome the projection that twenty countries will have reached the decision point by the end of 2000. The net present value of the program will then have reached US$20.2 billion, or 70 percent of the total cost of the Initiative.

Having said that, we believe it is necessary to consider the potential short and medium-term risks regarding funding for the Initiative. On the basis of the information we have received, the total amount of funds available to finance the cost of multilateral debt could reach US$8.688 billion, assuming that all donor promises are kept. Thus, the shortfall is still substantial: over US$5.3 billion.

Furthermore, the risk of a shortage of funds with which to finance the Initiative could materialize as early as the end of 2000. For instance, without a release of the proceeds remaining from its sales of gold, the IMF could find it difficult to finance its debt relief quota. Some multilateral institutions and bilateral creditor countries that are not members of the Paris Club could be reluctant to participate in the Initiative as they become graded as countries with greater exposure. This means that alternative mechanisms must be sought to finance the costs of creditors who have difficulty participating in the Initiative.

With respect to the progress made by the Initiative in Latin America, we welcome the agreement regarding the mechanism for financing participation by the Inter-American Development Bank. We are worried, nevertheless, that some donors have not paid the money they pledged and that this might delay temporary relief for the beneficiary countries.

In the case of Central America, many bilateral loans were granted to neighboring countries, based on the principle of solidarity under adverse circumstances. In this region, one creditor country is at the same time an HIPC beneficiary, and in the cases of Costa Rica and Guatemala the ratio of debt relief to exports or GDP is among the highest of any creditors that are not members of the Paris Club. Moreover, the Central American Bank for Economic Integration, which is owned by developing countries, might find it very hard to continue participating in the Initiative, considering that its contribution is the equivalent of approximately 50 percent of its capital. It is imperative that the countries supporting the HIPC Initiative acknowledge situations such as these and help to resolve them.

With respect to progress made with the Poverty Reduction Strategy Papers, known as PRSPs, we are glad that the countries benefiting under the enhanced HIPC Initiative responded favorably to the invitation to prepare their own poverty reduction strategy papers. Generally speaking, developing countries, multilateral organizations, and bilateral donors have all reacted positively to the PRSP process, as a mechanism for channeling aid to programs aimed at sustainable poverty reduction. At the same time, it has become clear that, in addition to financial assistance, the countries preparing their own strategy papers also need technical assistance. We welcome the efforts by IMF and World Bank staff to coordinate closely in this field and the support being provided to the countries preparing their respective strategies.

Implementing PRSPs presents a number of challenges. We should like to underscore those related to the institutional, technical, financial, and even political demands that countries face as they prepare strategies based on extensive consultation with civil society. The transition from a preliminary PRSP to a complete PRSP may take longer than was originally thought and the countries' own strategies may, moreover, conflict with IMF and World Bank conditionalities for acceptance. Development agency staff and the multilateral institutions, in particular, should therefore be flexible and understand the real constraints that countries could be facing, and find ways to provide them with more effective support.

We share the view that more research is needed into the relationship between debt reduction and poverty reduction. The international community and national policy-makers have to join forces to strengthen that link and reduce poverty, especially through economic growth. Even so, more research is required into how exactly the link is generated.

Comprehensive Development Framework

Doubts that may have once surrounded the Comprehensive Development Framework since the idea was launched by World Bank President James Wolfensohn in 1999 have largely subsided, thanks to the President's efforts to explain and achieve support for its basic tenets, which are indeed universally accepted principles. We pay tribute to those efforts and the President's dedication to achieving consensus among members of the international community.

On previous occasions, we drew attention to the importance of those principles being accepted by all, including regional banks and bilateral development agencies. We appreciate the fact that some regional banks have decided to join forces in implementing these principles in a handful of countries that the Bank is addressing in its pilot scheme. We are pleased to hear that progress is being made, although we realize that it is still too soon to reach a definitive judgment regarding what amounts in itself to a major challenge. We congratulate the Bank's Operations Evaluation Department on its decision to analyze the work that has been done and to draw lessons of use to all other units in the Bank.

We are gratified at the noteworthy and satisfactory results registered in the progress reports on the Comprehensive Development Framework. However, there is one area in which we would like to see even swifter and more effective progress: *the coordination of assistance among donors, both bilateral and multilateral*. This has been a source of constant concern in the donor community in the past and continues to be today. The Bank must apply all its resources to defining new coordination matrices with clearly identifiable mechanisms for coordination on strategy, sectoral studies, operations, etc. Such matrices should be considered prerequisites for more effective aid for development and its impact. Duplication of effort and wasted resources are endemic in development programs. Pinpointing the existence and causes of such duplication must be a fundamental objective of the Bank's Operations Evaluation Department in its work on the Comprehensive Development Framework. We should like to see periodic progress reports on this specific topic.

World Bank Financial Capacity

The figures we have been given show an improvement in the Bank's financial capacity since the Committee's last meetings. In our opinion, two factors explain this:

- On the one hand, the notable improvement in the international economic situation, which has had a strong and positive impact on the quality of the Bank's loan portfolio;
- On the other, the huge decline in the Bank's activities from the US$14 billion in projected disbursements to the US$2.8 billion that actually materialized, which, paradoxically, also has a positive short term effect on the ratio of own funds to loans.

For that reason, we cannot contemplate the Bank's current financial standing with complacency, but must rather consider it a golden opportunity to reflect on what lies ahead. There is little doubt in our minds that the downward trend in operations, which, with the exception of crisis years, has persisted since 1989, is far from desirable.

It is evident that, as we mentioned with respect to the Bank's presence in middle-income countries, the World Bank is not supplying the instruments needed by the many customers currently abandoning it.

It is equally evident that financial products should not be too highly priced, because in the medium term not only would there be nothing to gain, but such a policy would eventually lead to a shrinking in the Bank's activities.

At the same time, we realize that the World Bank cannot just be an instrument for generating profits that guarantee financing for a range of initiatives. Rather, its surpluses should serve first and foremost to maintain its financial solidity, and only then revert to its customers in the form of a larger volume of credit or lower-cost loans.

Although the Bank was not set up to perform a counter-cyclical function, the experience of recent years shows that its contribution to overcoming the 1998 crisis was decisive. And it is hardly surprising that, in one way or another, demand for World Bank loans is much higher at times of economic crisis. We realize the difficulties that this temporary state of affairs can generate for the World Bank's financial structure. Hence our invitation to start thinking of ways to adapt its capital structure to a situation in which, inevitably, its disbursement of loan proceeds is going to fluctuate, depending on the ups and downs of the economic cycle.

International Financial Architecture

We have agreed that the World Bank Group can play an important part in strengthening international financial architecture. The financial crisis of the 1990s taught us that we have to prevent and handle crises more effectively in a more integrated global financial environment. Economies cannot rest on institutional pillars with weak foundations or eschew social protection networks for the most vulnerable groups. The financial crises showed that the flow of private capital to our region is extremely volatile and depends to a large extent on the strength of the institutions it encounters.

The Bank is in a position to make contributions in the following areas: adoption and application of standards, evaluation of financial sectors, business management, reform of justice systems, accounting and auditing principles, insolvency and creditors' rights, public debt management, and social protection. In some of these fields, the Bank has acquired extensive experience and formed an important stock of knowledge. In some of these areas, indeed, the Bank's contribution in invaluable. In others, it still lacks expertise and is just beginning to work with other organizations worldwide.

The field in which the Bank truly excels is social protection and we urge that it continue contributing its knowledge and disseminating "best practices." On structural and social issues, the Bank's credentials are unbeatable. In other areas, in which it has only limited experience, the Bank should rely on those of its allies. We should like to sound a word of warning about the dangers of the Bank launching initiatives in fields in which other institutions have a substantial comparative advantage.

The Bank should not blindly impose on its member countries principles and practices that were not designed for the circumstances prevailing in developing countries. The standards and procedures to be adopted in such countries must be based on ample and intensive discussion of real conditions in the developing world. The Bank's function is to take the experiences of developing countries and their perspectives to the international fora where such issues are debated.

We reiterate that the World Bank's mission is to help countries mitigate the social consequences of international crises, especially those triggered by financial factors.

There are aspects of international financial architecture where the Bank has only recently begun to play a part, such as corporate governance, within its efforts to promote the financial and private sectors. We agree that a basic business management-system approach is essential if the private sector is to flourish. But we have serious doubts about the way the Bank is beginning to address some of these issues, using staff lacking in diversity who only promote a specific culture of governance. A general approach to these matters must take the special circumstances of each country into account, including the type of legal and accounting systems in force and the degree of sophistication of the financial system.

Statatement by Ms. Eveline Herfkens, Minister for Development and Cooperation (The Netherlands)

A window of opportunity appears to have emerged to realize goals that we have been striving for so long:

- developing countries have begun more and more to take charge of the fight against poverty by defining their own strategies;
- there are efforts at better coordination among multilateral and bilateral donors, often under leadership of recipient countries themselves;
- there is progress with regard to untying of assistance;
- globalization provides opportunities for growth to all countries;
- the Highly Indebted Poor Countries (HIPC) Initiative provides both debt relief and the opportunity for societies as a whole to contribute to poverty alleviation in order to achieve the international development goals.

Opportunities are not the same as achievements however; they come with responsibilities and obligations for those who wish to seize them. We would like to see the members of the Development Committee seize the opportunities that offer themselves and accept the responsibilities that come with them.

Much has already been said about the importance of economic growth for poverty reduction. This debate will shape the poverty reduction strategies of tomorrow and will determine the resources available and the way in which they will and how to use them.

There is broad consensus that growth must be pro-poor, and the new World Development Report (WDR) shows once again that growth itself is not enough to reduce poverty. We expect the World Bank to continue to participate in this discussion. More importantly, we look to the World Bank to operationalize the emerging consensus regarding the concept. The approach of empowerment, opportunity and security set out in the WDR on poverty can serve as a guideline. We will look for the results in the Bank's advice to governments writing a Poverty Reduction Strategy Paper (PRSP) and in the Bank's country and sector work (mainly country strategies and thematic and sector strategy papers).

Pro-poor growth is a process of change that goes beyond merely achieving higher levels of economic prosperity. It takes political will and legal, social and cultural change to include those who have been denied the opportunity to participate in the sharing of the benefits of economic growth. This political will can only come from society as a whole: government, parliament, private sector and civil society. That is why the process towards a poverty reduction strategy is as important as its actual contents.

Empowerment, security and opportunity also need to be translated into global interaction between developed and developing countries. These concepts require us as a global community to ensure that trade negotiations take place on a level playing field for all countries. We should also show solidarity when volatile markets adversely affect the efforts of developing countries beyond the challenges provided by HIPC-conditionality and PRSP objectives. Finally, if we really want to achieve the International Development Goals we set ourselves for 2015, we should be prepared to increase Official Development Assistance substantially and not accept the current downward trend. It is impossible to explain that the world economy in general, and in developed countries especially, enjoy sound economic growth, while even in absolute terms Official Development Assistance is declining. And all of this takes place despite our joint pledge within the framework of the UN: to allocate 0.7 percent of our GDP for ODA.

Comprehensive Development Framework (CDF) and PRSP Progress Reports

I welcome the candid PRSP progress report, and the many suggestions for better donor behavior in the CDF report. The principles of CDF are clearly gaining ground, and are part of the window of opportunity I mentioned in my introduction. We see the PRSP process as a means of translating the promises of these principles into actual operations. CDF provides us with a set of principles and a long-term view on poverty reduction and development. PRSPs operationalize in an integrated way the practical steps that need to be taken by governments themselves. We note that most low-income countries will have to develop a PRSP sooner or later in order to obtain HIPC debt relief, International Development Association (IDA)-credits and Poverty Reduction and Growth Facility (PRGF)-funds. For these countries making the PRSP work should have operational priority. Where pre-existing CDF-activities can feed into the PRSP-work this should be welcomed and taken advantage of.

This is not to say that all is well with the implementation process of PRSP. We still have by and large the same concerns that we have voiced earlier:

- Participation of a broad spectrum of organizations in a country is paramount and needs to be facilitated. The degree of participation makes or breaks the actual value of a PRSP;
- The integration of macro-economic objectives into an overall poverty reduction framework is a continuous intellectual and practical challenge. I greatly welcome the spirit of cooperation between the Bretton Woods Institutions as voiced by the President and the Managing Director in their joint note to the International Monetary and Financial Committee (IMFC) and the Development Committee (DC);
- Trade – touching upon virtually every other sector of an economy - needs to be incorporated in the structure and essence of PRSPs. To this end more data need to be gathered at the country level, and more research needs to be done (e.g., on the influence of trade liberalization on poverty patterns). The Bank needs to intensify its efforts to help countries become active players;
- More needs to be done to make PRSPs an accepted framework for all donor contributions. We note progress in some areas, notably with regional development banks. At the same time we feel that more can be done to strengthen the assertiveness with which PRSPs are being presented as the national development framework for all multilateral and bilateral contributors. This is all the more important since we will have to do our utmost to support the full PRSPs once they emerge;
- The PRSP-process cannot succeed without sufficient attention to gender. Taking seriously the economic roles of half the world's population, and the mothers of the world's children, has a serious impact on economic growth. Opportunity, security and last but not least empowerment of women will hopefully feature in all PRSPs. The Bank should make clear by words and by deeds that gender is a priority in supporting countries' development.

HIPC Progress Report

We are happy to note that the enhanced HIPC initiative is forging ahead. More commitments - and we may add slightly less voluminous actual contributions - have been made to the HIPC trust fund and more countries are reaching their decision point (this year hopefully twenty). However, this is not the time to lean back and enjoy the view. Contributions are still far from adequate for financing fully what lies ahead, particularly with regard to debt cancellation costs that will be faced by some multilateral development banks at completion point. Even the position of the IMF is worrisome - the gold revaluation cannot be finalized soon. People in the countries concerned, but also here in Prague today, are following the initiative critically, and rightly so. All of us have to deliver on the commitments we embarked upon. The initiative will suffer a serious blow if too few countries reach their decision point. A huge embarrassment would be if next year countries, having already reached completion point, do not realize the fulfillment of the promise of final debt cancellation.

We see merit in extending the period in which countries can make use of the sunset clause. This clause originally provided for heavily indebted poor countries which had not qualified yet due to special circumstances, to qualify for debt relief in the future – provided that there was a commitment to poverty reduction and reform. We urge all creditors, including non-Paris Club creditors and all multilateral development banks to participate in the HIPC initiative. In this respect special attention is required from Bank and Fund for those countries – both low and middle income – that face serious financial burdens due to their obligations to grant debt relief under HIPC-rules.

Furthermore, dark clouds are ahead if we look at the current worsening terms-of-trade that threaten to evaporate the financial benefits of HIPC debt relief. We urge the Bank to investigate forthwith the extent of the problems, and the implications for poverty reduction and HIPC. Based on that research we expect to see proposals that seek to address the loss of resources that HIPCs specifically are facing. We are quite pleased with the way the Bank and Fund have managed so far to balance the need for speedy debt relief with adequate conditionality in the sense of PRSPs and Interim-PRSP's. The current worsening of terms-of-trade may put even more pressure on this balancing act. Donors may have to be called upon to provide extra compensatory relief. The Netherlands is prepared to make a significant contribution to this relief effort.

The worsening of terms-of-trade makes the appeal for market access of HIPCs all the more poignant. We cannot be seen to be granting debt relief on the one hand, while on the other hand we refuse to enable countries to earn their own keep by granting access to markets of developed countries. We appreciate the statements of president Wolfensohn on this point, and urge the Bank to continue its efforts.

Global Public Goods

We feel it is an interesting approach to identify global public goods in the World Bank context as goods, resources, measures and services that have a substantial cross-border impact and are at the same time relevant for development and poverty reduction. But we feel that there are several points that clearly need to be examined carefully:

Implications for ODA-flows. It will be harder, and certainly more debatable, to distinguish between activities that should be listed as ODA or not. For the World Bank this may be a relatively minor issue, but I can assure you that for ministers of development cooperation competition between resources for poverty reduction (raison d'être of ODA) and other global public goods it is a very serious concern.

Implications for the channels at the disposal of the Bank for delivering development – related services. Traditionally the Bank, as its name suggests, has dealt in what can be termed banking services (mostly loans and activities supporting loans). Forging ahead with activities that relate to global public goods would imply an increase of the Bank's function as a window for grant type funding. It remains to be seen whether the Bank should seek to extend that function. Other organizations may be better equipped and more experienced in working with grants.

Although we can agree to a large extent with the global public goods singled out for the Bank's attention, the definition of these areas is so broad that it provides ample scope for mission creep. We urge the World Bank, also when it comes to global public goods, to remain aware of its own strengths and weaknesses. For instance, the remaining IDA funds, reserved for the special US$500 million HIV/AIDS initiative should be allocated in full partnership and with full transparency, paying due regard to already existing structures and activities under UNAIDS.

We welcome the fact that international trade is hailed as a global public good, and I appreciate that the Bank sees a role for itself. As you know, I have long been pressing for this. I think that a revitalized Integrated Framework (IF) would go a long way in implementing the Bank's agenda in this respect, and look forward to hearing about results in the near future. Revitalizing the IF should not be understood as an excuse to desist from the work on trade that we consider to be part of the Bank's core development mandate: i.e., trade-related poverty analysis and activities. In short: the Bank needs to do more on trade.

The World Bank's Role in Low- and Middle-Income Countries

We generally support the systematic approach towards formulating a country assistance strategy, as well as the proposed priorities in both low- and middle-income countries. We agree that the country's own vision of the development process should be the framework within which development activities take place. Nevertheless, the World Bank owes it to its shareholders to base its assistance strategy on a candid diagnosis of where the borrowing country stands with regard to poverty, capacity, governance, economic and financial structures, soundness of policies and access to capital markets.

The Bank must base its operations on an objective diagnosis of the institutional and structural framework within which activities will be implemented. At the same time the World Bank should continue its Economic and Sector Work (ESW). The Bank should involve the country in its ESW. Not only because of ownership, but also for reasons of capacity building. Moreover, we believe the Bank should be more open with other development partners regarding ESW that it has carried out in a borrowing member country, which should prove mutually beneficial. We would appreciate further elaboration of the relationship between PRSP and Country Performance and Institutional Assessment, as both assessments have a direct impact on the amounts of IDA-assistance available to the country. Not only should the assessments be largely compatible, but also we would suggest incorporating in the CPIA-system the key goals set out in PRSPs.

We approve of providing budgetary support for structural and social reforms through programmatic adjustment lending, provided that the countries have a good track record in reforms. We therefore insist on a sound, though workable, conditionality. We agree with the necessity of reporting to the Board about progress before the second (and third) loans within the program are provided. Finally we would like to emphasize the importance of the Bank's role in helping post-conflict countries emerge from their predicament.

International Financial Architecture

As a global financial institution the World Bank clearly has a role to play in this discussion. Its contribution is rooted in its mandate and core activities. That is why we attach great importance to long term co-operation with other institutions in complementary fields. In this vein we welcome clear working agreements, as embodied in the Financial Sector Assessment Program and Reports on the Observance of Standards and Codes. Cooperation with OECD in the field of corporate governance is another example of prevention of duplication.

IBRD's Financial Capacity

We highly value a healthy and strong financial position of the World Bank, which enables the Bank to fulfil its mandate. At present the financial capacity of the Bank is sufficient. The risks of another financial crisis or a major default in the near future appear to have diminished. But it is still of the utmost importance to have the World Bank prepared for more unfortunate circumstances.

Therefore, the issue of how to strengthen the financial capacity of the IBRD should remain on the agenda. A proposal for additional capital in support of a World Bank with a mandate for long-term structural development and poverty alleviation could count on our sympathetic consideration. We look forward to the discussion of the World Bank's overall strategy in autumn, also to assess new benchmarks for the Bank's budget.

Conclusion

Finally, I would like to emphasize the importance of debate about these important issues of poverty reduction and development continues. Here within the Bretton Woods Institutions, but also in parliaments and NGOs around the world, and even at this moment, outside in the streets of Prague. Let us not forget, however, that in the end countries themselves are responsible for implementing the right policies, even if Bank and Fund advice on these issues can be crucial. The debate is not about whether we need the IMF and the World Bank. It is about how we can make these institutions as effective as possible in implementing their respective mandates. This will help make poverty reduction and development possible.

Statement by Mr. Rod Kemp, Assistant Treasurer (Australia)[2]

The agenda for this meeting covers important issues that face the World Bank as it seeks to strengthen its core mission: to support developing countries' efforts to reduce poverty. The international target of halving the proportion of people living in absolute poverty by 2015 is ambitious – even daunting. But continued progress towards this objective is a moral imperative; it requires renewed commitment and effort by us all.

In addressing this challenge, we need to draw lessons from experience, strengthen what has worked and be open to innovative new approaches. We welcome the continuing efforts of both the World Bank and the IMF, under its new Managing Director, to refine and develop their work. We also welcome this year's *World Development Report*, with its emphasis on the opportunity, empowerment and security dimensions of poverty. But we must not forget the most important single development lesson of the past fifty years. Sustained economic growth is the most powerful weapon we have against poverty. Successes in reducing poverty during the past decade were achieved largely in countries with open economic policies that promoted broad-based growth. Although growth alone is not always enough, significant reductions in poverty can not be made without it. It is no coincidence that poverty has fallen fastest in East Asian countries with policy environments that encourage the efficient functioning of markets. While much of East Asia suffered setbacks toward the end of the 1990s, economic recovery in most of the region has been relatively strong. And it is noticeable that recovery has been most robust in countries, such as Korea, that have made the most progress in adopting wide-ranging financial and economic reforms.

Heavily Indebted Poor Countries Initiative and Poverty Reduction Strategy Papers

One year ago, this Committee endorsed an Enhanced HIPC Initiative that called for deeper, broader and faster debt relief and for strengthening the link between debt reduction and poverty alleviation. Over the past six months, ten countries have qualified under the Enhanced Initiative and will receive interim debt relief. Another ten are expected to reach this point before the end of the year. Although no cause for complacency, this is substantial progress. But the Bank and the Fund need to accelerate the momentum they have helped establish. I therefore strongly welcome the new arrangements that have been announced by the President of the Bank and the Managing Director of the IMF to review regularly the handling of individual cases.

We also need to ensure that debt reduction leads to real outcomes in poverty reduction. In some countries there are serious problems of conflict and governance that need to be addressed to provide a basis for debt relief. And in all countries there must be assurance that funds freed up by debt relief will be spent on credible poverty reduction programs. Poverty reduction strategy papers are an appropriate framework to ensure that a comprehensive and participatory approach is taken to this task. Commitments made by countries need to be clear, specific and monitorable. But the conditions imposed must also be realistic and achievable.

The cost of debt relief is significant. Financing remains critical. While considerable pledges have been made, they have not yet all been confirmed and contributed. It is important

[2] On behalf of the constituency comprising Australia, Cambodia, Kiribati, Korea (Republic of), Marshall Islands, Micronesia (Federated States of), Mongolia, New Zealand, Palau (Republic of), Papua New Guinea, Samoa, Solomon Islands, Vanuatu

that they be paid in a timely way. We will need to work together to meet the further funding required after the first few years.

Addressing the Global Dimensions of Development (Global Public Goods)

It has long been recognized that many development issues flow across national borders and need to be tackled on a wider basis than at the country level. The Consultative Group on International Agricultural Research is an example of a cooperative global effort that has, over the years, made a huge contribution to development, including through initiating the "green revolution". Combating communicable diseases is another area where action may need to be organized on a cross-border, regional or global basis.

New needs for regional and global initiatives are emerging, such as from the rapid spread of HIV/AIDS or the promotion of new information and communications technologies. At times, the needs may appear to exceed the capacity of the existing international institutions. Where there are consequences for poverty reduction and development, the Bank can play an important role addressing these issues. Interventions should be selective, disciplined; pragmatic and focused closely on those issues that have the greatest impact on its core mandate of sustainable poverty reduction. The role to be played by the Bank in specific issues will require careful evaluation by shareholder governments on a case by case basis. It will also be important to focus on using existing mechanisms more innovatively.

Supporting Country Development

Although the Bank is likely to play an active but selective role in global or regional issues, country based lending will remain at the center of its operations. It should keep its approaches and instruments for such lending under regular review to ensure they remain attractive and suited to the needs of its members in a rapidly changing environment.

This constituency welcomes the establishment of a Task Force to examine the role of the Bank in middle-income countries. Many middle-income countries have improved their attractiveness to private sector lenders, and the international capital markets can offer alternative sources of funds, albeit at times for limited amounts, for limited duration and at a higher cost. The review needs to consider how to reflect this greater access to private flows in the Bank's strategies in order to make best use of its resources for economic development and poverty reduction. It also should examine the administrative costs to borrowers of undertaking Bank loans; the extent to which the Bank should have a capacity to provide crisis lending in support of the IMF programs; and the needs of smaller states and those middle-income countries that still have limited access to private finance.

There is a case for making greater and more flexible use of program lending and to support the Bank's proposals to introduce poverty reduction support credits for International Development Association borrowers underpinned by country assistance strategies linked closely to Poverty Reduction Strategy Papers. This should improve coherence among the Bank's various processes and facilitate coordination and complementarity with the IMF in the preparation of programs.

The Comprehensive Development Framework (CDF)

Experience has long shown that for poverty reduction efforts to be effective, interventions must be set within a clear and strategic policy framework; development plans must be owned by governments and people; governments, donors and civil society need to work in partnership; and there must be clear monitoring of results and effective accountability. The CDF approach has helped to reinvigorate these principles of vision, ownership, partnership and accountability and has provided a practical basis for their application. Beside the formal pilots, the CDF approach has already been taken up informally in many areas of the Bank's activities and it underlies the Poverty Reduction Strategy Papers.

This is not to say that application of the CDF approach is simple -- quite the contrary. But the approach does emphasize the key areas in which efforts need to be directed to make poverty reduction more successful. In particular, lack of institutional capacity is a significant constraint. This is a particular problem for small states, such as the Pacific-Island countries. Significant efforts are required to build capacity and to minimize the pressures donors place on recipient governments. Much also needs to be done to establish how best in practice to apply the principles. A full evaluation will take time and will raise complex methodological issues. In the meantime, it is sensible to proceed on a pragmatic basis, allowing for differences in circumstances and the need to obtain acceptance by those involved.

The Bank's Role in the International Financial Architecture

We welcome the recent statement by the President and the Managing Director clarifying the relative roles of the Bank and Fund. As they have acknowledged, the Bank must concentrate its efforts on its core mandate for poverty reduction and supporting long-term development. But top-level statements need to be accompanied by improved cooperation at the working level and in country. The joint implementation committee for the HIPC initiative has been a welcome initiative. The joint committee on financial sector issues also appears to be operating effectively to handle problems when they are identified.

It is important that East Asian countries continue the task of rebuilding and restructuring their domestic financial and corporate sectors following the crisis. Such reform is crucial to sustained recovery and the Bank should continue to play its part in conjunction with the IMF and the Asian Development Bank.

Discussions of international financial issues are devoting greater attention to problems associated with tax havens and money laundering. Effective solutions will require the close involvement of the countries concerned. Many of these countries are small and have limited capacity. The Bank should be willing to provide technical support in appropriate cases.

Trends in Resource Flows to Developing Countries

The increase in private resource flows to developing countries over the past year, although modest, is to be welcomed. But in considering the resources available for development, we should not overlook the important role trade can have in generating growth and reducing poverty. This is an issue that we have discussed extensively at previous Development Committee meetings. Progress, however, has been slow. Restricted market access in wealthier countries has limited significantly the ability of developing countries to grow further and reduce poverty. This is particularly true for agriculture products, which face very high barriers despite being the mainstay of many developing economies. As a joint World Bank/ IMF study demonstrated, the complete liberalization of global agricultural trade could yield benefits to developing countries of over US$40 billion per year. This is equivalent to almost 80 percent of total world aid flows. Especially at a time of prosperity, when developed countries are gaining rapidly from integrating more fully into a global economy, we should be working to make sure a wider range of people are able to share in such benefits.

The IBRD's Financial Capacity

Greater strength in the global economy has allowed the Bank to start rebuilding its financial capacity. Although this will take time, the improvements achieved to date are welcome.

Statement by Mr. Victor Khristenko, Deputy Chairman of the Government (Russian Federation)

Transfer of Resources for Development

The transfer of financial resources to the developing countries and transition economies, on the whole, continues to show a positive trend. However there is a certain concern over the fact that dynamics of private capital inflows are still not commensurate to the global economic growth. It is in this context that we are talking about the catalytic role of the international financial institutions, which must set an example by extending investments to a wider range of countries and sectors.

We note the traditional importance of foreign direct investment -- the most sustainable and reliable component of external financing. Direct investment has the greatest impact on medium- and long-term trends in economic development. We must point out in this regard that, according to Bank's data, direct investment to developing and transition economies has dropped sharply as a proportion of total cross-border direct investment worldwide. This clearly indicates that while the global supply of funds for direct investment is growing, the relative attractiveness of developing countries is declining. Therefore recipient countries should not dwell on their past achievements; instead, they should accelerate the process of macroeconomic and structural reforms, including those in foreign trade, labor relations, financial sector, infrastructure, and the regulatory area.

Poverty Reduction and Global Public Goods

We have studied with interest the Bank's proposals on global public goods. Research in this area should continue. Bearing in mind that examination of this issue is at a very early stage, we would like to make a number of preliminary points:

Global Public Goods

Conceptually, the notion of global public goods has both appealing characteristics—primarily its emphasis on cooperation and partnership—but also raises issues of concern. Among the latter is the well-known fact that it is extremely difficult to come up with a workable definition of "public goods." On the one hand, virtually any good involves a number of externalities that allow it to be portrayed as requiring collective action. On the other hand, a significant share of what traditionally belongs to the domain of public sector is also provided by the private sector in a number of countries and cases. Moreover, even when there is a more or less sustainable consensus about a set of "public goods", including global ones, this concept does not provide any tools for setting priorities among them. As a result, the decision about what should be supported through international collective action, and how, is made in a discretionary and politicized manner, which substantially depreciates the validity of this approach.

Traditionally the concept of "public goods" is directly linked to their funding with government resources. The customary view is that territorial public goods (local, regional or national) require taxation at a corresponding level, and that the accumulated public funds should be used to produce this good for general use, free of charge or on a subsidized basis. It's no accident that the proposed document effectively raises, albeit with reservations, the issue of global (e.g. supranational), taxation and the establishment of corresponding governing bodies. It should be clearly understood in this context that supremacy of the national sovereignty of member countries should not be infringed upon. Any discussion about the "world government" and "global taxation" can only lead to unnecessary confusion. There is no room for that within the Bretton Woods institutions.

If we try to translate the half-century experience of the international financial institutions into the vernacular of "global public goods", we should acknowledge that the most important, most widespread and effective public good they produce, is the actual process of accelerated economic growth. When a country moves up to a higher level of economic development, the inevitable result is that issues such as environmental protection, public health, living standards, equal participation in civil society, and so forth, become more prominent among other public priorities. And if all agree that poverty reduction is the key problem of our time, it is no coincidence that the most dramatic successes in this area in recent decades have been achieved by countries that have been able to produce the highest and most sustainable economic growth.

Consequently, there is every reason to assert that the World Bank's mandate as an institution that promotes sustainable economic growth is in itself a unique and most valuable global public good. There is absolutely no contradiction between an orientation toward global public goods and the Bank's traditional country focus, which has been recently reflected in the Comprehensive Development Framework (CDF) and in the affirmation of the country's priority in the dialog with the Bank.

However, the vast increase in partnerships and the Bank's participation in international programs are fraught with danger of politicization and discretion. We welcome the fact that these points are clearly made in the Bank's report. In our view, these areas of activity must not and cannot become the top priorities for the Bank. Their role must remain subsidiary as compared with providing assistance to member countries at their request and in line with their national priorities. In this context one should avoid pitting these national priorities against the

International Development Goals. The latter must not become the equivalent of the centralized directives that were once typical of the command economies. The role of these goals is indicative, illustrative, catalytic, but not operational.

As for the main areas of the Bank's participation in the current division of labor on development assistance, they seem to be adequately defined. We especially welcome the increased attention to the problem of epidemic diseases—tuberculosis and AIDS in particular—which in a number of cases is assuming regional and global importance.

Improvement of economic management has also been included, quite properly, among the most important areas in which the Bank's comparative advantages are especially prominent. Among other things, we fully share the concern voiced about the high cost of doing business with international development banks. The World Bank recently began its own internal study of this problem. If the Bank can achieve noticeable improvements in this area, this will serve as an excellent example of a global public good.

Since the Bank raises the concept of global public goods for the first time, a number of questions naturally need clarification. For one thing, it's not quite clear why the issue of inadequate banking supervision has been combined with the problems of money laundering and the fight against corruption. It seems that the objectives of banking supervision are much broader and more multifaceted than prevention of criminal activities. It's equally unclear whether the free cross-border movement of goods and capital should be placed on the same footing with unrestricted labor mobility. While liberalization of trade and of capital movement pertains mainly to economics, the movement of population across the national borders brings about a large number of complicated social, cultural and political problems. In our view, it is too early to initiate a global debate on this issue.

The issue of collective action inevitably raises the problem of financing. It seems to us that the Bank should continue to follow the time-tested principles of its participation in funding these operations: focused selectivity, strong catalytic effect, large-scale co-financing from partners and overall subordination to the national strategies of participating countries.

In any case, the Bank's participation in these programs must not result in hardening lending terms and conditions within the framework of its primary mandate. If incremental costs of collective action are passed on to the borrowers, this will inevitably lead the Bank into a dead end. We believe that this issue cannot be a matter of discussion.

World Bank Role and Instruments in Low- and Middle-Income Countries

In our view the report on the role and instruments of the World Bank as also an interesting, promising initiative. The report does not so much propose solutions as it summarizes the problem and makes new suggestions regarding future directions of the Bank's strategic development. We are counting on the Bank's Board of Directors to continue the examination of these problems and to devise balanced, productive solutions.

However, we can already make the following points: In regard to the IDA-eligible countries, closer attention should be paid to their opinion about proposals to introduce a generalized linkage between the CAS and the PRSP processes beginning on July 1, 2002.

First, the PRSP mechanism was originally proposed for very specific purpose, namely to provide debt relief under the HIPC Initiative.

In addition, the very philosophy of this mechanism presupposes that borrowing countries will participate much more actively in its design and preparation. Therefore, it doesn't seem quite logical to impose this mechanism too forcefully on the countries themselves. The specific situations of these countries are too varied — from countries with huge populations, complex federal structure and historical traditions in drawing up government programs, to the tiniest island states with extremely limited institutional capacities. It is completely inappropriate to automatically apply a uniform approach in this case.

On the whole, we support the proposal to develop the PRSC. The positive aspects of this instrument are based on the linkage between its medium-term programmatic nature and the borrowing country's budget cycle. We would not particularly emphasize the parallel between this instrument and the IMF's PRGF. It certainly isn't the Bank's objective to create instruments that compete with or replicate IMF instruments. Naturally, the PRSC should be considered when, among other things, appropriate macroeconomic policies are in place. Ability to fully meet the PRGF performance criteria can and should be the most commonly accepted evidence of compliance with this requirement, but special cases are also quite possible. In each concrete situation a solution must be found in the course of intensive cooperation between the World Bank and the IMF, as previously mentioned.

As for IBRD-borrowing countries, the situation merits closer study. It's no secret that the international community's attention in recent years has been focused more on the poor countries' problems. As a result, analysis of the problems of middle-income countries has lagged somewhat. We therefore whole-heartedly welcome the creation of a special task force to examine these issues. We expect a fairly detailed report on its findings by the time of the Development Committee's spring session.

In our view, this report should reflect the following propositions and principles:

1) A CAS that combines the borrowing country's priorities and the Bank's sector strategies should remain the key instrument of the country's cooperation with the Bank. This requires that the borrower country's ownership of the strategy be consistently expanded.

2) The composition of the lending program should combine investment projects, budget loans and loans for technical assistance in a balanced manner. The final word on the composition of country lending should belong to the borrowing country, and it should take into account the limitations imposed by the Bank's general policies.

3) The Bank should expand its menu of lending instruments. To achieve the strategic goal of strengthening market economies and links to the private sector the Bank's menu should be shaped accordingly, including more active use of guarantee operations. We should point out that, even though it has been five years since the decision was made to include guarantee operations into the Bank's standard menu of

instruments, the results have still been less than modest while the demand for this product remains high.

4) It's imperative that the programmatic approach that has been started with respect to investment loans be extended to budget lending. Furthermore, the implementation of agreed programs should be evaluated not by relying on intermediate results that reflect the process of program implementation, but by using the indicators that measure goal attainment. We are very interested in the proposals to develop a new instrument, provisionally called the DSL, which will be used in coordination with the borrowing country's budget cycle.

5) The full potential of the World Bank Group should be used to promote development of the private sector. We would like country directors to manage operations of all the institutions within the World Bank Group in the country. This would result in actual substantive coordination and cooperation among the IBRD, the IFC and MIGA.

6) The issue of the cost of doing business with the Bank should be separated from that of the Bank's operational model in the IBRD borrowing countries. This issue should be considered in the context of developing Bank's financial instruments, trends in its financial condition and the demand for the Bank's financial products. The demand for these products depends increasingly on the constantly growing hidden elements in the cost of doing business with the Bank. All of the World Bank Group's borrowers feel this problem, but it is especially severe for IBRD borrowers. Specifically, it should be given top priority when the new instrument, the Development Support Loan, is devised.

7) In order to assist middle-income countries efficiently, the Bank, in addition to its traditional role of intermediary in transfer of financial resources, should develop new areas related to the development and transfer of knowledge. This requires a special emphasis on modern information technologies. A promising example here is the Global Development Gateway that the Bank is working on. Paying increased attention to the use and development of local capacities can mitigate the inevitable budgetary consequences of this work.

The Comprehensive Development Framework (CDF)

We support the fundamental principles and objectives of the Comprehensive Development Framework introduced by World Bank President Wolfensohn in January 1999. The experience of the first few months of CDF implementation in a number of countries that decided to take part in its pilot stage confirms that the direction chosen was the right one. In a short period of time most of these countries have achieved noticeable progress in formulating a long-term vision of the challenges of national development. This vision gives balanced attention to macroeconomic, structural, institutional, physical, social, cultural, and historical aspects. The process of multilateral internal consultations to develop medium-term strategies or action plans has gotten under way. Progress has also been made in bolstering commitment to development programs not only by central governments but also by sub-national governments, parliaments, the private sector, various organizations and groups of civil society.

One of the main principles of the CDF is a strategic partnership among international donors, as well as a partnership between the donor community and the recipient country. In this connection we welcome the recent strengthening of the World Bank's cooperation with the International Monetary Fund, regional development banks and bilateral donors. A specific illustration of this is that the Consultative Group meetings of donor countries and organizations held under the World Bank's aegis have become more open. Their range of participants has broadened, and the participants have grown more active in elaborating and adopting decisions to enhance the effectiveness of international assistance to the developing countries. At the same time, practice shows that cooperation and coordination of donors' efforts in many developing countries, including the CDF pilot countries, are still far from perfect. We support the idea that harmonizing policies and procedures used by various donors could significantly help to improve the situation.

It is still too early to say whether the CDF is a success or a failure. Even those few countries, which were the first to participate in this experiment, have made only the initial steps in this direction. A much more challenging and lengthy stage is still ahead. In fact, the CDF can be judged only in terms of the extent to which it contributes to achieving development goals, that are goals of the long-term nature.

Heavily Indebted Poor Countries Initiative and Poverty Reduction Strategy Papers

The Russian Federation continues to support the HIPC Initiative and believes that the results achieved to date confirm its viability, effectiveness and great importance in mitigating the difficulties caused by an excessive external debt burden. The past year has been marked by a breakthrough in the preparatory work for implementing a massive reduction in debt burden — more specifically, in formulation of individual country Poverty Reduction Strategy Papers (PRSP). These programs will go a long way in ensuring that benefits from implementing the Initiative reach all social strata in the beneficiary countries.

At the same time, we believe that the positive effect from developing country poverty reduction programs will be far greater if they are directly tied to structural reform programs and more realistically aligned with macroeconomic indicators. Despite the appeal of using savings from debt relief for poverty reduction purposes, the main contribution to poverty reduction comes from sustainable economic growth in a respective country.

As for the Initiative's "Sunset Clause," we could support extending it for a year, albeit with reservations. We view the Initiative as a one-time action to reduce to a sustainable level the external debt of poor countries that pursue sound economic and social policies. Therefore it cannot be turned into a permanent mechanism for debt forgiveness. And what certainly cannot be tolerated is the situation in which decisions already made are revised because of new external shocks or worsened terms of trade for certain participants in the Initiative.

Ever since the Initiative was adopted, there has been an ongoing debate between supporters of an accelerated debt relief and those who favor adherence to rather strict track record requirements. In this debate we tend to side with those who oppose easing the overall principles and rules, including track record requirements and shortened interval between decision and completion points. We understand that it would be wrong to penalize countries that implement comprehensive and profound reforms, by prolonging the phases of the Initiative and believe that a departure from these rules is possible in exceptional cases. But we strongly object to a revision of the basic principles of the Initiative.

In the final analysis, the Initiative will yield positive results only if each and every beneficiary country is serious in adopting a reasonable macroeconomic strategy. The legalization of loopholes and softening of criteria, meanwhile, may lead to abuses and, in effect, to the loss of the limited resources allocated for HIPC funding by bilateral and multilateral donors. This is the only kind of approach that will enable us to avoid moral hazards in the global financial system.

This brings us to the issue of financing the Initiative, which continues to cause concern. First of all, the gap between the estimated costs of implementing the Initiative and the resources actually pledged by donor countries has not narrowed over the past year, it has actually even increased somewhat. In this connection we urge all the initiator countries to take a more realistic approach to this problem and implement their own decisions. In addition, we favor granting preferential treatment, within the framework of implementing the Initiative, to the creditor countries that meet HIPC criteria themselves. Also, unsolved is the problem of covering the outlays of several regional development banks for implementing the debt write-offs. All of the above concerns should compel us to look into financial consequences of our decisions more carefully if we do not want to compromise viability of the Initiative.

Bank's Financial Capacity

The Russian Federation believes that, despite the favorable financial results of the past year, ensuring the Bank's long-term financial sustainability is still high on the agenda. Capital adequacy is the most important pre-condition for the Bank's ability to fulfill its objectives of promoting development and reducing poverty. As a responsible shareholder of the Bank, we are concerned by a number of negative trends in the financial condition of the IBRD. They include the still extremely low capital adequacy ratio, as well as the decline in lending volumes, the sharp drop in disbursements and a number of others, that may lead to a decrease in the Bank's net income.

We therefore see two major problem areas: first, capital adequacy and, second, potential decrease in the Bank's net income. Under these circumstances we favor an extremely conservative approach in allocating the Bank's net income for an ever-rising number of new and ongoing initiatives. The situation of volatile global economic trends and continued debate on the Bank's role and objectives in a changing world calls for caution in making long-term financial commitments. We believe that net income can no longer be the source of funding for many new initiatives, since this is beginning to negatively influence the Bank's financial capacity. Having said this, we are not urging the Bank to reduce its commitments to IDA and HIPC, as well as other important initiatives, such as post-conflict support and institutional capacity building in African countries. However, we do believe that the Bank's financial capacity is dangerously close to the limit, and we cannot seriously count on this source of funds in the future without running the risk of undermining the Bank's financial sustainability as a lending institution.

In this regard we consider that strengthening the Bank's capital base will be the paramount challenge in the next few years. In the absence of consensus among the shareholders on the capital increase, the only viable alternative for reaching that goal is through allocating most of future net income to reserves. The proposed strategy will definitely require considerable self-restraint and even a degree of sacrifice for a number of years, but otherwise it will be virtually impossible to sustain financial capacity of the Bank. The IBRD's Articles of Agreement are quite explicit that maintaining an adequate level of reserves is our top priority.

The International Financial Architecture and the Role of the World Bank

We greatly value the active role of the World Bank in strengthening the international financial architecture. At the same time we believe that, in order to maximize its impact, the Bank should focus its efforts in the areas where it has obvious advantages over other participants in this process and can provide concrete assistance to member countries through lending and non-lending operations. In addition, by relying on its practical experience in supporting economic reforms and institutional development in various regions of the world, the Bank is especially well placed to bring the prospective of developing and transition economies in the process of reforming the international architecture. This will lead to decisions that take more fully into account interests of all the participants in the global financial system and will help the weakest of them to make use of the potential benefits of globalization and financial integration.

The key issue here is how to provide an adequate assessment of structural vulnerabilities and the weaknesses of existing institutions and to take effective measures to mitigate and eliminate them. In this regard we support the Bank's efforts in such areas as introducing standards and codes, financial sector assessment, improving corporate governance, accounting and auditing, public debt management and enhancing the effectiveness of national social safety nets. We would also like to underscore the importance of improving the coordination of the Bank's activities in these areas with other participants in the process of reforming the international financial architecture, primarily the IMF.

Some important lessons of the international financial crisis were recognizing the need for introducing standards and codes in the areas of financial information disclosure, regulation of lending institutions, financial markets and payments systems, corporate governance, accounting and auditing, bankruptcy regimes, protection of creditors' rights and public debt management. We see a special role for the Bank in ensuring that the new standards, the methodology for assessing compliance and the sequencing of their introduction take into account countries' actual conditions and institutional capacities, as well as existing financial constraints. For example, one problem that needs solving is the excessive complexity of the proposed standards and codes.

It is extremely important that the Bank pay attention to whether various standards fit the conditions of a developing or transition economy. Specifically, the automatic application of sophisticated standards that are associated with highly developed economies are unlikely to yield the desired results. It would be more appropriate here to apply basic principles and international best practices rather than very specific standards, to seek a balance between taking into account the developmental peculiarities of individual countries, and applying a necessary set of standards and codes. An important aspect of the problem is to meet priorities when selecting standards and to show flexibility when implementing them in individual countries, which is possible only in close cooperation with them. We should also avoid a mechanical evaluation of compliance with standards.

One important issue pertains to incentives for introducing standards. For example, in some cases the reaction of markets to a fuller disclosure of financial information by countries may be unpredictable. An approach also should be developed for countries that for a number of reasons have been unable to comply with standards: should they be penalized by restricting access to the resources of IFIs or, to the contrary, should they receive additional technical and financial assistance? The first reports on the observance of standards and codes (ROSCs) have revealed that substantial resources are required to devise standards, develop a methodology for assessing compliance, conduct such assessments and take follow-up measures to provide assistance to the countries. The costs often exceed the resources that the countries and International Financial Institutions have available.

An important element of the Bank's operations should be an assessment of vulnerabilities in the financial sector. We are pleased to note a good level of cooperation between the Bretton Woods institutions under the aegis of the Financial Sector Liaison Committee. We believe this will improve the consistency and effectiveness of assistance to countries in need. Joint participation by the institutions in Financial Sector Assessment Program is of particular value in this respect. At the same time, it is important that the results of these activities contribute to improving the quality of the Bank's dialog with governments, have a practical application in the Bank's country programs and promote higher effectiveness of the Bank's operations. It is also important to ensure proper use of confidential information and to minimize the risks associated with leaks that could lead to unpredictable market reactions and negative implications for countries concerned.

We appreciate Bank efforts to improve the system of corporate governance in member countries, which is extremely important in terms of attracting long-term investment and developing domestic capital markets. This field is fairly new to the Bank, and we believe that at this stage the focus should be on building up a knowledge base about corporate governance in developing and transition economies and on conducting a diagnostic assessment of the current situation in this area. On the whole, we support the use of the Principles of Corporate Governance drawn up by OECD, as a methodological basis for these activities. At the same time, we oppose the mechanical application of corporate governance principles designed for industrial countries to developing countries. We believe that the Bank should provide assistance to countries in introducing standards of corporate governance that meet basic international requirements but also take into account specific local conditions and political economy. We believe that holding planned forums on these issues in various regions of the world will contribute to this.

We support the Bank's efforts to improve accounting and auditing in member countries. This is of great practical importance not only for developing the groundwork for a modern market economy and financial stability, but also in terms of increasing the effectiveness of the fight against corruption. The Bank's participation in elaborating and introducing basic foundations of effective insolvency regimes is of particular importance for strengthening financial systems and financial crisis prevention and resolution. At the same time, we should keep in mind that this problem, which is extremely complex in the developed countries, assumes additional dimensions in a developing economy. Specifically, we are referring to the systemic effects of bankruptcies in a developing economy, the consequences of bankruptcies of state enterprises and banks, and the opportunities for abuses in this area. We believe that the Bank will make full use of existing positive and negative experience on this issue and utilize local expertise.

The promotion of effective public debt management is an area in which the Bank can directly contribute to reducing systemic risks in the international financial system. We welcome the Guidelines for Public Debt Management elaborated jointly with the IMF as well as Practitioner's Manual. At the same time, given the complexity of the problem, the variety of needs and the limited institutional and financial capabilities in many countries, we hope that the Bank will show flexibility in planning technical assistance programs in this area.

The events of the recent financial crisis showed that effective social safety nets could substantially reduce systemic social risks and promote a speedy recovery from crisis. At the same time, the social aspects of stabilization programs approved and supported by the Fund and the Bank, especially in middle-income countries, seem to be the most difficult problem. In addition, countries that are experiencing difficulty servicing foreign debt have a serious problem in borrowing funds at market rates for supporting social safety nets. In this connection, a softening of the financial terms on the Bank's loans for these purposes merits attention.

In assessing the Bank's activities for strengthening the international financial architecture as a whole, we believe that their effectiveness will be determined in large part by the availability of appropriate budget resources, which are necessary to maintain an adequate capacity in this area. In particular, providing a sufficient number of highly qualified specialists in all of the above-mentioned areas is of great importance. In this regard we are concerned about the possible negative impact of the reduction in the administrative budget.

Finally, the Bank would make a direct contribution to strengthening the financial architecture by strengthening its financial capacity, and also by refining its financial instruments set, so that it can better provide the necessary support for countries that are threatened by a crisis or have been hit by one.

The above problems cannot be solved overnight. It will take quite some time to study and discuss them in further detail. Many of them, in our view, will shape the agenda of future sessions of the Development Committee. This will make its role and contribution more relevant in shaping a modern understanding by Bretton Woods institutions of the challenges of development and poverty eradication. In this regard the Russian delegation whole-heartedly welcomes the recent agreement between the President of the IBRD and the Managing Director of the IMF on cooperation and the joint responsibilities of both institutions.

Statement by Mr. Pedro Malan, Minister of Finance (Brazil)

On behalf of my constituency, I would like to congratulate H.E. Mr. Yashwant Sinha as the Chairman of this Committee and wish him all the best in his new function. I would also like to express appreciation to Mr. Tarrin Nimmanahaeminda, Minister of Finance of Thailand, for his valuable contribution as the Chairman of this Committee for the past two years.

Global Public Goods

The ever increasing integration of the world economy over the past few decades has created great opportunities through a freer movement of capital, goods, and services, which allowed many developing countries to benefit from foreign savings, modernize their productive sectors and grow at higher rates than would otherwise be the case. At the same time, while in principle greater integration could benefit all countries, in practice there are asymmetries at the international level that prevent many developing countries from increasing the benefits and reducing the costs of their integration into the world economy. This is most notable in particular the case of international trade, where barriers to exports of developing countries, especially in agriculture, are higher than average. Also, greater movement of people across borders posing new threats in the area of disease control and environmental protection remains a challenge to all countries.

As a consequence, a number of cross-border challenges facing the international community require action that the national level alone may not provide and which could only be dealt with by international cooperation. Some of these problems occur in areas falling within the mandate of the World Bank.

It is appropriate for the Bank to be involved in the provision of global public goods that are consistent with its development mandate. We agree with the four areas for concentration of the Bank's activities, namely international trade and movement of factors of production; the mitigation of major economic and social problems such as transmissible diseases and the consequences of conflict; environmental protection; and dissemination of knowledge relevant to development, in particular in areas relevant to reducing the so-called digital divide.

In exploring ways to help in the provision of global public goods, it will be critical that the World Bank mobilizes *additional* funding in partnership with bilateral donors and the private sector, so as to avoid creating new competing demands for scarce resources at the Bank. It is crucial that the Bank does not assume new unfunded mandates as has occurred in the past. In some instances, innovative use of lending instruments may be a means of Bank involvement with global public goods, such as the recent commitment of US$500 million by IDA to help combat HIV/AIDS in African countries. However, it remains unclear what will be the demand for those credits. In many instances countries will hesitate in incurring new debt to finance projects whose benefits they do not reap entirely. Although grants have been used to support global public goods in the past, it is necessary to avoid additional recourse to the World Bank's net income as source of finance, as this agenda expands. Short of any capital increase, it is crucial that the Bank builds as much reserves as possible to face future demands on its lending window. Therefore, the global goods agenda will require new sources of finance if it is to become viable. We look forward to receiving a progress report on progress regarding appropriate financing arrangements at the next meeting of the Development Committee. The establishment of a global goods trust fund, housed at the World Bank, could be considered for such a purpose.

Bank Support for Country Development

We very much welcome the opportunity to discuss the role of the World Bank and its instruments to support the development of its member countries. In particular we strongly endorse the recognition, as outlined in the document, that developing countries are a very diverse group, that require different approaches and specific instruments in the pursuit on their respective development challenges. We also welcome the fact that the Bank will further refine the work on country typology as a means to respond more effectively to the needs of specific countries. In our view, this recognition is overdue. Without taking into account different country typology the World Bank did run the risk of fulfilling its objectives inadequately, in particular in the so-called middle-income countries. It is true that with the introduction of the Country Assistance Strategies in the early 1990's there was an effort to tailor Bank support to countries' circumstances. However this was carried out on the basis of a small number of instruments applied across the board.

We agree with the document that the World Bank still has an important role to play in middle-income countries, as they are home to almost half of the world's poor. We also agree that this role is complementary to that of international capital markets in terms financing and that the Bank should help foster private-led economic growth in these countries. We also applaud the creation of a task force within the Bank Group, with representatives from the IBRD, IFC and MIGA to devise ways to make the Bank support for middle-income countries a more effective one. We broadly agree with the issues proposed at the document to focus the attention of the task force. In particular we would like to highlight three sets of issues.

The first one has to do with the modalities of conditionality and instruments. A number of research papers produced both within the Bank and by outside experts indicate that the traditional approach to conditionality has not produced the expected results. These studies point out that it is better to have countries design their own development strategies and the Bank become a partner both in the development policy dialogue and in supporting the overall strategy, which must have the ownership of the country. However, despite an increasing recognition of such findings, we have yet to change the way the Bank does business with its clients. In this respect beyond a change of policies, we might also need a change in culture on the part of Bank staff. Also, it is important to recognize that countries find themselves in very different stages of economic reforms and that the past track record has not been traditionally taken as a criterion for Bank lending in lieu of commitment for future reforms. This is a mistake since, in many cases, support for consolidation of past reforms may be the most effective way to achieve developmental effectiveness of Bank interventions. There is also a case to simplify conditionality as a whole.

Another important theme refers to the need for Bank projects to align with the budget cycles of countries. This would not only ensure a better prospect for the allocation of counterpart funds but also reduce off-budget pressures. Also if the Bank acts like one source of finance among others within the budgetary procedures of countries, there is likely to be more coherence in development programs and therefore more effectiveness in public expenditure. To this end it seems unavoidable that some adaptation of the Bank lending instruments will be necessary. Further elaboration of the so-called programmatic instruments, provided that a new approach to conditionality is adopted, may be a promising avenue in this regard. We urge the task force to work in this direction.

Also critically important is a broad review of the cost of doing business with the World Bank. The spread charged by the Bank on its loans together with the different fees make Bank lending cheaper than private sector financing. Nevertheless, when adding all hidden costs related to excessively burdensome procedures required by Bank projects, the total costs to countries might be higher, depending on the circumstances prevailing in international markets. We observe that, after peaking at US$29 billion in 1999 as a result of the financial crisis, demand for Bank loans have considerably dropped to US$15.3 billion in the fiscal year 2000 ending June last, well below the average of US$21.6 billion in the period 1992-96. This drop in demand at a moment when market spreads have improved but are still much higher than the spreads charged by the World Bank, suggest that indirect costs of Bank projects are substantial, and that countries are substituting private financing for Bank loans. Therefore there is an urgent need to examine this issue closely and reduce inefficiencies.

A third area of attention for the task force concerns the Bank support for countries at times of market dislocation. Over the last two decades, the World Bank has played a significant counter-cyclical role at times of reduced access by middle-income countries to international markets. This helped smooth out the effects of external shocks on the economies of these countries, including the balance of payment, thereby reducing the social costs of adjustment. It also contributed, to a large degree, to contain the effects of crisis contagion, which could have led to even greater systemic consequences than was the case in the past. In some extreme cases, recent financial crises may have contributed to dissipate decades of effort to improve development indicators. For the World Bank, preserving past gains in development and poverty alleviation is just as important as supporting countries in their present efforts. The single most important element for the Bank to continue to play this counter-cyclical role in the future is an adequate capital basis. Overall demand for Bank lending tends to peak in moments of crisis due to the correlation of factors affecting different countries. This is why preserving the Bank’s net income, as mentioned earlier, is so crucial.

With respect to support for low-income countries, which already have a somewhat more elaborate framework, we agree with the proposed establishment of a Poverty Reduction Support Credit, to work in parallel with the IMF's PRGF programs. It will be important that both instruments take full account of country ownership as expressed in the PRSPs to improve chances of success of this new approach.

Progress Report on the Comprehensive Development Framework

We continue to support the CDF concept and look forward to seeing the up-coming evaluation of the pilot program after its completion. In the meantime, we are pleased that the present progress report before the Development Committee indicates some initial achievements, but also the substantial challenges ahead. Also we note that progress has been uneven, with some pilot countries adversely affected by external conflict, political transition or weak implementation capacity. In any case it seems too soon to have any meaningful assessment of the CDF experience. As the progress report points out, given the breadth of the challenges, to attain sustainable development based on the CDF principles, those countries would have to implement all of them for a period of over 20 years. This is a long time indeed. We hope that before it has elapsed we are able to gauge the specific contribution of the CDF per se to the development of those countries, as opposed to the traditional conceptual thinking about development.

Update on the IBRD’s Financial Capacity

The last review of IBRD’s financial capacity was conducted amid both an improving global financial environment and IBRD’s loan portfolio. The review concluded that the Bank’s risk bearing capacity remained adequate, reflecting the improved ratio of equity capital to loans and taking into account the additions to the General Reserve out of FY2000 net income. The equity to loans ratio at the end of FY2000, at 21.2 percent, is higher than the projected value of 20.2 percent presented to the Development Committee last spring. It is also higher than the 20.7 percent at the end of FY1999. The higher ratios are a result of a larger-than-projected equity level and lower-than-projected loan level.

We should continue to monitor closely the evolution of the Bank's financial capacity as the main determinant of its ability to respond to the needs of client countries. At present the prospects are good. The outlook for the global economy remains favorable, with continued recovery on growth and international trade, although some risks exist, such as oil prices volatility. As the levels of lending by the Bank has declined from its peak in 1999, the expectation is that lending levels should remain low over the next couple of years compared to the average of the 1990's. Less disbursement coupled with the current levels of repayments will generate a substantially higher net income during that period, as we already saw in FY2000. The Bank should use such a room for maneuver to build up reserves and strengthen its financial capacity. It would seem terribly unwise to spend this additional cash on areas outside the core business of the Bank and find ourselves once again concerned with the capacity of the institution to carry out its mandated fully. Therefore, we should limit the pressures on net income.

International Financial Architecture

We welcome the update on World Bank activities in strengthening the international financial architecture. The Bank has an important role to play in this area. This role must be determined by its mandate and focus on the areas where it has a clear comparative advantage. It must be carried out in collaboration with the IMF, as the two institutions complement each other. The report correctly points out, for example, that the surveillance role by the Fund needs to be complemented by capacity building support on the Bank side. To this effect the Bank has been providing countries with important advice in critical areas such as public debt management, capital markets development, and financial sector supervision, among others.

Another area of concentration for Bank activities regards mechanisms for coping with risks for society, especially the poor, arising from market dislocation that results from external shocks. We support the work being done by the Bank linking social protection and the concept of risk management, in particular the recognition that the private sector and society as a whole have important roles to play in this respect.

The report notes that the Bank continues to provide inputs for the establishment of international standards in several areas. We agree that the adoption of common standards should benefit countries individually and the international community as a whole, since it would strengthen the international financial architecture. At the same time, incorporating new standards and codes should remain voluntary, not least because it requires investment decisions of scarce financial and human resources that must be assessed at the national level. Moreover, we must ensure an appropriate level of participation by developing countries in the formulation of these standards and codes, so as to give them the necessary legitimacy. Finally it is important that the work on standards focus on areas likely to generate significant cross-border externalities, leaving other issues to the national legislation.

Statement by Mr. Paul Martin, Minister of Finance (Canada)[3]

Over the past months, the debate has intensified as to the relationship between globalization and poverty reduction. The fact of the matter is that globalization is our reality; it is inevitable. It is neither inherently good nor inherently bad. It is our approach to globalization that will determine the nature of this relationship. We must ensure that globalization leads to sustained poverty reduction, that cascading technological change and triumphant free markets create a better standard of living for each and every one of us.

Globalization has expanded opportunities and lifted incomes. However, the opportunities created by globalization have also brought new challenges. Workers and businesses in all nations have faced wrenching adjustment in response to the intense competition brought about by globalization. And many, especially in the poorest countries, have not shared at all in the benefits that globalization has brought. Without the skills to compete in the modern economy, and facing crippling problems ranging from endemic disease to massive environmental degradation, the world's poor are becoming increasingly marginalized. In Africa, for example, per capita income has not only failed to keep pace with the world as a whole but has fallen further behind. The result is a morally indefensible and potentially explosive widening of the gap between rich and poor. This is untenable.

We must ensure that the benefits of globalization are shared by all. One way to achieve this is to encourage stronger economic growth in developing countries. No country has enjoyed reduction in poverty without economic growth. And we know of no case where poverty indicators, such as incomes or health and education standards, have improved during years of negative economic growth.

At the same time, the quality of growth – that is, where the benefits of growth are shared equitably – is equally important. Comprehensive economic and social policies that address the root causes of poverty and inequality should not be luxuries that only rich countries can afford. Investment in human capital, education and health care is vital. A society cannot afford to have a large proportion of its population excluded from growth, marginalized and resentful of benefits flowing to those able to participate in the global economy.

At the end of the day, if all our efforts towards expanding democracy and opening global trade do not translate into a better quality of life for everyone, then we will have failed. For our own sake, we must expand the benefits of a more integrated world in order to preserve the gains we have already made and to expand the opportunities we seek to share. There is, in the end, a lasting relationship between security and prosperity for all. The question is how can we ensure that growth benefits in the best way every member of our societies?

Poverty Reduction Strategy Papers and the Heavily Indebted Poor Countries Initiative

For the low-income countries, the Poverty Reduction Strategy Papers endorsed by the Development Committee last year directly address the linkages between growth and poverty reduction. We have seen some progress, but not enough. We must take stock of our

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[3] On behalf of Antigua/Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts/Nevis, St. Lucia, St. Vincent/The Grenadines

achievements to date and take measures to adjust our approach as necessary. We must look at the experiences and actions of all development players – multilateral, bilateral and most importantly, the developing countries themselves – to ensure that we have a process, which effectively addresses the fundamental goal of eliminating poverty.

There are continuing questions from across the international community about the Poverty Reduction Strategy Papers. Concerns have arisen that are shared to varying degrees by the developing countries, the non-governmental organization (NGO) community, bilateral and multilateral donors and within the international financial institutions themselves. Some view them as old programs packaged under a new name. Some view them as a hurdle set up by the international financial institutions and creditor countries to delay the granting of debt reduction and/or ongoing concessional assistance. Some question the appropriateness of transferring the heavy responsibilities of poverty reduction to governments with limited institutional capacity and varying degrees of political commitment. This skepticism challenges us to ensure that Poverty Reduction Strategy Papers do indeed live up to all the hopes we have for them. Our responsibility is to listen and act accordingly.

It is appropriate to recognize the immense contributions of the NGO community to the debt issue leading to the establishment and enhancement of the Heavily Indebted Poor Countries Initiative. For example, Irish NGOs have made frequent contributions to the internal Irish debate on the Initiative, and their input was highly valued, particularly given their experience on the ground in the countries affected. By campaigning vigorously in support of total debt relief, they have raised the profile of the debt issue tremendously in Ireland and contributed to the wider campaign on the international front. For Canada, their engagement has been an invaluable contribution to the development of our debt initiatives and to our evolving concerns over the implementation of HIPC and the need to accelerate our efforts to reduce poverty in the poorest countries of the world. The work of the NGO community is vital.

As we look to assess our achievements and modify our approaches, we must remember that we are asking developing countries to complete a comprehensive, inclusive and long-term process that developed nations themselves have never had to undertake. Further, we are looking for significant changes in developing nations over a relatively short time frame in an increasingly complex and dynamic reality, with binding capacity constraints, requiring progress in a matter of years. This contrasts sharply with the experiences of many of us who have had decades to achieve growth and prosperity.

Our first task is to not only recognize but put into practice the overarching principle that the developing nations themselves must be central to the process. This is the essence of the Comprehensive Development Framework. Civil society participation is essential, as are inclusive government-led processes and strategies and viable working documents. Only then can we hope to see real progress and sustained poverty reduction. What does this mean in practical terms? Yes, it requires government commitment and capacity, but it also necessitates a supportive international community.

In all of our development interventions it is essential that we focus on the *quality* of conditionality rather than on the *quantity*. We need to focus on a truly limited number of monitorable conditions in the social, structural and macroeconomic areas for access to debt relief and World Bank and IMF concessional resources.

For example, Sao Tomé and Principe, a tiny island nation of 140,000 people, is required to carry out some 160 policy actions to obtain debt relief. This is absurd.

The focus on the quantity continues to dominate our actions. One example is our approach to privatization. We would be far better off focusing our energies on the successful privatization of a *limited* number of key public entities. Privatization is difficult even when government capacity is strong, market conditions are favorable and there is full public support. Further, privatization introduces real opportunities for corruption. We need to redouble our efforts to seek quality reform, on a limited scale, with transparent, measurable and equitable processes that are fully consistent with, and actually reinforce, the principles of good governance.

We must always take into account a country's administrative capacity and the economic, social and political realities when establishing reform conditions.

Donor Coordination

Given the importance of government administrative capacity and social, economic and political realities, we as donors must not duplicate requirements and efforts, thus further reducing the capacity of government to implement sustainable policy reform. In a stark illustration of the demands we are all placing on developing countries, in a recent 12 month period, Uganda received more than 1000 missions and delegations. Donor coordination is imperative. We have talked about it more than we have actually moved the yardsticks – the time has now come for action on our part. Our efforts and achievements with donor coordination will directly and significantly determine how well countries can operationalize their poverty reduction efforts. The World Bank is uniquely situated to provide leadership both by example and by continuing to emphasize that the benefits of broad-based ownership and government leadership far outweighs the benefits of bilateral and multilateral development objectives and national or institutional profile.

The experiences of Guyana offer some real insights. President Bharrat Jagdeo has pleaded for donor coordination and, with the introduction of the Poverty Reduction Strategy Papers, has called for an international commitment by all of us to harmonize our aid efforts. We would see real progress if all donors also agree to harmonize reporting and evaluation requirements. Concrete progress continues to elude us. The Boards of the Bank and Fund will be looking at Guyana's Interim Poverty Reduction Strategy Paper this fall; we sincerely hope that this document and the subsequent Poverty Reduction Strategy Paper will be used by all donors as the basis on which they design their programs and projects, and development aid for Guyana, as the government has challenged us all to do. This example resonates across developing nations.

Linkage between Poverty Reduction Strategy Papers and Debt Relief

When we agreed to the enhancements to the Initiative for heavily indebted poor countries last year, we agreed to put the Poverty Reduction Strategy Papers at the heart of the process. While entirely appropriate, this linkage has led to clear tension between quality development visions and strategies and the timely provision of debt relief. Expectations remain high that up to 20 countries will reach their decision points by the end of 2000. However, debt relief is not about getting as many countries as possible to the decision point – it is about delivering debt relief. We need to get as many countries as possible to the completion point.

Our experience to date tells us that the development of a comprehensive, broad-based Poverty Reduction Strategy Paper is a tremendously complicated and time-consuming task. Uganda and Burkina Faso, the first two countries to complete Poverty Reduction Strategy Papers, launched their processes back in 1997 and the mid-1990s, respectively. Both Senegal and Sao Tomé and Principe have been very clear that they may need more than a year to develop fully participatory Poverty Reduction Strategy Papers. We need to ensure that our expectations are realistic. After all, broad and inclusive consultations as an integral part of the policy development process are in fact new even for the developed countries – this is a whole new area of public policy for all of us.

Canada, Ireland and the Caribbean believe that ways need to be found to be more flexible in linking Poverty Reduction Strategy Papers to debt relief, particularly if the country has a solid track record of implementing solid economic and social policies. Poverty Reduction Strategy Papers should be a plan for ensuring that the benefits of debt relief are channeled into poverty reduction and growth enhancement measures. They should not prolong the qualification period for debt relief, or make the process of qualification more difficult.

Heavily Indebted Poor Countries Initiative – Financing

Financing the full Heavily Indebted Poor Countries framework remains an issue. While we have seen some recent progress, particularly with respect to the participation of the Inter-American Development Bank and the African Development Bank, financing issues remain. We would urge everyone to provide timely contributions to the Heavily Indebted Poor Countries Trust Fund to avoid delaying debt relief to deserving countries.

To date, the Trust Fund has received pledges and contributions of close to US$2.6 billion. Ireland has made good on its strong commitment to address the external debt burden of the world's most heavily indebted poor countries, contributing £12.1 million in 1999 to the IMF and World Bank HIPC Funds, and has committed to the payment of a further £2.9 million by 2008. Canada has committed CUS$215 million to the debt relief trust funds at the IMF (CUS$65 million) and World Bank (CUS$150 million). Canada is the second largest paid-in donor with US$102 million, 18.5 per cent of the paid-in total.

We have seen real progress with the agreement on the modalities for participation by the Inter-American Development Bank and the Caribbean Development Bank. We are also encouraged by the steps taken to find a solution for the African Development Bank. We are mindful of the need to address the requirements of the smaller multilateral development banks in Africa and we are prepared to fully participate in these discussions, as we did for Latin America.

We also recognize the challenges that remain vis-à-vis the participation of the non-Paris Club bilaterals. While we urge the non-Paris Club bilaterals to come to the table, we also recognize the particular circumstances of several low- and middle-income creditors, particularly Honduras and Trinidad and Tobago. For Honduras, we need to avoid giving with one hand and taking away with another. We note with real appreciation that Trinidad and Tobago, despite internal difficulties, fully participated in the first round of the debt relief effort for Guyana, even after providing significant direct bilateral debt relief outside the HIPC framework. With both Guyana and Nicaragua approaching their decision points, we must find a solution on an urgent basis.

Global Governance – The Role of the World Bank in International Financial Architecture

A crucial challenge of globalization concerns governance in an increasingly integrated world. If we are to truly help integrate developing nations into the world economy, we must ensure that the system of global governance is inclusive and responsive. The magnitude of the challenges we face and the complexity of international governance raises some fundamental questions. Are we convinced that the body of international institutions is optimal? The Bretton Woods institutions, the regional development banks and the United Nations agencies make up the foundations of international development cooperation. But they are not alone, nor do they cover the breadth of development issues requiring true multilateralism.

While the broader issue of multilateralism may not be on our formal agenda in Prague, it is central to all of our discussions. As developing countries take full ownership of their development, with comprehensive, inclusive and long-term strategies, their perspectives will continue to expand beyond domestic borders into areas of international interest. Clearly, the decisions taken in the range of international fora directly impact on the opportunities and prospects for the developing countries. We need to ensure that the system encourages and facilitates the participation of all states, large and small, developed and developing. The system of global governance must be inclusive and responsive to the needs of each and every country.

The international approach to strengthening the financial sector offers a clear illustration as to the impact of globalization and the current system of global governance on a particular group of countries. Some small states, notably those in the Caribbean, have risen to the challenge to diversify their economies by exploring opportunities in financial services, often with the support of the international community. In fact, financial services have become an important part of the economy of many small states. At the same time, there are a number of international processes, from which the small states are excluded, exploring national practices, standards and regulation of financial services and taxation. These include the Financial Action Task Force, the Financial Stability Forum and the Organization for Economic Co-operation and Development. Canada and Ireland participate in and fully support the ultimate objectives of these processes, namely to encourage compliance with international standards.

However, the work of these groups raises some critical issues for the small states:

How can small states, and in particular their offshore financial centers, strengthen their supervisory and regulatory systems to safely take advantage of the opportunities of increasingly integrated global financial markets?

What options do these small states have for diversification in a competitive global economy?

While the Caribbean also fully supports the need for internationally agreed standards for the financial sector, they have raised real concerns as to the processes followed to date – i.e., they have stated that processes were not inclusive, nor responsive to the circumstances and needs of all affected countries.

In follow-up work, given the breadth of membership and their fundamental roles, the Bretton Woods institutions have a role to play. We welcome the initiative of the IMF to work with countries to help ensure that the operations of their financial systems – onshore and offshore – do not pose risks to the global financial system. Working alongside the full range of bilateral and international players, the Bank and Fund need to focus their efforts to assist all developing countries to strengthen their financial sectors. We must assist small states in exploiting development opportunities, diversifying their bases of economic activity, and strengthening their policies and regulations in ways consistent with international agreed standards.

At the end of the day, financial crime, including money laundering and tax evasion does indeed put at risk the stability of the international financial system. These are not issues for the small states alone; they are issues, which need to be dealt with by all nations. Development, implementation and monitoring of international standards are imperative.

Let us find cooperative solutions to the problems that affect our global society where the rules are clear, known, and subscribed to by all, and where the rewards for adherence to and penalties for departure from the rules are also ones we have all signed on to. The lessons we have learnt at the national level on the importance of ownership have equal resonance in an international context. It is imperative that we actively engage all members of the international community in the development and implementation of international objectives, guidelines and standards. Broad international ownership is essential if we are to achieve full compliance and enforcement by member countries themselves. And the best and only possible way to develop broad international ownership is to ensure that all countries, developed and developing, are given the opportunity to participate in the formulation of objectives, guidelines and standards. The success of the peer review process is a clear example – its participatory approach facilitates broad acceptance of results and sustained implementation of recommendations because it is inclusive in nature and brings the diverse experience from all countries to the table. Participating countries own the process and thus have a common stake in ensuring its success. At the end of the day, country buy-in gives us the best chance to meet our ultimate objectives.

Small States

Last spring the Development Committee reviewed a report from the joint World Bank/Commonwealth Secretariat Task Force on Small States, which laid out many of the challenges and opportunities facing the world's small states. We learned that the decline in Official Development Assistance, the limited size of domestic markets and openness to international trade, together with the unfolding elimination of trade preferences and vulnerabilities to natural and economic shocks, create real challenges for these countries as they look to increase their participation in the world economy. Ministers also reviewed work plans written by the range of international development and trade institutions as their response to the work of the Small States Task Force. Our meetings in Prague offer a key opportunity to take stock of our progress to date, further our understanding of the challenges and needs of small states, and continue to refine our approach to this unique group of countries. We must ensure that the process does not lose momentum and that all partners remain committed. World Bank coordination is essential; the Bank must allocate the necessary resources – financial, human and organizational – to ensure effectiveness.

We welcome the work that has been done to date on disaster mitigation/insurance and regional approaches to donor coordination and economic organization. However, there remain some key knowledge gaps. Are we truly comfortable that the evolving body of development knowledge is applicable to a small state? The limited size of domestic markets raises real questions as to the applicability of standard policy prescriptions. As we are all aware, private and public sectors operate quite differently when there is not a critical mass to ensure competitive behavior. A better understanding of the circumstances, constraints and dynamics of small markets and production systems are an essential underpinning of economic advice, whether sectoral, structural or even macroeconomic. Addressing these supply-side issues is critical to the development of an appropriate approach to production diversification. In addition, as part of its work on governance, the Bank should explore how traditional theories of public sector management and organization apply in a small state. What is the appropriate size of the public service in a small state? How can regional organizations be best structured to support the development and operations of small national governments? This type of analytical work must also inform the development of an explicit and appropriate World Bank strategy for supporting small states.

With its mandate as a knowledge bank, the World Bank is well placed to lead, coordinate and contribute to a growing body of literature on small states. After all, at the end of the day, the World Bank and International Monetary Fund will be assessing the long-term poverty strategies designed by and for the developing small states. Additional analytical work on the dynamics of small markets is essential if these institutions are to provide credible, relevant advice. This challenge is entirely consistent with a World Bank that offers "tailor-made" approaches to unique country circumstances.

The World Bank also has a responsibility to ensure that its policy work speaks to the economic and social realities of each and every developing member country. Over the past year we have worked with the World Bank to ensure that the small states are referenced in key World Bank publications, such as the *World Development Report*, *Global Economic Prospects* and the various sector policy reviews. However, we have only just begun to see change in the manner in which the World Bank approaches this responsibility. The circumstances, needs and challenges facing the small states must be mainstreamed into the World Bank's overall policy as well as operational work.

Poverty Reduction and Global Public Goods

While the World Bank's focus at the country level is critical and serves as the cornerstone of World Bank activities, the World Bank has a crucial role to play at the global level. The challenges and opportunities of globalization, growth, poverty reduction, controlling pandemics and environmental protection cut across national borders. Issues of global concern, where collective global action offers an effective and efficient response, can significantly affect development prospects. The judicious stewardship of global public goods is a collective responsibility shared by all governments, international and regional institutions and civil society groups. To be successful, collective action must be carried out in a true spirit of partnership.

In considering its part in the rapidly changing global public goods agenda, the World Bank is faced with difficult choices. Decisions should be governed by clear, guiding principles and practical considerations, which need to be effectively communicated to its partners and the public at large. In doing so, the World Bank must assure itself that its participation is both constructive and welcome by other players in the international system. Generally, the Bank should respond to, and as necessary seek out, opportunities to advance high priority issues of the global public goods agenda which:

- contribute to global efforts to reduce poverty, with particular regard for the development objectives and specific circumstances at the country level;
- draw upon and apply its own world-class intellectual capital and global experience in development cooperation; and
- focus on selective and strategically meaningful and visible results that improve the well-being of the poorest members of society and improve the quality of life and opportunity in the poorest countries.

Social development is a critically important area of the expanding global public goods agenda, encompassing basic education, health and nutrition, HIV/AIDS, immunization, environmental protection, water resources and, more recently, global access to and sharing of information, knowledge and technology. At the outset of this new millennium, the World Bank along with the United Nations, regional and bilateral development organizations, and coalitions of citizens around the world have renewed their commitment to these global social development challenges.

The World Bank recently demonstrated its leadership and responsiveness in approving US$500 million for the first phase of a Multi-Country HIV/AIDS Program in Africa. In line with the key principles of the Comprehensive Development Framework, specifically "partnership," the World Bank also pledged to increase its support for HIV/AIDS in Caribbean countries by another US$85 million-US$100 million. The World Bank has also committed to build upon and support the Caribbean Community's Regional Strategic Plan of Action for HIV/AIDS.

Ireland and Canada are also playing key bilateral roles. In January of this year, Ireland launched its new HIV/AIDS Strategy, a significant portion of which will be targeted to its priority partner countries in Africa. Many of these are the same countries that the World Bank's regional program will assist. In Canada, my colleague, the Minister for International Cooperation, announced this month the launch of the Canadian International Development Agency's Social Development Framework for Action, which will bolster funding to health, child protection and HIV/AIDS, as well as nutrition and education. CIDA funding for HIV/AIDS will increase to over CUS$250 million within five years. Affected countries in Africa are a key priority, and CIDA will continue to work with local partners, the World Bank and other development agencies.

Partnership is an overarching requirement as we turn our attention to global public goods. Canada is committed to this new spirit of partnership, as demonstrated by its support for such international initiatives as the jointly launched United Nations/World Bank "Roll Back Malaria," the "Stop Global Tuberculosis" and the "Global Alliance for Vaccines and Immunization."

A second important area for the Bank in the global public goods agenda is trade and development, where there is considerable scope for the World Bank to play an enhanced and proactive role in collaboration with the World Trade Organization. Under the auspices of the Poverty Reduction Strategy Papers, the Bank is engaged in a much broader and inclusive dialogue with borrowing members on their unique developmental problems and challenges. An enriched dialogue on trade, including country capacity, offers real opportunities to significantly increase prospects for growth and poverty reduction in developing countries. However, we must not ignore the reality of developed countries' role in increasing trade flows. Trade must go both ways. Without this, the efficacy of the HIPC Initiative is constrained. Clearly the Bank's country focus provides the means for a stronger, integrated action in an area of global public goods.

Conclusion

We are in the most significant economic transformation of our time. The information revolution was its preface, but the larger story has many more chapters to be written. We must ensure that all countries, large and small, developed and developing, have the capacity and opportunity to write those chapters, to build an even greater prosperity that can be shared by all. To the extent that some countries are excluded from the process, we limit opportunities for all and risk losing the gains we have achieved thus far.

The moment is here to give every child a decent start, with access to food, clothing, shelter, education and health care, to give every worker the skills and tools to succeed, to give every young entrepreneur the resources to realize their dreams. Such is our challenge. Working together we will achieve it.

Statement by Mr. Nangolo Mbumba, Minister of Finance (Namibia)[4]

The Global Context

The continuation of rapid growth in the United States, an impressive recovery in East Asia, stronger growth in Europe and an end to the recession in Japan, are encouraging indications of a booming world economy. Moreover, longer-term trends of rapid global trade integration are expected to continue. Developing countries are projected to grow over the current decade at a rate significantly higher than in the last, the consequence of increased openness and improved macroeconomic stability. Substantial vulnerabilities remain, however, and there are wide differences in performance, with many small, low-income economies experiencing disappointing growth. At the same time, capital flows to developing countries, while showing signs of picking up, have been constrained by rising interest rates, continued volatility in financial markets, cautious investors and depressed terms of trade for non-oil commodity exporting countries. Of particular concern is the potential recessionary impact of high oil prices if sustained at recent levels.

Despite the acceleration of global trade and production and improved prospects for many developing countries, net resource flows to developing countries have only shown a modest increase during the first half of this year. According to World Bank estimates, foreign direct investment (FDI) flows, the largest single source of external financing in developing countries in

[4] On behalf of Africa Group I Constituency

the 1990s, amounted to roughly US$180 billion in 1999. Official development assistance (ODA) flows rose by five percent to US$56 billion in 1999, representing 0.24 percent of the combined GNP of Development Assistance Committee (DAC) member countries, and reversing the decline in aid flows of much of the 1990s.

Poverty Reduction and Global Public Goods

The unrelenting pace of globalization in recent years, while largely positive, has led to the emergence of a number of developmental challenges that require a global collective approach by the international community if these challenges are to be tackled effectively. Developing countries stand to reap substantial potential benefits from global public goods, and it is incumbent upon the World Bank to examine what role it can meaningfully play in helping them realize these benefits. In defining its role in this area, the Bank must ensure consistency with its development objectives and focus on activities in which it has a comparative advantage, seeking to work through partnerships with other institutions to the extent possible. This will mean the adaptation of Bank instruments and financing modalities to meet the growing global demands for collective action.

One area deserving particular attention, and where the global benefits of effective action are enormous, is the containment of the spread of communicable diseases, such as HIV/AIDS, malaria and tuberculosis. In view of the fact that the impact of these diseases extends well beyond a single sector or a single country, they are emerging as perhaps the foremost development constraints in a growing number of developing countries, particularly in Africa. We would like to express our appreciation for the commendable work done by the Bank and its partner institutions so far in directing global attention to the HIV/AIDS epidemic. We also welcome the commitment made by IDA donors to increase the concessional resources available for tackling this development challenge. We particularly welcome the recently approved Multisectoral AIDS Program for Africa, a collaborative effort of the Bank, UNAIDS, and members of the International Partnership Against AIDS in Africa. We would like to encourage the Bank and its partners to continue to mobilize support for AIDS prevention, the development of vaccines, the immunization of children against a variety of preventable diseases, and improvements in the treatment of childhood illnesses. We expect to see a significant scaling up of the Bank’s activity in the area of communicable diseases in Africa, in partnership with other relevant bilateral and multilateral institutions.

Another area where the Bank can play an important role is in facilitating the orderly movement of information, capital, trade and labor across borders. In particular, the Bank should make a greater effort, in collaboration with the Fund and other institutions, to address the issue of cross-border financial abuse. Such effort would include helping developing countries to strengthen financial systems, improve corporate governance and build capacity. Other areas of priority for the Bank and its partners include preserving and protecting environmental resources, mitigating the consequences of conflict, creating and sharing knowledge relevant to development, and improving developing country access to information technology so as to bridge the digital divide that threatens to widen the technological gulf between rich and poor countries. There is need to explore other sources of financing for priority global and regional poverty-reducing programs, including international, bilateral, philanthropic and private sources. We look forward to continued activity in this area.

World Bank Role and Instruments in Low- and Middle-Income Countries

Global integration also offers international institutions an opportunity to re-examine current approaches to development at the country level. We therefore welcome the Bank's ongoing efforts to more explicitly define its evolving role in supporting the development efforts of low- and middle-income countries in this dynamic global environment. Such a definition becomes all the more crucial as the Bank increasingly acknowledges the importance of selectivity and enhanced partnership with the other participants in the development process, including the IMF.

The ever-changing challenges of development, together with the recognition that the Bank's diverse client base varies by size, access to capital, level of development, institutional capacity, etc. call for a coherent strategy that recognizes the commonality of issues shared by the Bank's clients while also retaining sufficient flexibility to address their differing needs. In low-income countries, the Poverty Reduction Strategy Paper (PRSP), a comprehensive articulation of a country's development vision, must be the foundation of a country-led, country-owned policy framework which should in turn underpin the assistance strategy for that country. To this end, we can endorse the principle of mainstreaming the PRSP link to the CAS process. However, we would like to be assured that a measure of flexibility will be retained to accommodate the differences among countries. The modalities of the proposed Poverty Reduction Support Credits (PRSC) Program as an umbrella programmatic lending vehicle in eligible low-income countries will need to be further developed to ensure that it would meet their needs without imposing new obstacles constraining their access to concessional financing. Greater consideration will need to be given to the most effective way of assisting low-income countries through regional groupings where appropriate, as part of an overall move toward regional integration. At the same time, the Bank's instruments should adapt to the decentralization trends in a growing number of countries, giving greater decision-making authority to local governments and communities.

In spite of — or perhaps because of — increased access to capital markets, there is still a need for Bank Group assistance to middle-income countries. The key to the Bank's continued relevance in these countries will be a strategy fashioned to enable the private sector to operate effectively and responsibly, unfettered by bureaucratic obstacles, while also helping these countries to systematically address structural and social weaknesses. This will call for greater World Bank Group collaboration in ensuring that the benefits of foreign investment are maximized, while its adverse effects are minimized. The design of instruments should, once again, reflect the diversity of country circumstances, which is even greater among middle-income countries. This will mean addressing the needs of both borrowing and non-borrowing countries through appropriately priced lending and non-lending instruments.

Heavily Indebted Poor Countries Initiative

We are encouraged by the progress achieved in the implementation of the HIPC Initiative. We note that our calls for deeper, broader and faster debt relief are being heeded under the Enhanced Initiative, and that work is being accelerated to meet the target of bringing 20 countries to decision point by the end of this calendar year. A growing number of countries have begun to obtain debt relief through the Initiative, with a more transparent link to poverty reduction. The provision of interim assistance at decision point enables countries to obtain debt relief while still in the process of preparing a full PRSP. Furthermore, the introduction of a floating completion point instead of a three-year interim period is a welcome modification. We urge the Bank and the Fund to continue their efforts to expedite country cases, provide support to countries preparing PRSPs, and facilitate multilateral financing in the enhanced HIPC.

Notwithstanding the considerable progress made thus far, we believe that the process could be speeded up if implementation delays attributable to the requirement of a PRSP as a condition of debt relief could be reduced. While ownership and civil society participation are very important principles, limited capacity in many beneficiary countries often leads to costly delays. As such, conditionality should be reasonable and flexible and take account of implementation capacity and political and social realities, so as to avoid a trade-off between speed of implementation of debt relief and the quality of countries' policies.
We would like to take this opportunity to express our gratitude to the bilateral and multilateral creditors that have made commitments to provide assistance under the enhanced HIPC, especially those that have pledged debt relief beyond their assistance under HIPC, and those that have offered debt relief from the decision point. We welcome the recent decision of the Boards of the Bank and Fund to extend the sunset clause by another two years for HIPCs, which have not yet met the entry requirement for participation in the Initiative.

We would like to urge those creditors that are yet to make any commitments to do so as soon as possible so that the enhanced HIPC Initiative can be fully financed without compromising concessional facilities such as IDA. In this connection, we are deeply concerned about the delays caused by a lack of flexibility in the application of the Paris Club's comparability of treatment principle requiring all bilateral creditors to bear the same financial contributions, irrespective of their level of development. Some developing country creditors, several of which are HIPC countries, are finding it difficult to meet their obligations within the HIPC framework. The issue of funding remains a major obstacle, as several international financial institutions are unable to deliver their own share to the HIPC Trust Fund without substantial augmentation of their resources by bilateral donors. We would also like to appeal to non-Paris Club creditors to meet their obligations in a timely manner. We urge that all debt – pre- or post-cut-off – be included under the Initiative if meaningful debt-service sustainability is to be achieved.

Poverty Reduction Strategy Papers

We note the progress made thus far with respect to the Poverty Reduction Strategy approach endorsed at last year's Annual Meetings. Developed and applied effectively, PRSPs could be useful instruments for strengthening the link between poverty reduction, HIPC debt relief, and Bank and Fund concessional lending. Developing countries have generally welcomed the country-driven nature of the poverty reduction strategies, which serve as a basis for development assistance in support of sustainable poverty reduction. Their development partners have also found PRSPs useful for their own assistance programs. We welcome the efforts of Bank and Fund staff to enhance internal coordination between the two institutions in the PRSP process.

A number of significant challenges could compromise the effectiveness of PRSPs as poverty-reducing tools if they are not addressed. One major issue for many developing countries is capacity limitation that prevents them from meeting the onerous institutional and technical demands of PRSP preparation. Another challenge is the difficulty that many countries have in implementing the participatory processes that are a prerequisite for support. Development partners also need to have their roles properly defined. Finally, the Bank and Fund staff have to be specific and transparent in clarifying what constitutes an acceptable PRSP or Interim PRSP. A great deal more research needs to be carried out, especially in areas where there is still a lot of debate, and where there are as yet unresolved issues.

The PRSP should be a blueprint for a broad and effective attack on poverty. As such, it should enable poor countries to quickly access concessional assistance and obtain debt relief. PRSPs should be fully owned by the country. However, such ownership may, in many cases, entail a detrimental delay in implementation. In this regard, the introduction of Interim PRSPs is helpful. The donor community must, however, be mindful of the capacity limitations of many of these countries even in the preparation of Interim PRSPs, and must be prepared to exercise flexibility and patience.

Comprehensive Development Framework

We welcome the progress being made in implementing the Comprehensive Development Framework (CDF) in the twelve pilot countries. While it is still too early to arrive at meaningful conclusions from the results of the pilots, a number of lessons are already emerging from the exercise. For many countries, the process of achieving broad-based national consensus is proving to be politically sensitive, for others, conflict has been a major obstacle. Capacity building is a precondition for true ownership of programs, as is a change in approach among development partners. In the coming months the Bank should more systematically align its operations and instruments with the CDF approach, and continue to incorporate its principles into the PRSP process. Partner organizations will need to better harmonize their policies, practices and procedures, while countries will need support for institution building and enhancing the consultation process.

IBRD Financial Capacity

We are encouraged to learn from the annual review of credit risk management and medium-term outlook for Bank lending that the Bank's risk-bearing capacity remains adequate. We remain concerned, however, that in the event of a major external crisis, a surge in demand for Bank lending and a deterioration in the quality of the loan portfolio could limit the Bank's ability to respond effectively. We would, therefore, like to see the subject of the institution's financial capacity kept under review, to ensure that it remains financially sound.

The Bank's Role in International Financial Architecture

The globalization process, while capable of delivering important benefits to countries, can also involve huge economic and social costs resulting from shocks emanating from the international financial system. The Bank, as a development institution with a poverty reduction mandate has a role to play in the global effort to strengthen the international financial architecture. In particular, the Bank can help support the development and dissemination of international standards and good practices relevant for developing countries, and strengthen countries' capacity to benefit from integration with the international financial system. We welcome the progress the Bank has made, in collaboration with the Fund, in developing the

Financial Sector Assessment Program, the Reports on Observance of Standards and Codes, and the Public Debt Management Guidelines. We also welcome the Bank's work in managing the social dimension of economic crises, and supporting social protection to mitigate the social costs of economic shocks. We encourage the Bank to continue its efforts in these areas, and to fully integrate its work related to the international financial architecture into future country assistance strategies.

Africa in the 21st Century

As Africa enters the 21st century, there is much cause for optimism: a more educated workforce, greater political participation, better economic management, and an expanding private sector. However, enormous development challenges persist: low average incomes, limited international trade activity, weak links with the global economy, poor health and life expectancy indicators, the HIV/AIDS epidemic, and a slow start in the global information revolution, among others. The new century provides unique opportunities for Africa to leapfrog several stages of development and close the ever-widening gulf between itself and the rest of the world.

We welcome the recent publication of the report entitled *Can Africa Claim the 21st Century?*, the product of a collaborative effort between the Bank's Africa Region, the African Development Bank and others. We concur with its contention that Africa must direct its attention towards improving governance and resolving conflict, investing in people, increasing competitiveness and diversifying economies, reducing aid dependence and debt, and strengthening partnerships. Reversing the process of marginalization that has characterized Africa's recent history will require the implementation of a country-owned, broad-based vision of development and nation-building, supported by Africa's development partners. Regional integration also offers African countries an opportunity to expand their markets, making them more attractive to foreign investment and less dependent on aid. It also gives them a larger stake in the resolution of conflict and the containment of epidemics. A committed government and an empowered civil society — including the private sector and local communities must be an integral part of this process. They must be permitted to operate within durable and inclusive political systems and be served by effective governments with enhanced institutional capacities. We are confident that the direction of change is in our favor and that with a renewed commitment evident in much of the region, and with the help of our development partners, Africa *can* indeed claim the 21st century.

Statement by Yoshitaka Murata, Senior State Secretary for Finance (Japan)

Reform of the World Bank

Over the past half century, the World Bank with its outstanding expertise has taken a leading role in tackling development issues. Aiming at economically, socially and environmentally sustainable growth, it has taken the lead in efforts to reduce worldwide poverty, adopting the approach of focusing on structural and institutional problems, social policies, and ownership of developing countries.

This was followed by the launch of the Comprehensive Development Framework (CDF) in 1999. While the progress of its implementation in pilot countries has not always been smooth, the CDF principles – long-term vision and strategy, enhanced country ownership, more strategic partnership among stakeholders, and accountability for development results – have been widely accepted by the development community around the world and have started to be applied to field practice. The idea of the CDF has also been incorporated into the poverty reduction strategies that are being prepared in IDA-eligible countries.

In our struggle for reducing poverty, the Bank has been one of the most valuable institutions that humanity has developed in this century. As we move into the 21st century, we anticipate that the Bank will play a major role in reducing world poverty even more effectively and efficiently not only in low-income countries but in middle-income countries as well.

In order to meet these anticipations, the Bank has already put forward the "program approach" in which the Bank will:

- respect a country-led and country-owned policy framework;
- assess the country's institutions and private sector strength as the basis for determining the Bank's country support while taking fully into account its policies;
- develop and implement the Bank's assistance program based on the country's vision and the Bank's diagnosis;
- monitor and evaluate the Bank's contribution to poverty reduction and other country development objectives while recipient countries monitor and evaluate overall performance.

This is a result-oriented approach respecting country ownership in the context of comprehensive poverty reduction strategy. Such an approach should be commended, as it will make the Bank operations more effective.

The Poverty Reduction Support Credit (PRSC) is proposed as a new instrument under this program approach. It is a programmatic structural adjustment credit that complements the IMF's Poverty Reduction and Growth Facility (PRGF) and is synchronized with the budget cycle of a recipient country. Japan supports the introduction of such an instrument, as it will lead to enhancing the development impact of the Bank's lending to IDA-eligible countries. At the same time, it is essential for the Bank and the IMF to define each role and to promote collaboration by having a clearer focus – the PRSC for social and structural policies and the PRGF for macroeconomic stability. Japan welcomes the latest move of the World Bank Group to review its entire operation towards middle-income countries.

Based on its experience with the recent crises in Asia and elsewhere, the Bank has also been playing an important role, in cooperation with the IMF, in strengthening the international financial architecture on many fronts including (1) developing international standards and codes and (2) strengthening the financial sector through the Financial Sector Liaison Committee and the Financial Sector Assessment Program. We hope that the Bank will maintain its momentum of contribution by drawing upon its expertise while fully taking into account country-specific circumstances.

All these efforts certainly deserve recognition. At the same time, however, we must not forget that, in the wake of structural changes that are taking place in the world economy, the international environment for developmental assistance is also continuously changing. Consequently, the Bank's role should be subject to constant review to allow for further improvements in its operations and organization. To this end, I would like to emphasize the following:

- To increase development impact, the Bank must further enhance its efforts at supporting structural and institutional reform in recipient countries and improving social sector operations. We need to recognize the importance of the policies adopted in developing countries and structural and social issues that underpin these policies, so that developing countries could secure sustainable development as well as achieve fair and stable society. Needless to say, there is no disagreement on the importance of growth in development. Taking the Asian experience as an example, we can find that the Asian economic development has been assisted largely by the Bank and Japanese strategy, which put the highest priority on growth. Thus, it is crucial to pay due attention to the importance of growth while pursuing a comprehensive approach focusing on structural and institutional problems aimed at poverty reduction.

- Unless developing countries, which have the primary responsibility for reducing their poverty, commit themselves to formulating and implementing programs for poverty reduction, we cannot expect to see much progress. We hope that the Bank will provide the best possible support for developing countries' own efforts to reduce poverty. In addition, we urge the Bank to extend assistance for capacity building in a variety of fields, so that developing countries themselves can identify the factors that hinder their efforts to reduce poverty and solve problems effectively. It is particularly essential to link poverty reduction strategies prepared by developing countries with the Bank's Country Assistance Strategies as early as possible.

- It is important for us to place greater emphasis on good governance in developing countries. Good governance will not only support the effectiveness of development aid but also enable growth to be sustainable. We believe that strengthening support for countries with good performance in a variety of areas, including governance will increase the effectiveness of the Bank's overall operations.

- The increasing magnitude of private capital flows into developing countries requires the Bank to enhance selectivity of its operations so as not to supplant private capital flows. As a means to achieve this, the Bank's loan pricing policy could be placed under comprehensive review. In addition, investment operations for the private sector should have a clearer focus on development impact. For that, operational strategies, organization and evaluation mechanisms are to be subject to a comprehensive review.

- It will also be important for the Bank to promote cooperation with regional development banks (RDBs) and other aid agencies in such areas as lending, policy assessment and research. In pursuing better cooperation, it must fully take into account the expertise and comparative advantage of other organizations. For example, the Asian Development Bank has contributed greatly to development in the Asia-Pacific region by carrying out effective and efficient operations with deeper insight and wider expertise in the region.

Furthermore, with regard to the Bank's substantial decentralization since 1997, it is time for the Board of the Bank to review progress in cooperation in the field between the Bank and RDBs as well as the costs and benefits of decentralization.

- We urge the Bank to improve its accountability and transparency. The Bank's holistic approach has led to an expansion in the range of stakeholders, and effective collaboration with these stakeholders will be necessary to enhance the Bank's operational effectiveness. Dialogue and cooperation with these stakeholders will surely contribute to upgrading the quality of the Bank's activities. In this respect, I welcome the revision of disclosure policy that is now in process with external consultations.

Poverty Reduction and Global Public Goods

The remarkable advancements of information and communication technology and transportation have dramatically accelerated the movements of information, people, goods, and capital well beyond national boundaries. Against such a backdrop, there are growing needs for us to address certain challenges on a global scale that have direct relevance to development, such as HIV/AIDS and the environment. While concrete development aid has so far been taking a country-focused approach, addressing global challenges will require a new approach.

The Bank's clear definition of "global public goods" is an important step towards future discussions. The Bank is now actively dealing with issues in the following priority areas.

- Promoting improved economic governance
- Trade integration
- Combating communicable diseases
- Protecting the global environmental commons
- Improving access to information and knowledge

All of these five areas are included in Japan's priority areas for development assistance. For example, Japan has identified HIV/AIDS as one of priority areas in its mid-term ODA policy. Japan announced the Global Issues Initiative on Population and AIDS (GII) in 1994, and has already provided a total of US$88 million in ODA to combat AIDS, including over US$23 million in contributions to UNAIDS since 1996. To address the problem of the digital divide, Japan announced just prior to the Kyushu-Okinawa G7 Summit a comprehensive co-operation package based on official financial assistance. In addition, Japan urges the Bank, the Asian Development Bank and other multilateral development banks to help bridge the digital divide by making use of their expertise and their experiences in global and regional programs. Japan is willing to support these efforts.

Nevertheless, I would like to emphasize that whenever the Bank provides support to global public goods, we need to make sure that it has a comparative advantage in that particular area over other institutions, such as WHO. Given the nature of a financial institution, the Bank has an inherent limit to the role it should play in providing support to global public goods. Thus, it is essential for the Bank to identify its own areas of comparative advantage in relation to other institutions, and to collaborate with those institutions when necessary. The Bank also needs to establish appropriate collaborative relationships, in particular, with RDBs, while respecting their regional knowledge and their unique mandate in their region.

In deciding the level of support the Bank provides to global public goods, it must incorporate such factors as the overall balance of resource allocation, consistency with Country Assistance Strategies, and absorption capacity of recipient countries. As to the level of the DGF (Development Grant Facility) to multi-donor facilities, prudence will be required to go beyond the existing level of grant, given the nature of the Bank as a financial institution.

Only recently have global public goods emerged as a new focus for the Bank, and the progress report by the Bank is due next spring. We need to make a comprehensive review over the role of the Bank in each global public good at that time. I would like to request that the progress report make an appropriate evaluation of the Bank's activities relevant to global public goods.

Enhanced HIPC Initiative and the Poverty Reduction Strategy

As we move into the next century, another significant challenge will be the speedy and effective implementation of the enhanced HIPC Initiative. Since the endorsement of this Initiative at last year's Annual Meetings, ten countries so far have reached their decision points under the enhanced framework. However, in order to expeditiously secure the link between debt relief and poverty reduction in as many HIPCs as possible, the international community still must take further steps toward speedy and effective implementation of the Initiative. The Bank and the IMF should make full use of the Joint Implementation Committee established this May, and redouble their efforts to this end.

Japan is making the following contributions to the Initiative:

- In order to ensure speedy implementation of the Initiative by supporting the debt reduction efforts of multilateral development banks, Japan has pledged up to US$200 million to the HIPC Trust Fund, part of which has already been disbursed;
- Japan has also committed to a contribution to the IMF PRGF-HIPC Trust Fund, part of which has already been disbursed;
- Japan has committed to extend the largest bilateral debt relief among all creditor countries including 100 percent debt reduction of ODA claims and 100 percent debt reduction of non-ODA claims under the framework of the Paris Club;
- Japan will continue to be committed to supporting HIPCs through various assistance measures including further provision of grant assistance.

It is crucial for countries that have already pledged to contribute to the HIPC Trust Fund to make their contributions in a timely manner to enable smooth implementation of the Initiative. In addition, HIPCs themselves need to more actively tackle their economic reforms and expeditiously develop their poverty reduction strategies.

Poverty reduction strategies based on the ownership of developing countries are a powerful means of alleviating poverty. What must remain foremost in our minds during the formulation process is to ensure the participation of all parties concerned, including the civil society, local communities and bilateral donors. Without this, developing countries cannot claim that they have successfully ensured their ownership, or will be able to reap the full benefit of international aid. In response to the needs of developing countries, Japan stands ready to support the formulation of poverty reduction strategies with a particular focus on the participatory process.

Statement by Mr. Fathallah Oualalou, Minister of Economy, Finance, Privatization, and Tourism (Kingdom of Morocco)

On behalf of my constituency, I would like at the outset to congratulate Mr. Yashwant Sinha, Minister of Finance of India, on his election as Chairman of this Committee, to assure him of my constituency's support, and to wish him every success in his new role. I would also like to pay tribute to Mr. Tarrin Nimmanahaeminda for his commendable efforts over the past two years to enrich the work of our Committee.

The Sixty-Second Meeting of the Development Committee is taking place at a time when the world economic outlook – for both 2000 and 2001 – is more positive overall than anticipated at our previous meeting.

This is encouraging and is evidence, in particular, of the robust growth of the industrial countries and of a rapid and significant recovery in key countries particularly in South-East Asia where barely two years ago countries were gripped by an acute economic and financial crisis that threatened the stability of the world economy as a whole.

The rapid recovery of these economies is the combined outcome of efforts by the countries in question and the support of the international financial community, in which the International Monetary Fund and the World Bank have been the driving forces.

Although we welcome the positive impact of this demonstration of international solidarity which curbed the crisis and allowed these economies to resume their growth on sounder foundations, we note with concern that the outlook is less encouraging in other regions of the world, that signs of instability are threatening world economic equilibrium and the sustainability of world economic growth, and that implementation of a number of initiatives on behalf of the less developed countries has been delayed.

Our concern, first of all, has to do with the fact that the prospects for growth in certain regions, particularly Africa, remain weak and fragile at a time when the countries in question need to strengthen their economic growth if they are to create jobs and reduce poverty.

In addition, these countries are seeing a worrying deterioration in terms of trade and a downturn in their exports. Both these movements are exacerbated by key currency exchange rate instability, and by an increase, without precedent in the last 10 years, in the prices these countries are paying for their energy imports. While current international energy price levels are prejudicial to the consumer countries, especially the less developed among them, the producer countries themselves will eventually experience repercussions. For that reason, this issue needs to be made the subject of international consultations, with a view to stabilizing oil prices at a steady-state level.

The delay in implementing the enhanced HIPC Initiative is a further cause for concern. It obviously penalizes the eligible countries, impeding their efforts to combat poverty and, in certain cases, diseases and famine.

These concerns are matters for the international community as a whole. I urge it to mobilize on a major scale and coordinate more intensively as it moves to deal with the risks that confront the world economy today, and to prevent a new crisis. Such a crisis can lead only to greater poverty and exclusion in the world at the very moment when the effect of globalization should be more complete integration of all countries into the world economy and more equitable sharing of growth and well-being among the nations.

The struggle against poverty and exclusion must therefore be a shared global priority and responsibility. Countries need to formulate strategies that reflect global and sector priorities. They also need to develop comprehensive action programs that address the real needs of their populations and are of a nature to command the endorsement and support of their various partners.

Clearly, the priorities, strategies, and programs that have their origin in these general principles are going to differ from one country to another, under the influence of a range of factors that inevitably turn each set of circumstances into a specific case.

This being so, World Bank interventions in formulation and implementation of integrated anti-poverty strategies may vary in scale and importance, depending on the degree of development of the particular country and its institutional capacities, but in all cases the understanding is that the Bank's essential contribution is to make its expertise, advice, and financial support available in a manner that ensures the best conditions for achieving the goals set by its client countries.

In the particular case of the least advanced countries, acceleration of the poverty reduction process depends to a large extent on rapid implementation of the HIPC Initiative.

On this subject, I note with satisfaction that since our last meeting a number of eligible countries have made progress in setting up strategic frameworks to support their poverty reduction measures. However, although 20 countries were projected to reach the decision point by the end of December 2000, it appears likely today that this goal will not be achieved. Similarly, funding for the enhanced HIPC Initiative has not materialized as early as was hoped.

In this regard, I would like to emphasize the need for contributors to accelerate disbursement of their contributions, since the need for reduction of HIPC debt is more urgent than ever.

I would also like to note that the cost of the enhanced Initiative should be shared equitably, and should not undermine the viability of such multilateral institutions as the African Development Bank. Unless contributions by this institution to the enhanced Initiative are backed by commensurate external support, its future operations for the benefit of the least advanced African countries are likely to be compromised.

To summarize, I believe that efforts by the international community should be centered on three key lines of action – namely, acceleration of implementation of the Initiative, definitive stabilization of full funding for the Initiative, and extension of the Initiative to the largest possible number of eligible countries by the end of the agreed implementation period.

The IMF and the World Bank in particular have an important role to play here in their capacity as promoters of the Initiative and catalysts in the mobilization of the necessary funding. I take this opportunity to pay tribute to the management and Executive Boards of these two institutions for their efforts, in their respective spheres, since the launching of the HIPC Initiative in 1996.

In this context, it is gratifying to note that the World Bank remains financially sound, according to the report prepared by Bank staff in accordance with recommendations made by the Development Committee at is last meeting.

In addition, the main conclusions of the report presented at our last meeting by the working group formed to evaluate the Bank's financial structure, and to determine whether its capital is commensurate with its mission and objectives, remain valid.

The Bank is urged (1) to tailor its field of intervention to its financial situation, (2) to redefine its mission, focusing on economic development and poverty reduction, (3) to rationalize its management further, and (4) to expand its consultation with the IMF, the other multilateral institutions, and the regional institutions, focusing on the comparative advantage of each of them.

Since this Committee discussed the question of consultation a year ago, efforts have been made and noticeable progress has been achieved. The rapid recovery of emerging economies, particularly in South-East Asia, is evidence of major progress in strengthening the cooperation between the Bank and the Fund, with a resulting reinforcement of the international financial architecture.

This effort must continue. Our two institutions must encourage and support their member countries – here again, in a manner consistent with the specific needs of each country and its level of economic and institutional development – so that they become progressively better prepared to adapt the standards suggested by international best practices and incorporate them into their own financial reform, social protection, debt management, corporate governance, and other programs.

Statement by Mr. Prijadi Praptosuhardjo, Minister of Finance (Indonesia)[5]

On behalf of my constituency, let me first take this opportunity to congratulate H.E. Mr. Yashwant Sinha, in his role as the new Chairman of this Committee and wish him well in the conduct of its deliberations. I would also like to express our heartfelt appreciation to Mr. Tarrin Nimmanahaeminda, Minister of Finance of Thailand, for his valuable leadership as the Chairman of this committee for the past two years.

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[5] On behalf of the Southeast Asia Group

Although the global economy appears to have ascended from the financial crisis and as we are witnessing conditions pointing to stronger growth performances, we must, nevertheless, devote adequate attention to the significant risks that still remain and the wide disparities in the performance of countries across regions. For the developing countries, continuous and steady growth of major industrial countries, particularly the USA, and the return of world oil prices to its normal level are especially critical for their economic prospects in the short to medium terms.

In East Asia, we are also beginning to observe that the economic recovery has begun to move beyond the susceptible stage, even though in several countries crucial corporate and financial restructuring efforts have yet to be completed. In this context, we fully welcome the thrust of the agenda of our meeting today, which is to ensure that the Bank continues to remain relevant and play a vital role in helping its borrowing member countries to address the challenges while at the same time exploit the benefits of increased globalization.

Poverty Reduction and Global Public Goods

Let me now address the first item in our agenda, namely, poverty reduction and its link to global public goods. The growing openness of countries has brought about potentially huge benefits for developing countries, but at the same time it has also increased the threat of global systemic risks. Moreover, the strength of non-state transnational actors has contributed to the cross-national spillovers of the causes and effects of poverty. It is, therefore, imperative for the Bank to sharpen its focus on global public goods in selective priority areas and act on the basis of its existing comparative advantages and experiences. In this regard, we strongly endorse the Bank's intention, in cooperation with other partners, to develop appropriate instruments for its future interventions both at the global and country levels.

We endorse the working definition of global public goods as presented, but we expect that a sharper definition will evolve as the Bank gains experience in global public goods. We also support the proposition that in taking action at the country level, such action must have a strong direct impact on poverty reduction.

International financial stability is critical to the global economy. In this respect, we urge the Bank to approach the issue of international financial stability as a global public good more systematically. Based on its mandate and comparative advantages, the Bank together with all relevant partners should address the systemic risks inherent in international rules, standards, and policies that have substantial cross-border externalities.

With regard to the financing of global public goods, it is imperative that an equitable burden sharing among all stakeholders be formulated. We expect that ways would be found to strengthen cooperation with other development partners especially the United Nations. Stronger international cooperation is particularly critical given the limited resources available to the Bank to cater for global public goods. In this connection, we have some concerns about the appropriateness of relying too heavily on the Development Grant Facility as the main financing vehicle for the Bank, given its relative small size, unless additional resources are mobilized to supplement the DGF. Moreover, there may also be scope for more systematic use of donor trust funds or co-financing for both IDA and IBRD borrowers. It is our strong view that additional resources must be mobilized so as not to displace the present allocations for country level operations. Consequently, Bank/IDA administrative efforts and resources should also be supplemented to enable it to deliver global public goods that can effectively complement its operations.

Supporting Country Development: World Bank Role and Instruments in Low- and Middle-income Countries

International consensus on the need to put poverty reduction at the top of the development agenda has duly increased the attention given to the role and effectiveness of international financial institutions in addressing poverty. We, therefore, see the need to ensure a clearer division of responsibilities between the Bank and its partners in general, and with the IMF and regional development banks in particular. In this regard, we very much welcome initiatives taken by the Bank to reassess the Bank's performance and to strengthen its ability to meet the realities facing its borrowing member countries today.

It is clear that the Bank should focus its works on individual borrowing countries because supporting country development is at the core of the Bank's development agenda. In this regard, we welcome the adoption of the Comprehensive Development Framework (CDF) and the PRSP as the basis for Bank's involvement at the country level. However, they should be aligned with country-led processes, as this is critical if we are to mobilize the country's ownership of the program. Whilst the Poverty Reduction Strategy Paper (PRSP) is indeed a specific output of the CDF, we should always be mindful that the PRSP is essentially intended to ensure the redirection of resources freed through debt-relief towards poverty reduction initiatives.

For non-HIPC countries, without this debt-relief leverage, PRSP measures that are additional to what the governments are already undertaking may only be sustained with the injection of additional resources. Therefore, the proposed Poverty Reduction Strategy Credit (PRSC) for IDA countries is a good initiative that we can support. At this moment, we would like to express our view that a more balanced dose of growth-enhancing structural and institutional reform measures are critical in its design. Perhaps more time and experience are needed with the implementation of the PRSP so that the Bank can draw out more clearly the limitations to its current design before we can develop the proposed PRSC accordingly. The issue of conditionalities and other requirements and their implications should also be adequately assessed.

Regarding the role of the Bank Group in the middle-income countries, we would like to support the proposed agenda for the Task Force on the Bank Group's Strategy in Middle-Income Countries to find ways to simplify the Bank's instruments and processes in helping their more diverse economies. The existing instruments and processes have become more complicated and sometimes even confusing. Furthermore, we need more clarity about the respective roles of IFIs, their visions, instruments as well as programs. We feel it is necessary for the Task Force to closely and thoroughly consult with the middle-income countries and ensure that their views, experiences and perspectives are adequately considered.

Finally, we agree with the priority accorded to further work on the country program approach, particularly the strengthening of the Bank's diagnostic economic and sector work (ESW) and the enhancement of operational modalities for CAS-based programmatic lending.

Progress Report on the Comprehensive Development Framework

Since its inception, the CDF approach has rapidly caught on with all development stakeholders, with the Bank taking a leading role in its implementation on a pilot basis. We welcome the candid tone of this report and would like to urge the Bank to adequately address the areas identified as lagging with the right support, including capacity building.

In defining their long-term vision and strategy, countries would need to be assisted in institutionalizing the consultation processes that feed into their policymaking systems. The Bank, in our view, should pay adequate consideration to the constituents of these local processes, tailor its support or capacity building assistance to enhance broad inclusion and participation in these processes.

To this end, the establishment of open and transparent development management information systems is vital although it may take time to build and develop. We therefore ask donors to provide adequate resources over a long-term horizon and to introduce greater flexibility in the implementation of their programs, bearing in mind the complexities of institutions and differing backgrounds and circumstances. We also urge the Bank to take into consideration the additional costs faced by developing countries in doing business with the Bank using the CDF approach. Similarly, selectivity and prioritization of the Bank's administrative resources are crucial and must be aligned to expected results on the ground.

Progress Report on Implementation of Poverty Reduction Strategy Papers and the Enhanced HIPC Initiative

We welcome the progress achieved to date and would like to express our appreciation to creditors who have made commitments to provide assistance under the enhanced framework. The progress of the PRSP is also commendable and this must continue to be enhanced in concert with the implementation of enhanced debt relief to ensure the effective redirection of debt-servicing resources towards poverty alleviation.

In view of the high dependence of most HIPC countries on commodity markets, we would like to urge both the Bank and the Fund to fully consider the implications of commodity market trends on HIPC countries' ability to sustain the gains from debt relief. While some countries may benefit and others may suffer, it is essential that good overall assessments be maintained in order to reinforce implementation decisions. We also encourage the Bank's and the Fund's regular updates of overall HIPC costs, because of weak (debt) information capacities of HIPC countries and the uncertainties that may be inherent in Bank/Fund projections of government revenues.

With regard to PRSPs, we agree with the concerns expressed by the Bank's Board on the issue of quality versus timeliness. Poverty reduction should remain the fundamental goal. Hence, the links between growth, debt reduction, and poverty reduction must be made clear and strongly pronounced in PRSPs. To this end, we would encourage donors to boost their technical assistance and capacity building support to help HIPC countries with their PRSPs.

Update on IBRD's Financial Capacity

Whilst IBRD's risk-bearing capacity is currently adequate, we recognize the limitations to increased lending in the event of a crisis-like situation. We therefore will reiterate our call to management to continue to develop other options to enhance the financial capacity of IBRD. This must be developed in the context of the Bank's budget framework to ensure sustained and achievable revenue gains that can be achieved without further worsening IBRD's already over-stretched administrative costs. The Board must also prudently manage the allocation of IBRD's net income, and make certain that only initiatives that effectively add value to the Bank's poverty reduction agenda at the country level are funded.

International Financial Architecture: An Update of Bank Activities

We would like to acknowledge the significant progress made by the Bank in all areas it is directly involved in, and see that the makings of a coherent framework clarifying the contribution of these important areas to the overall design of the architecture is taking shape. The Bank, based on its experience so far, must continue to work on identifying and addressing challenges and limitations, while building on opportunities where its mandated role can further the agenda.

We therefore support calls to have a clear strategic framework and action plan on how the Bank intends to prioritize and pursue its work on this agenda. The strategy must be realistic and also clearly outline opportunities for and limitations to the Bank's role. In this regard, we would like the Bank to examine the role of the private sector. It is our belief that private sector involvement is crucial for crisis prevention and resolution.

On this note, we are reiterating the call made earlier by the G-7 Finance Ministers in Fukuoka in July this year, where it specifically recommended the prompt implementation of collective action clauses by the Bank and other MDBs for sovereign bonds and loans they guarantee. If we may recall, they had also encouraged the Bank and the Fund to seek active dialogue with private creditors in normal times to facilitate more orderly crisis resolution.

Finally, we would like to support the Bank on its emphasis on bolstering national financial systems as the basis for international financial stability and ultimately reducing domestic vulnerability and poverty. Good governance, sound structural and sectoral policies, including social policy and trade liberalization, and accountable and transparent institutions, are all vital ingredients. Furthermore, the Bank must strengthen its role in addressing the global public good dimension or externalities of international financial stability.

Statement by Mr. Didier Reynders, Minister of Finance (Belgium)

Poverty Reduction and Global Public Goods

I broadly agree with the definition of Global Public Goods, though the operational character of this definition is not always evident. I also can go along with the proposed criteria for Bank action in this area, but, above all, Bank involvement should be guided by the value added it brings to its own programs. The Bank must strictly limit itself to those areas where it has a comparative advantage. In this respect, the Bank should not seek to add new challenges to its already heavy work program. Instead it should rely more on other specialized organizations which have a proven intellectual leadership in some of these areas. The Bank's advantage lays more in its operational expertise and its ability to forge partnerships and mobilize financial resources.

Current areas of Bank's involvement are well relevant to its mandate. However, the facilitation of orderly movement across borders is a mix of global and national public good. The client countries might therefore be better off if the Bank were to concentrate its operations on enhancing the internal capacity of these countries.

In my view, the document should have been more explicit on the potential role the Bank can play in combating financial abuses. These abuses result in non-efficient allocations of financial resources that could endanger the developmental efforts of countries. There is a growing international consensus on this issue, and the Bank should play a significant role in this international effort.

It is vital for the success of the actions and for the effectiveness of the Bank that the additionality of its interventions be carefully assessed, and that the flexibility that is necessary in these collective actions do not lead to dispersion of efforts and of Bank resources. The Board of Directors should also be more involved in these decisions.

Bank resources are indeed limited and it will be difficult to significantly increase the resources of the Development Grant Facility in the short run. The number and size of grants should therefore be kept limited. The availability of funding must be a major criterion for action, and the leverage of the Bank in mobilizing financial resources should be used to the maximum extent possible.

In conclusion, the Bank may continue its participation in such collective efforts, based on its comparative advantage but also by taking into account its current financial constraints. Furthermore, while the Bank makes itself available for such actions, it should avoid seeking the lead when other agencies already possess the expertise.

The World Bank Role and Instruments in Low- and Middle-Income Countries

This issue is of paramount importance for the Bank, since it will shape all Bank activities in the coming years. It is also a timely discussion as the Bank and the Fund are currently in the process of redefining their mandate and their role in an increasing global environment. At the same time, the reflection within the Bank, and the discussion in the Board of Directors has just started. As a result, the document submitted to us lays out only the basic principles and therefore it is too early to assess how these principles will translate concretely in the Bank's activities. So, I will confine my comments to a number of guidelines on which, in my view, future work should be based.

Having said this, I nevertheless think that the proposals laid out in the document generally deserve our support. I would like to highlight the following points:

- I support a further strengthening of the country and programmatic approach already advocated by the Comprehensive Development Framework.

- Greater emphasis needs to be placed on effective donor coordination with a view to introducing more selectivity in their programs. Such effort is particularly important, not the least for the client countries themselves that are often faced with the daunting task to comply with the different procedures and recommendations set by multilateral and bilateral donors.

- A stronger analytical underpinning of operational activities is warranted. There is indeed often a mismatch between these two aspects of the Bank's activities. Efforts should be made to better align them. The economic and sector work should also take more into account the specific situations of the countries. This will ensure that the analytical underpinnings of the Bank are better focused, and which will in turn lead to more effective Bank programs.

- The monitoring, evaluation, and performance measurement should be reinforced. Shifting the Bank's activities from project lending towards more programmatic and budgetary support will indeed make these activities more crucial to the success of its operations.

- Orientation of Bank activities in the middle income countries should provide a framework with incentives for an increased participation of the private sector. It should be recognized that in middle income countries, particularly the more advanced ones, like some members of my constituency, the Bank is only one player among others.

- PRSC and PRGF should be closely linked. The issues of interrelation and cross conditionality between these two instruments should be studied.

I believe that further attention should be devoted to the following issues:

- A reappraisal of the cost of Bank instruments in the context of the current Bank financial capacity constraints. The financial and budgetary consequences of new initiatives should also receive greater attention in the decision-making process. The pricing of non-lending instruments should be viewed in the context of the expected increase of non-lending services to middle income countries.

- The increased use of programmatic lending instruments by the Bank should not lead to a crowding out of investment lending that can continue to play a significant role in the development and poverty reduction efforts of developing countries.

- While I support the differentiation of developmental approaches based on country specificity, it should not lead to a proliferation of lending and non-lending instruments.

- Whereas poverty-focused strategies in low-income countries have already paved the way for a more programmatic approach, there is not such a scheme for middle income countries. Significant work remains to be done to address the needs of these countries, also with the view of making the Bank a meaningful partner for these countries. Country groupings seem still unsatisfactory to meet the needs and expectations of these countries.

- The graduation process is particularly critical for the countries of my constituency, and a more coherent framework to guide them in this process needs to be developed.

To conclude, as I stated before, this document provides us with a road map that will have to be explored further in order to bring about a sharper definition of strategies, instruments, and products of the Bank.

The HIPC Initiative/PRSP Process and the Poverty Reduction and Growth Facility

Among the Bretton Woods institutions, the World Bank is primarily responsible for poverty reduction. The Fund must heed the Bank's advice on how macroeconomic policies and structural reforms can be made more conducive to poverty reduction. But the primary responsibility for reducing poverty really lies with poor countries and their people more than with the international financial community. Program ownership matters most.

The Bretton Woods institutions should continue to base their efforts on poverty reduction strategies designed by the governments of poor countries in consultation with members of Parliaments, business leaders, labor unions, and NGOs working with the poor. Such collaboration will strengthen the country's ownership of its poverty reduction strategy and the policies it involves.

The debt relief provided by the HIPC debt initiative will not by itself suffice to put HIPCs on a sustainable development path. This goal will also require a significant and sustained improvement of economic policies, social policies and governance in HIPCs, as well as better access to industrial country markets for HIPC exports, export credits on appropriate terms, the exclusion of any lending for excessive military equipment purchases, and a substantial increase in the industrial countries' ODA. The advanced countries should agree to review their own practices in these matters during their Article IV consultations.

HIPC debt relief will create room for countries to increase spending for health care and education. The World Bank and Fund are doing everything they can to expedite the HIPC process. But a balance must be preserved between faster implementation and maintaining the quality of countries' policies. Countries should keep up with their good performance in implementing sustainable economic and social policies. In cases where a country's past policy performances have been weak, we should be careful in shortening the length of the track record required for reaching the decision point.

We have carefully reviewed the advisability of suspending the sunset clause and have come to the conclusion that it would neither be in accordance to the letter nor to the spirit of the initiative to have it become a permanent feature. Moreover, it would make it more difficult for poor countries to obtain new credits, since creditors would fear being confronted with repeated demands for debt relief.

We recognize that many developing countries face capacity constraints with respect to the participatory processes, technical demands and administrative costs ensuing from the preparation of their PRSPs. The recourse to progress reports enabling these countries to benefit from continued interim relief if and when they require more than a year to develop a full fledged PRSP after submitting their Interim PRSP should, however, be strictly limited.

Finally, it is of the utmost importance that HIPCs, with the assistance of the World Bank, implement appropriate instruments to track the use of resources freed by debt relief under the HIPC Initiative for poverty reduction.

Statement by Abdulla Hassan Saif, Minister of Finance and National Economy (Bahrain)

I wish to begin by thanking Minister Tarrin for his wise guidance during his tenure as Chairman of our Committee and welcome Minister Sinha as Chairman for the period ahead. I look forward for his leadership and assure him of our full support and cooperation.

I also wish to say few words on an issue that has recently attracted attention, namely the rise in oil prices. In this respect we need to keep in mind the various factors that have led to the instability of the oil markets: the long period of particularly low oil prices that discouraged investments, the rise in demand that exceeded all expectations, the high taxation by industrial countries that accounted for nearly 75 percent of retail prices, and the failure of efforts to establish a dialogue between producers and consumers to stabilize oil markets. The oil exporting countries have urged for many years that such dialogue be conducted to avoid the very instability that we now experience. They also have done all they can to increase supply to the point of producing at near capacity. We, therefore, look forward to an effective mechanism for cooperation and dialogue between producers and consumers to stabilize the oil markets.

Turning to the main development of the world economy, we note that performance continued to improve since we last met and prospects for the period ahead seem to be better than previously projected for both the developing and industrial countries. Growth projections are revised upward for the coming few years, trade is well above long-term trends, inflation well below the past two decades average and the world economy has indeed emerged from the devastating financial crisis.

Policy makers now have the opportunity to consolidate the gains so far achieved and tackle the many underlying weaknesses and risks. Chief among these are the wide disparities in performance of different groups of countries, the still unpromising prospects for a meaningful reduction in poverty, the slow improvement in the flow of capital resources to poorer countries, the growing gap among countries with the advent of a global knowledge-based world economy, and the challenge of designing a viable financial architecture that can withstand potential future shocks.

I am therefore pleased that our agenda for today has sought to consider approaches that can help the World Bank Group to better respond to the new challenges.

One such approach is to develop the concept of global public goods, in order to mobilize global and regional collective action that can bring about development and poverty-reduction benefits across borders for both developing and developed countries. We endorse efforts of the

World Bank Group to expand work in this direction and to promote consensus among potential contributors to such cooperation.

The scope of public goods is fairly wide and can stretch well beyond the Bank's mandate. The Bank Group involvement should, therefore, focus on areas where public goods add value to the Bank's developmental objectives, where there is opportunity to act as a catalyst in attracting other resources, and where the Bank has a comparative advantage. The Group's areas of focus might include public goods facilitating movement of information, capital and labor; the sharing of the benefits of knowledge and globalization; and the containment and reduction of communicable diseases, especially HIV/AIDS. The effort to combat AIDS is one of the most urgent tasks requiring global action, and is one for which, unfortunately, success remains limited and resources inadequate.

Mobilizing resources is one of the most critical issues that need to be addressed in promoting public goods. What is most needed is better awareness among the major donors of the benefits that they also derive in supporting public goods. Their active contribution is vital for meaningful progress in such areas as eradicating diseases that are devastating the development prospects of many countries and are spreading on a global scale.

The second major field where the World Bank Group can play an important role is in supporting middle and low-income countries in responding to the dramatic changes in the structure of the world economy. We welcome the work that has been initiated to review the Bank's approaches towards providing such support. There is much to commend in the new thinking and there are also many aspects that need to be considered carefully before embarking upon new courses. We certainly endorse the basic premises underlying the new approaches, namely diversities among client countries should be recognized, and might require customized responses. We also applaud the efforts to define better the Bank's role in relation to other institutions and to simplify its processes and instruments.

The main thrust of the new thinking is the further expansion of programmatic lending and the suggested new instrument of Poverty Reduction Support Credit. There is a need for more work to delineate the modalities of sucha new instrument and its implications. A task force has been proposed for the middle-income countries. It is also appropriate to consider thoroughly the implementation of this approach for low-income countries, ensuring that this would not unduly undermine investment operations and the flow of Bank Group resources to these countries. Furthermore, the final stage of mainstreaming the Poverty Reduction Strategy Papers should not impose arbitrary deadlines on countries that have an inadequate capacity for undertaking this task.

As to specific areas that have been reported to us in this meeting, I note the work undertaken to implement the Comprehensive Development Framework in the pilot counties. I note in particular that the Executive Directors have authorized a thorough evaluation, in order to shed more conclusive light upon the impact of the new approach, and to consider the costs and benefits of implementation. We look forward to reviewing the conclusions.

Progress has been reported on the implementation of the HIPC initiative. Deeper, broader and faster debt relief has so far provided over 60 percent of the enhanced program of debt service relief. Many developing country creditors have actively contributed to efforts to alleviate the debt burden of poorer countries. They should be encouraged to continue these efforts, with adequate regard given to maintain both the financial integrity of their institutions and their ability to provide further assistance on concessional terms.

The World Bank Group has made a contribution toward strengthening the international financial architecture, so as to help prevent or better manage financial crisis. The Bank certainly has a role to play here, although care should be taken not to over-stretch the Bank beyond its capacity and mandate. More could be done to strengthen the capacity of member countries to avoid and withstand the impact of crisis, or there is room to broaden Bank Group activities in this regard to cover all regions.

Joint Statement by Ms. Clare Short, Secretary of State for International Development, and Mr. Gordon Brown, Chancellor of the Exchequer (United Kingdom)

This year's Annual Meetings follow hard on the heels of the UN's Millennium Summit which earlier this month brought together more world leaders than any other meeting in history - 149 Heads of State or Government. The Summit re-affirmed key UN Targets for halving world poverty, action against HIV/AIDS, ensuring universal primary education and improving the health of mothers and children.

The importance of this unprecedented unanimity within the international community about our core development objectives should not be underestimated. It provides a central focus for our efforts, and reminds us how much still has to be done. We must ensure that developing countries that are committed to meeting these targets are given the support they need to carry forward the reform that will enable them to meet the targets.

Over the past two years, the World Bank and IMF have gone through fundamental changes. We have made substantial progress on debt relief and launched a fundamentally new approach to development, which puts developing countries committed to poverty reduction at the center. Our discussions at these Annual Meetings must continue this work.

In this time of increasing globalization, we must also come to grips with problems that go beyond national borders. In late November, the UK Government will be publishing a new *White Paper on Globalisation and Development*. We hope this will provide a useful contribution to the debate about how our increasing interdependence, the increased flows of capital, trade, and information can be managed to achieve a systematic reduction of poverty worldwide.

Poverty Reduction and Global Public Goods

We welcome the opportunity for Governors to have a discussion on Poverty Reduction and Global Public Goods. This is an increasingly high profile issue and an area where the World Bank is well positioned to take a lead.

Action to limit the spread of communicable diseases and environmental degradation are critically important for all of us, particularly for the poor who suffer the most and are least able to protect themselves. By their very nature, global public goods tend to be under provided. The international community needs to look carefully at where the gaps are and how best to address these. Many global public goods are in fact regional public goods. There is a lot of work still to be done on which regional and international public goods are priorities for poverty reduction, and how to best tackle their increased provision. The UK is supporting the UNDP-led study into operationalizing the concept of global public goods and the links to poverty reduction.

Until we know more, it is premature to take firm decisions about the World Bank's role. The paper prepared for the Development Committee makes a useful contribution to this debate and begins to set out a framework. We strongly endorse the recommendation that the World Bank should take a selective approach and be guided by its development and poverty reduction mandate. We must also heed the lessons learned about effective assistance at the country level, including the importance of a demand-led approach, selectivity based on comparative advantage and the need for an appropriate policy and institutional framework. Some of the global public goods will require enormous funds. We must ensure that a proper focus by the World Bank on these issues does not eclipse other critical development priorities.

We need to develop effective management of accountability arrangements for global public goods initiatives to ensure that all countries can participate effectively and that scare resources are used to their maximum effect. There are some useful models in existing global public goods initiatives, such as the Global Environment Facility, although arrangements will need to be tailored to the specific issue and circumstances in question.

We also welcome the commitment to build collaborative partnerships at the international level. This is particularly vital in the context of global public goods. In some areas other international institutions have specific mandates which the World Bank must respect. If these institutions are not able to fulfil their mandates effectively then we should look at whether this can be resolved, rather than assuming the World Bank should take on the lead. We will also need more innovative public-private partnerships. Initiatives such as the *Global Alliance for Vaccines and Immunisation* are an encouraging sign of what can be achieved.

We endorse the proposal in the paper for further consultations at the Board level in the coming months, with a report back to the Governors at the Spring Meetings. Between now and then, we need to look in particular at the financial and institutional implications for the World Bank of increased involvement in this area. The Bank is a global institution with an outstanding ability to mobilize support and resources at this level and is a leading international source of development knowledge. However, its structure and financial instruments are built around country level interventions. We will need to consider carefully what changes are appropriate to facilitate interventions beyond this level, and how to ensure that these remain grounded in the Bank's primary, country-focused work. We also need to look at the financial implications. The Bank has very limited funds at its disposal for grant financing and any proposal to increase this capacity needs to take into account other sources of grant-based development assistance and address these in the context of a broader discussion about the Bank's strategic direction.

Heavily Indebted Poor Countries (HIPC) Initiative

One year on from agreeing the revisions to the HIPC Initiative, 10 countries have reached Decision Point, and one has completed the process. More than US$21 billion of debt relief has been agreed, including US$16 billion from the HIPC initiative. The resources this has freed up are a welcome injection to the resources available for tackling poverty in these countries.

More HIPC countries have made progress in demonstrating their commitment to the poor by implementing pro-poor policies and reforms, and developing their poverty reduction strategies. We welcome the Joint Statement by the President of the World Bank and the Managing Director of the IMF to do everything possible to bring 20 countries that could qualify to a decision point by the end of the year, underlining the commitment of both institutions to this goal. We would be happy to see streamlined documents for Board discussion of country cases to avoid delaying this process, provided that all relevant issues are covered. We urge our fellow Board members to focus on the key conditions -- those that are critical to poverty reduction. We need to be flexible so that, where we have a reasonable level of confidence that debt relief will benefit the poor, countries begin to receive relief as quickly as possible. We look to HIPC countries to establish accountable and transparent public expenditure systems that would indicate where resources are being spent. To attract additional budgetary support from donors, it is critical to demonstrate that relief is being spent on poverty reduction. We urge those whose systems need strengthening to make every effort to do so quickly, drawing on assistance where necessary.

There is some unfinished business to ensure that the enhanced HIPC initiative is implemented effectively. The initiative is a global response to the problem of unpayable debt in the poorest countries, and it requires everyone to play their part. It is essential that each creditor, bilateral and multilateral, delivers their debt relief fully and in good time. We have made good progress in the last few months in agreeing how the resources for the multilateral institutions will be secured. Each of us now needs to turn our pledges into firm commitments.

It is with concern and regret that we note that many countries are unable to qualify for debt relief because of their continuing or recent involvement in conflict. We urge these countries, and all with influence over these conflicts, to make every effort to reach a lasting peace, without which poverty reduction is impossible.

Looking ahead, it is essential that countries that have progressed through HIPC do not become trapped again in a vicious circle of increasing debt and increasing poverty. The work done by World Bank and IMF staff shows that the debt sustainability of some countries is fragile, with their debt levels rising well above current HIPC thresholds under possible, and, in a few cases, even probable, scenarios. More work needs to be done on how the international community might assist countries to respond to external shocks, so that countries do not acquire further unpayable debt. Efforts will be needed to strengthen debt management, together with more disciplined lending and borrowing practices on all sides.

Poverty Reduction Strategies

We welcome the energy and commitment shown by many countries in taking forward the development of their poverty reduction strategies, and the valuable work undertaken by the World Bank and the IMF to make this approach a success. There are many tensions and challenges involved in making this work. But the prize -- increasing the effectiveness of our efforts to tackle poverty and the prospects for achieving the International Development Targets - means that we should not be deterred.

These are still early days, and most of the strategies that have been presented to the Boards have been interim ones. We welcome the efforts of the World Bank to listen to the views of others on how the process is evolving, as well as taking forward its own work. It is clear that there are areas that will need greater attention in the future. These include governance, both in terms of the areas of policy which are analyzed and addressed, access to justice, political representation for the poor, and issues involving the PRSP process. Collectively these will create the political space for building true partnerships and genuine commitment to poverty reduction.

In many of the strategies, only passing references have been made to sustainable development. However, this is clearly critical if countries are to achieve lasting poverty reduction. Environmental issues need to be more fully integrated in the strategies. This should be possible, given that the principles of national strategies for sustainable development (NSSD) are common to those of CDF and PRSPs. It is important that all existing and developing poverty strategies, national vision statements, sector strategies, NSSD and any other plans converge so that a country can tackle poverty reduction in a coherent and manageable way.

Comprehensive Development Framework

From the outset, the UK has been a strong supporter of the concept underlying the CDF. A broad vision of development, encompassing social factors and governance as well as economic factors, country ownership based on participatory processes, improved donor coordination and measurement of progress are all key to the reduction of poverty. These principles are as applicable to the PRSP process as to the CDF, making the two complementary. While the PRSP focuses on the near-term, the CDF focuses on the 15 year time horizon, which relates to achievement of the International Development Targets.

We welcome the Progress Report on the CDF and particularly the way that it addresses the key issues, that are emerging from experience in pilot countries. We very much agree that, in designing our programs of support, donors should take their lead from countries' own poverty reduction strategies. Country Assistance Strategies should become business plans, setting out how the donor in question intends to help the country implement the needs and priorities it has identified. Open and systematic consultation by donors on their plans will help to ensure more effective coordination. The Report also highlights the importance of donors being selective in their assistance, basing this on their comparative advantages.

We agree, too, on the need for monitorable indicators, in both the CDF and PRSP processes, to measure progress towards our shared objective of poverty reduction. The International Development Targets provide a good framework for this.

Supporting Country Development: World Bank Approach and Instruments in Low and Middle Countries

We welcome the paper prepared for the Development Committee on Supporting Country Development that reinforces the key messages in the PRSP and CDF papers and sets out in more detail what this means for the World Bank's approach and instruments in low income countries.

To respond to the new CDF/PRSP environment, it is urgent that all donors, both multilateral and bilateral, make serious efforts to move forward on harmonization of policies, procedures and practices. The current situation ties up too much of the skills, expertise and administration capacity of developing countries, unnecessarily constraining energy and resources that could be better directed towards lifting people out of poverty.

The new approach also means fitting financing into countries' own budget cycles and making much longer term commitments that match countries' own policy commitments. We need to move towards a long-term contract with the poorest countries, providing finance for good poverty reduction strategies and eschewing detailed and ex-ante conditionality. The World Bank must take a lead in this process. To this end we strongly support the new Poverty Reduction Support Credit. This will allow the Bank to link financing directly in support of countries poverty strategies. But we also believe multi-year commitments would be more effective that annual credits. Where a country's financial and institutional mechanisms are not yet sufficiently robust, appropriate assistance should be offered to help address this.

Over the last year, we have seen improvements in how the World Bank and IMF work together, but there is no room for complacency. The clearer division of responsibility which we now have must in no way be seen as a signal that the IMF can withdraw from its understanding of structural issues and their impact on stability, growth and poverty reduction. We look forward to continuing discussions on the respective roles of the World Bank and IMF in implementing and monitoring Poverty Reduction Strategies.

Many of the same issues apply in middle income countries. Poverty remains entrenched in many middle-income countries and the role of the Bank must be to tackle the systemic and structural issues that are preventing the poor from contributing to and benefiting from growth. It is also important that the World Bank has in place effective graduation strategies. These must demonstrate that, for richer countries, World Bank lending is in the right sectors and using the appropriate instruments to tackle poverty reduction. We also urge the Bank to take forward ideas for performance based allocations which build on those in use in the IDA countries. We endorse the work planned by the new Task Force on the World Bank Group Strategy for Middle Income Countries and we look forward to a substantive discussion on these important issues once the Task Force has reported.

International Financial Architecture

We have followed closely the work of the World Bank on financial architecture over the last six months. Tackling the systemic issues in the financial sector is important not just for international financial stability but also to support savings, investment and growth in the poorest countries. We welcome the work of the Financial Sector Assessment Program. This deeper understanding of financial sectors in developing countries must provide a foundation for continued engagement and capacity building support by the international community, with the Bank Group taking a lead through policy based lending and stronger partnerships with providers of technical assistance. The IFC must also work harder to support financial sector reform. Approaches to the financial sector in low-income countries must embrace a wide understanding of the informal and formal sectors and the issues that are preventing financial services from ereaching the poor.

The development of new codes and standards, covering macro-economic policy and data transparency, institutional and market infrastructure, financial regulation and supervision, continues to form an essential component of the new financial architecture. The Bank has rightly taken the lead in areas of its own competence and is opening up the development of the codes to widespread consultation.

These new standards provide a clear benchmark for developing countries to adjust their policies and financial sector processes to meet the standards for successful integration in world capital markets. At the same time, they also provide an impetus for strengthening domestic financial systems with direct domestic benefits. But adoption of common codes and standards in countries at widely different stages of financial development clearly requires careful consideration of timing, sequencing and appropriateness. Setting out an appropriate pathway through the standards must now be the priority. Fund surveillance, drawing on expertise of the World Bank, has a key role to play in helping countries prioritize their ongoing work on codes and standards. Many poorer countries will require significant support for institutional development in order to move along this path.

Conflict Reduction and Security Sector Reform

As part of a comprehensive approach to poverty reduction and sustainable development embodied in the PRSP and CDF frameworks, we believe there must be increased international attention to conflict prevention and reduction, post-conflict assistance and security sector reform. The World Development Report 2000 highlights the importance of these issues, particularly for the poor. People need to be safe and secure in order to improve their livelihoods. Evidence from participatory poverty assessments indicates that the poor are particularly vulnerable to ill-disciplined and lawless security forces. Security sector reform is a critical element in a broader conflict reduction agenda.

We believe that the World Bank has an important contribution to make in taking this agenda forward, in particular through its work on sound governance and public expenditure management and the work of its Post-Conflict Unit. We welcome the new Operational Polices on Development Cooperation and Conflict. We would like to propose a discussion on experience with practical implementation of these policies at the Spring Meetings.

Trade and Development

We are all aware of the crucial part that trade has to play in unlocking the potential of developing countries for economic growth and poverty reduction. At the last Spring Meetings, we had a useful exchange on this. We highlighted the importance of the World Bank mainstreaming trade in its country programs. We now look to the Bank to commit the necessary intellectual and management resources to this.

We agreed, too, that the World Bank, IMF and WTO should work together with others to help develop an effective program of capacity building for trade. Some progress has been made in the context of the Integrated Framework, but much remains to be done. The World Bank, IMF, WTO and the rest of the international community must intensify their efforts to act in a coordinated way in order to enable all developing countries to carry out trade policy reform, to build capacity for negotiations, and to participate effectively in the WTO.

Education for All

We need to build on the strong political commitment by national governments and the international community to the goals of education for all, which were re-affirmed at the Dakar World Education Forum in April. Education is at the heart of development, but real progress towards education for all will only be achieved and sustained within well-defined, country-owned strategies for the sector, firmly set within broader development and budgetary frameworks. We are wary of interpretations of the Framework for Action agreed at Dakar, which imply separate funds for education, new mechanisms and new conditionalities. We will continue to argue that the way forward is to ensure that education, and basic education in particular, is given the priority it deserves within PRSPs.

Social Policy Principles and Core Labor Standards

At the last Spring Meetings, we noted the lack of progress in getting agreements to further work on the social policy principles and good practice in the UN. At the “Copenhagen Plus 5” Summit in Geneva in June, the reluctance of some countries to address these issues became apparent. Despite the difficulties and the sensitivities surrounding an international approach to social policy, we believe that we must tackle these issues seriously if we are to make development policy relevant to today’s world.

We recognize that core labor standards are particularly controversial for some countries. But these are at the very heart of the debate about an international response to social policy in the context of globalization. For our part, we see the paramount necessity of eliminating exploitative child labor -- and do not doubt that everyone here at these Annual Meetings would agree with this -- but we are clear that policy responses such as trade sanctions or conditionalities would be harmful and counterproductive. We also believe that freedom of association and of collective bargaining are crucial aspects of basic human rights and good labor relations and should be at the center of policy to promote economic growth and poverty reduction.

We appreciate the crucial role often played by the World Bank in helping us all to develop an understanding of difficult issues in a development context, and to set a challenging agenda that helps to raise all our standards. We would therefore like to call on the Bank to help take forward our thinking about the role that the core labor standards can play in development. This work should be undertaken in collaboration with a wide range of partners in different regions of the world, including business, civil society and trade unions in developing countries. We believe that all these partners would welcome greater clarity in this field.

Financing for Development

The process which the UN has launched to consider the different sources of Financing for Development provides the opportunity to turn the international consensus about objectives for sustainable development and poverty reduction into a consensus about the mobilization of resources required to achieve those objectives. The UK is committed to its success. The active participation of the Bretton Woods Institutions, particularly the World Bank, is essential, both to bring their expertise and experience into the process of deliberation and to ensure that the conclusions of the final high-level event are operationalized effectively. We are pleased that the World Bank is already working closely with the organizing Bureau for Financing for

Development, and that the Preparatory Committee, which resumes in New York on the 4th of october, to discuss the participation of the IMF.

IBRD's Financial Capacity

We note that the situation regarding IBRD's long-term financial capacity has not changed materially since the Spring Meetings. We agree that the situation should remain under review in the context of the Institution's evolving role. We agree that, in the short term, World Bank management should explore options for better use of existing capital resources and, in particular, increasing the usability of paid-in capital.

Conclusion

We are at an important juncture in our efforts to achieve the International Development Targets. For the sake of the one in five people in the world still living in extreme poverty we must ensure that they are met.

Statement by Mr. Lawrence Summers, Secretary of the Treasury (United States)

The global economic environment, so important to the economic fortunes of the developing countries, is stronger today than it has been in many years, with stronger and more broad-based growth across most of the industrial and emerging economies. In the major industrial countries, low interest rates have been supported by an environment of low inflation and improved fiscal policies, especially in the United States. And just two years since what was widely believed to be the most challenging situation in global financial markets in 50 years, private capital flows are returning to emerging market economies. Signs of greater differentiation by investors between countries are emerging, and we are seeing a welcome increase in the share of flows in the form of direct foreign investment.

For all that it would be a serious mistake to consider that all of the risks and challenges were now behind us. Structural reforms will be needed in many emerging economies for a strong and more inclusive recovery to be sustained. The rise in the price of oil has the potential to affect the poorest countries adversely. And, perhaps most important, this time of extraordinary economic prosperity in the United States and other countries is still a time when fully half of the world's people live on less than two dollars a day. The overarching global imperative to work to combat poverty and support successfully economic development in the poorest countries must gain added urgency today, when HIV/AIDS, conflict and other catastrophes are helping to reverse years of development gains in many of the poorest countries. Mortality rates in a number of African countries are now rising rapidly, after several decades of decline, and adult life expectancy is returning to levels not seen since the 1950s.

It is a central lesson of history that rapid economic growth is absolutely essential to rapid or long-lasting reductions in poverty. But history also teaches that growth requires more than a stable macroeconomic environment. Three other elements are also crucial: First, governments need to put in place the institutions and rules that will allow markets to function well; second, they need to make public investments with particularly high social returns, especially girls' education and basic health services, including immunization coverage for all children; and third, governments need to promote an effective rule of law, through good governance, transparency, and support for the emergence of a healthy civil society. This basic framework for promoting human development can and must be our touchstone as we chart a course for the development institutions going forward.

Framework for Operational Reforms in the MDBs

The World Bank and the regional development banks remain at the core of the international effort to address the formidable economic and development challenges facing developing, transition, and emerging economies. The Multilateral Development Banks (MDBs) have compiled an impressive track record of adapting and improving their operations in order to improve their effectiveness in promoting poverty reduction and economic growth. The challenge now is to build on that progress and to press forward with the substantial additional work necessary to strengthen the capacity of the institutions to deliver enduring results.

The United States remains committed to working with Management and other members to strengthen the MDBs going forward, to improve their impact, sharpen their focus, and ensure that the institutions are effectively positioned to meet new challenges and new expectations. We encourage the Committee to engage on this issue in a collaborative spirit.

We believe the contribution of the MDBs to development progress can be strengthened by a shift in emphasis in several key areas:

The approaches underway to elevate poverty reduction as the overarching objective of their programs in the poorest countries, should be applied consistently and implemented vigorously.

Priority should be given to supporting human development, particularly through targeting greater resources to core investments in high development returns, such as basic education and health services, access to clean water, rural development infrastructure, and to building the institutional underpinnings necessary for market-led economic growth.

We commend President Wolfensohn's pledge to support the Dakar Framework goals by increasing World Bank lending for primary education by 50 percent in the coming years and providing support to countries in drafting education action plans. It is important that the Bank report to Ministers by the Spring Meetings on the progress and future plans for assisting countries in this crucial area.

The MDBs should reinforce their efforts to ensure greater selectivity, both across sectors and countries, and to substantially improve their performance in delivering clear and monitorable development results. In particular, performance-based allocation frameworks should largely drive MDB resource commitments for all borrowers.

The borrowers' policy environment must be fully taken into account, including governance issues and the quality and components of fiscal expenditures.

The MDBs' current loan pricing policies should be reexamined with a view to promoting a more selective focus on investments with the highest development, poverty reduction and transition returns. We look forward to a comprehensive review by the World Bank of its lending terms, including the scope for greater differentiation of terms across different investments and borrowers, and the implications of alternatives for its income and balance sheet.

Additional steps should be taken to increase MDB transparency and accountability--including further increasing public access to information.

We believe there is substantial scope, in all of the institutions, to strengthen internal fiduciary auditing and budget procedures, as well as evaluation and supervision capacity.

Full compliance by the institutions with established safeguard and due diligence policies must be assured, which will require the establishment of compliance units to ensure more effective mechanisms within the context of each institution.

Greater attention should be paid to the environmental impact of core lending, including structural and programmatic lending.

Operational collaboration across the MDB system, in concert with other donors**,** including the UNDP and other specialized agencies, should be deepened, focusing closely on areas of comparative advantage and value-added. Within the MDB system there is ample scope for greater collaboration on core diagnostic work, development effectiveness, evaluation, and the adoption of uniform procurement rules and procedures of the highest standard.

Global Public Goods

We welcome the growing recognition of the need to pay greater attention to development investments providing cross-border benefits. Global Public Goods tend to be under-funded and under-supplied, particularly in those areas where the most benefits would accrue to developing countries. We believe the World Bank and the regional development banks can make a major contribution in this area in ways that complement established priorities for poverty reduction.

We believe there is considerable scope to expand MDB investment in <u>three core areas</u>: (1) stemming the spread of infectious and childhood diseases, (2) protecting the global economic environment, and (3) creating developmentally relevant knowledge in sectors such as agriculture. To be effective, selection of priority areas for increased Bank engagement must remain firmly grounded in the traditional criteria -- consensus on need**,** value added, catalytic role, and comparative advantage.

HIV/AIDS must certainly be a particularly high priority component of any program to address communicable diseases. The epidemic's catastrophic impact now in Africa, where it is reversing the hard-won economic gains of so many countries, also threatens much of Asia and other regions. We therefore commend recent efforts that will substantially strengthen the Bank's engagement on this most urgent issue, particularly the World Bank's pledge to triple its lending for communicable diseases and its recent provision of a US$500 million program to combat HIV/AIDS in Africa.

There is also an urgent need for the Bank and its partners to accord major attention to other more easily preventable infectious and childhood diseases that continue to pose fundamental health risks and cause early death, squandered potential, and stunted development.

Regional and global actions to preserve and protect environmental resources are an integral component of poverty reduction with major long-term impacts on health and other key aspects of human development.

Most of the poor live in rural areas, which also tend to have the highest concentrations of extreme poverty. While it will be very difficult to replicate the scale of the impact international agricultural research had in the green revolution, there is still substantial scope for agricultural research to harness the large untapped potential of this sector for raising growth and incomes.

The diversity of institutional arrangements needed to address the variety of important global public goods is great and underscores the importance of effective donor collaboration. We see responsible selectivity and partnerships as fundamental to an expanding program of Bank support. In assessing its options for such a program, the Bank should accord high priority to working with its partners to identify those public goods in which it clearly has a comparative advantage as well as those areas that are best addressed by other institutions, including UN agencies.

While the Bank's regular lending can continue to address Global Public Goods at the country level, the Development Grant Facility (DGF) already complements country lending with broader effect. We believe it is an appropriate vehicle for expanding the Bank's support for core Global Public Goods such as combating infectious diseases, protecting the environment, and promising agricultural research. To that end, we see a compelling case for an early increase in DGF funding, targeted to these areas, and urge the Bank to identify internal resources for this purpose.

We urge the Executive Board to follow up on our Development Committee discussions with the aim of integrating a selective but action-oriented Global Public Goods agenda into the Bank Group's Strategic Framework. We would like to see this issue placed on a "fast track" and suggest an interim Management report to the Board by the end of the year.

We also favor inclusion of the Bank's operational program for Global Public Goods on the agenda of our April 2001 Committee Meeting as a progress report and with the option remaining open for additional Ministerial consideration.

Intensifying the Fight against Financial Abuse

We accord major importance to greater and more concentrated efforts to combat financial abuse and to strengthen the role that the World Bank can play in more systematically incorporating financial abuse concerns in its work with member countries. There is a natural fit between the World Bank intensifying its financial abuse work and its mandate in areas of financial sector reform, promoting good governance, and fighting corruption.

Abuses such as money laundering, inadequate bank supervision, and corruption undermine the credibility and efficiency of the international financial system. They also pose a threat to our development agenda in that they lead to distortions in the allocation of resources, curb productivity growth and incomes, and undermine financial systems and institutions. Combating these abuses is an integral part of effective development and institutional capacity building that requires action at both a country and a global level.

The Bank is uniquely well placed to work with the International Monetary Fund, the regional development banks, and member countries to strengthen its analytical and diagnostic work on financial abuse issues, including in its Country Assistance Strategies, social and structural policy reviews, and stand alone financial sector analyses. The Bank's engagement in assisting countries design and implement programs of corrective action also provides clear value added; it conforms well with the growing international consensus – most recently demonstrated at the APEC Finance Ministers' meeting in Brunei, the Okinawa Summit in July, and the Western Hemisphere Finance Ministers' meeting last February in Cancun -- on the need for better coordinated and more effective international programs in this area.

We urge the Bank, Fund, and regional development banks, and all their members, to work with us in helping to institutionalize efforts to fight financial abuse as part of their on-going operations and within the scope of their financial issues mandates. In this regard, we call on the Fund and Bank to prepare a joint paper on their respective roles in combating financial abuse for discussion by their Boards before the Spring Meetings and ask them to report to the Spring IMFC/Development Committee Meetings on the status of their efforts.

The Bank's Role in the Poorest Countries

The Bank has a unique opportunity to encourage reform and improve the economic prospects of those poorest countries committed to sound policies. When combined with the right economic and social policies, debt relief can make an important difference. The PRSP process is intended to complement HIPC by establishing the solid policy foundation for HIPC and other poor countries, and their development partners, to build the growth and poverty reduction frameworks needed to deliver sustainable results.

The enhanced HIPC Initiative and the PRSP process continue to merit our strong support and engagement. We welcome the very significant progress made in both areas. We also recognize that it takes time to develop the appropriate national policies and the right institutions and practices to reap the full development potential of debt relief. There is much at stake for the poorest countries; it is crucial to "get it right." While I share the desire to have eligible countries qualify for debt relief as rapidly as possible, the desire for speed cannot supersede the need to ensure lasting development results.

We recognize and very much appreciate the priority and work that the staff and management of both the Bank and the IMF have given to translating HIPC and PRSPs into positive development outcomes. On my June trip to Sub-Saharan Africa, I was also impressed by the strong sense of commitment demonstrated by the governments of Mozambique and Tanzania to establish credible poverty reduction strategies, and the opportunity the framework has opened for broad civil society particpation in shaping country strategies. The commitment being shown in other countries, such as Bolivia, is also encouraging.

As the process moves forward, it is important not to lose sight of the fact that one of HIPC's core objectives is to enhance countries' future prospects for debt sustainability. There is a need for a more fully articulated framework to assess the implications of this debt sustainability for the scale and composition of new lending. Clearer constraints on new public sector borrowing on non-concessional terms for a period after HIPC debt relief should be considered. Further restraint on concessional lending may also be warranted, including through greater recourse to grant financing.

We believe the Bank should take the lead in setting the priority social and structural conditions to operationalize the new development framework set out in a borrower's PRSP (or I-PRSP). We therefore support in principle the concept of a discrete instrument parallel to the Fund's PRGF that would set out and be based on the priority social and structural conditions that are now often embodied in the PRGF--as long as such an instrument is used selectively and with appropriate safeguards. The Poverty Reduction Support Credit (PRSC) should be the Bank's principal device for coordination of policy and consolidation of fast-disbursing assistance. It should not be additional to the currently programmed level of adjustment lending.

We do not believe that it would be appropriate for the introduction of PRSCs to necessarily lead to a strategic shift in Bank operations to budget support. This would have profound implications for the Bank and would pose a major fiduciary challenge. Administratively, it may be much easier for the Bank to provide budget support than to try to implement discrete investment programs. But there is no question that the risks of inefficiency and waste, without adequate accountability, are also higher. Any assistance instrument, including budget support, needs to be appropriate to the institutional capacity, accountability, and policy environment of both the recipient government and the Bank.

It is therefore crucial that any new lending instrument for providing budget support be carefully structured to:

- phase in (tranche) support based on performance, not just commitments, against a set of credible benchmarks;

- provide for detailed annual reviews by the Board, with Board votes on whether to proceed to the next year's program and disbursement based on prior year's performance;

- ensure that these reviews specifically examine performance under the PRGF (just as we would expect reasonable linkage to PRSCs in PRGF reviews);

- integrate and build upon ex-ante due diligence and diagnostic work, including Public Expenditure Reviews, Country Financial Accountability and Procurement Assessments, Poverty and Environmental Assessments, and Social/Structural Reviews, and sectoral policy analysis;

- include a mechanism to track and report on performance of reforms, budget and expenditure shifts, efficiency gains, and poverty impacts from the operation; and

- be grounded in the Bank's country assistance strategy, which itself must evolve into a more strategic vision for implementing a credible growth strategy.

World Bank Role and Instruments in Middle Income Countries

We very much support the increased priority the World Bank is giving to reassessing its role in middle income countries and to determining how it can best assist these countries to address the economic and social weaknesses that constrain their access to private finance. The Bank's initiative to establish the Task Force on Middle Income Countries is timely and welcome, and we hope it will lead to a more selective lending framework focused on facilitating graduation. We expect the Task Force also to consider the potential role for differentiated pricing according both to country and to the activity being funded.

The Bank retains an important role in supporting long-term development and reform in these countries**,** but its activities should be more sharply defined and more systematically focussed on adding value that the private markets cannot. This means helping countries to build strong, open financial systems, with the institutional and legal framework for well functioning domestic capital markets, insolvency regimes, and better corporate governance, so that they can reduce their need for official assistance over time. It also means helping countries to improve the efficiency of their public expenditures and to strengthen social sector investments and targeting to better address poverty and inequitable lack of opportunity. We also believe that the Bank, and its regional counterparts, should reduce the share and volume of their lending to the more advanced emerging market countries over time, with graduation as a clear objective.

As with low-income countries, budget support/programmatic lending should be based on appropriate fiduciary and diagnostic work. Before the United States could endorse a significant movement by the Bank in this direction in its lending operations, we would need to be convinced of the merits of this approach in terms of development effectiveness relative to other forms of lending. Pricing will be a crucial element. We would also want to see a full discussion of the institutional and operational changes that would be required within the Bank to ensure effective use of resources, including the monitoring mechanisms**,** fiduciary framework, and performance criteria that would accompany such lending.

The Comprehensive Development Framework

The Comprehensive Development Framework represents a major effort by the Bank to increase the development effectiveness of its lending. We have long supported the basic principles that underlie this approach: providing assistance in the context of a clear, long-term strategy; ensuring borrowing countries' responsibility for making their own choices; selectivity and close coordination among donors in providing support; and full accountability for results. Effective donor coordination is vital to development results, and harmonization among aid agencies can enhance their effectiveness as long as it is based on the highest possible standard.

We believe the Bank and its borrowers were prudent in initiating the CDF as a "pilot" in selected countries to determine how it would work in practice before replicating the approach on a more general basis. As the Bank's reports to the Board and to the Committee demonstrate, the challenges lie where they always have: on the ground, in producing enduring results. Overall, as the Bank's reports note, it is difficult to draw any definitive conclusions about the additional development impact of the CDF framework. In large part, this reflects the difficulty of measuring implementation and results, as well as extracting “lessons learned”, after only eighteen months of operational experience.

The pilot experience underscores the many difficult and complex operational problems that still have to be to be addressed before the model can be replicated more generally in Bank operations. These include the major constraints posed by the lack of government capacity, the lack of involvement and capacity by government units other than finance ministries, and the lack of cultures supporting participation in many borrowing countries concerned by the reports’ findings on the negative attitudes of some pilot governments regarding the participation of civil society. As to donor coordination, although many aid agencies have indicated their support in principle for the CDF approach, old attitudes and ways of doing business strongly persist.

In this connection, we believe a more careful assessment of CDF experience is needed before an informed decision can be made on use of the CDF as the basis for any significant changes in the Bank’s organization, policies and procedures, and resource allocations. We therefore welcome and look forward to the longer-term assessment of the CDF that DEC and OED are preparing.

We specifically disagree with the view that the CDF necessarily requires programmatic lending. Such lending will be effective only in countries with the capacity and fiduciary framework to ensure effective resource use. It is also critical that the Bank adhere to its own fiduciary and “safeguard” policies and not delegate these to borrowing governments. Environmental and other safeguard standards, along with an accountable process for monitoring and evaluating compliance, must be maintained at the highest level.

Finally, I would like to add a note of caution about the concept of “country ownership.” There is no question that countries have the ultimate responsibility for their economic and development management, and that full country engagement and commitment are vital for aid to have a significant and positive impact. Yet fact that a country “owns” a particular set of priorities does not in itself automatically validate their economic viability.

It is surely right for the development community to operate with a presumption that countries should not be forced to adopt policies they cannot support. But it is also essential that we and the Bank, as stewards of scarce development resources, also own the programs we support and make our own assistance decisions on the basis of a roadmap ensuring real and sustainable development results. Where that is the case, we will be enthusiastic and supportive partners. When it isn’t, we should direct our efforts and resources elsewhere.

We look forward to further discussions of appropriate steps to take us closer to realizing the CDF vision.

IBRD Financial Capacity

Management and Governors have a shared responsibility to safeguard the Bank’s financial soundness and its risk bearing capacity. This is fundamental to our ability to provide effective support for the Bank’s evolving development mandate. We therefore appreciate the Background Note updating Ministers on the IBRD’s Financial Capacity and are pleased that the Bank continues to operate on a firm financial basis.

We continue to believe that none of the non-concessional MDB windows should expect new capital increases. We believe that the adoption of more selective, performance-based lending programs will provide a large and flexible contingent financial capacity for the IBRD and its regional counterparts to respond effectively to borrowers affected by future disruptions in private market finance.

We believe MDB financial crisis lending should be limited to exceptional cases: in such cases, MDB support can be critical to the success of recovery programs by helping to minimize long-term economic damage, sustain and restore development momentum, and contribute to intensified economic reform and restructuring. We see the MDBs as particularly well-positioned to provide significant value added in the effort to: (1) avoid unnecessary contractions in fiscal expenditure; (2) restructure banking and other financial institutions; and (3) minimize the adverse impact of the crisis on the poor by, for example, strengthening social safety nets.

Conclusion

The challenge of global poverty can be overcome if countries, supported by the international community, make the sound policy choices available to them. No country will succeed without the right policies in place. And the lesson of history is that to be effective, external assistance needs to be targeted on countries and policies with a genuine commitment and proven capacity to deliver results.

The task of poverty reduction remains formidable but awareness and concern around the world on the need to improve the effectiveness of efforts to address the problem have never been higher. There is also probably more policy agreement on “the right way forward” than ever before, and commitment to invest in the capacity building needed to enable countries to apply these approaches in their own country circumstances. The question is how quickly and how effectively we can all move to translate our knowledge, our concern, and our commitment into action

Statement by Ms. Anne Kristin Sydnes, Minister of International Development (Norway)[6]

Over the last few years we have seen a change in development thinking and work. Firstly, more emphasis has been placed on the efforts of the developing countries themselves, through concepts such as Performance Based Lending, the CDF and the PRSPs. Secondly there is a greater understanding of the need for partnerships and better coordination of development efforts, between all development practitioners as well as with the private sector. Finally there has been a focus on how to assist countries to benefit from a global economy, by removing constraints to trade and investments, such as unsustainable debt burdens.

We must intensify our efforts in all three areas. We must transfer more responsibility and ownership to the countries concerned. We must harmonize donor procedures and align our efforts with national poverty reduction strategies. We must assist countries in tapping the benefits of a global economy while avoiding its pitfalls. We must assist the HIPC countries in

[6] On behalf of the Nordic Baltic Countries

making their debt burden sustainable, and ensure that resources thus freed are spent on poverty-reducing measures.

The three main directions of our work are inextricably linked. Increased ownership will not be possible without greater donor coordination. Nor will increased ownership produce the desired results in the absence of enabling external conditions. At the same time national efforts and ownership are the foundations on which all other development efforts must build.

For the World Bank to fulfill its part of this important work and to continue to play a vital role in both low- and middle-income countries, we need to thoroughly discuss and decide on its strategic directions, where selectivity is key. We need to review our instruments to better support holistic poverty strategies. We need to ensure that we have the correct tools to provide global public goods. We need to understand how we, as an institution adapt to increased local ownership. The current decline in World Bank lending raises the issue of the strategic role of the Bank. This DC meeting provides a starting point for this vital discussion. Based on this discussion we expect Management to propose how the Bank should deal with the three areas I started out mentioning.

The Comprehensive Development Framework, the Poverty Reduction Strategy Papers and the HIPC Initiative

The introduction of the Comprehensive Development Framework established a set of principles on how to achieve better results in the development work through increased coordination between the development actors and with the leadership of the country itself. The Poverty Reduction Strategy Paper is the main tool of the poor countries to implement these principles nationally. They are the new basis for debt relief through the HIPC initiative, and will be the basis for World Bank lending to the poorest countries.

The Nordic and Baltic countries are prepared to make every effort to support the fulfilment of these initiatives. We urge the Bretton Woods institutions, the UN, the regional development banks and other donors to do their part. The international community must stand firmly united behind the important HIPC initiative and the use of Poverty Reduction Strategy Papers.

Major challenges remain ahead for the CDF approach and the PRSP process; for the first time, an increasing number of countries are about to shape their own development strategies. We are hopeful that application of the Joint Staff Assessment criteria of the PRSPs will minimize the tension between achieving real PRSP-ownership on one side and Bank/Fund assessment on the other side. Interim assistance and a flexible timeframe and approach for developing PRSPs deals with the tension between securing faster debt relief through HIPC, while ensuring a broad and deep participatory PRSP-process.

To achieve sustainable results we all must take seriously the concept of partnerships. Insufficient donor coordination constrains the implementation of country-owned poverty reduction strategies. For the Bank in particular this will mean working with others and standing aside to let others play the leading role when appropriate. For us, as development actors, it means to harmonize and streamline donor procedures. We strongly support the work of the OECD/DAC on this topic.

We consider it especially important that the Bretton Woods institutions set a good example of partnerships when assisting the countries in the development and implementation of their PRSPs. We trust that the macro-economic recommendations of the IMF and the social and structural recommendations of the World Bank are complementary, and that both institutions seek to fulfil the development goals put forward in the national poverty reduction strategies.

The challenge of making PRSPs truly country owned and country driven remains. There is a large potential for improvement in our partnerships with the developing countries. Progress so far shows that the Bank – as well as other donors – are too hesitant in transferring responsibility for and ownership of development to the borrowing countries. Ownership demands participation, which takes time and capacity. We must all assist countries in building that capacity.

We foresee that countries will update and improve their poverty reduction strategies on a regular basis, taking advantage of the experience gained not least through the CDF process. It will take considerable political will and considerable time to reach the stage where PRSPs are fully integrated into the political and budgetary processes and a smooth and efficient interaction with the broader donor community is firmly in place.

In the final analysis the PRSPs will only succeed if they become the joint focus of country-led and donor-supported development efforts. The Nordic and Baltic countries support a flexible interpretation of the requirement of the HIPC countries to be subject to one-year implementation of the PRSP. The development efforts must be based on increased capacity building, fundamentally streamlined donor procedures and strengthened participatory processes that do not undermine existing democratic structures. The country itself must assume responsibility for the division of labour between the various donors. This strengthened ownership will produce a firmer commitment to reform than measures imposed from the outside.

We are strong supporters of the initiatives. The challenge now is to keep up the momentum of these initiatives and to make sure that what happens on the ground is consistent with what we are saying on the policy level.

Financing of the HIPC Initiative

The Nordic and Baltic countries are deeply concerned that the financing requirements of the HIPC framework remains unresolved. All major donor countries must take their fair share of the financing of the enhanced HIPC initiative. The countries in my constituency will follow this closely. Furthermore, debt relief must not come at the expense of concessional lending to developing countries.

The Nordic and Baltic countries have urged that a formalized process be established to secure the unmet cost of the multilateral development banks. The breakthrough made in Lisbon in June this year, when donors agreed to address the long-term financing requirements of the HIPC Initiative, is encouraging. We now look forward to the establishment of the formalised process back to back but separate from the IDA replenishment negotiations.

Supporting Country Development: World Bank Role and Instruments in Low- and Middle-Income Countries

We agree that the World Bank should maintain its presence in both low- and middle-income countries. Yet the declining trend in World Bank lending poses questions regarding the relevance of the Bank´s loan instruments. Against this background, the discussion that has been initiated regarding the Bank's future strategy and instruments is critical. We look forward to innovative proposals from Management as a basis for the next DC meeting.

The Nordic and Baltic countries welcome the establishment of the task force on middle income countries. In its work the task force should carefully examine how the Bank can better assist middle income countries in overcoming inequality and poverty. We wish to see flexible instruments that are priced and tailored to meet these countries needs. We are anxious to see a renewed and deeper commitment to private sector development, notably in the transition economies. The task force will explore a shift to programmatic lending in middle income countries. This requires a thorough analysis of all the implications of such a shift notably as regards budget sustainability and country creditworthiness.

The suggested Poverty Reduction Support Credit seems a promising lending instrument in support of the PRSPs. Its main new feature is the move to programmatic lending. Through the introduction of PRSPs and PRSC we are undertaking a policy shift. The possible effects of such a shift and the greater demands on budget management, transparency and accountability that this new instrument requires of client countries will require further scrutiny.

Yet there seems to be a hesitation within the Bank to take the consequence of the recognized need for more comprehensive, long-term programmatic support. The report on the role of the World Bank says nothing about which types of instruments should be dropped from the Bank's arsenal. The Nordic and Baltic countries call for a thorough discussion by the Board to identify what kind of lending the Bank should offer.

The Nordic and Baltic countries would welcome a more extensive discussion of the role of the World Bank based on the recommendations put forward in Assessing Aid, on partnerships and cooperation with other actors, on the definition of the Bank's comparative advantages, on its mandate and in light of the increased ownership on the part of the countries themselves. The World Bank does not have a leading role in every country and every sector.

The Nordic and Baltic countries are in favour of the proposal that all country assistance strategies submitted to the Board for IDA-eligible countries should be based on a PRSP. However, the date for this to take effect, 1 July 2002, should be regarded as a goal and not as an absolute deadline.

Progress Report on the Bank's Role in the International Financial Architecture

The Nordic and Baltic countries support the focus of the World Bank on structural and social issues in the international financial architecture, and emphasize the importance of continuing to anchor the actions of the World Bank in its poverty mandate. Sound financial and social structures in a country limit its vulnerability and increase its ability to respond positively to financial instability and mitigate any negative social repercussions. The World Bank has an important role in each country in supporting robust financial systems that effectively and efficiently allocates financial capital to productive investments. Together with sound financial and macro-economic policies this promotes the attraction of investors.

Poor governance structures were among the causes of the financial crisis of 1997-98. In our joint efforts to improve the functioning of the international financial architecture, it is imperative to promote good public and corporate governance, and the World Bank has an important role in these efforts.

We welcome the recent progress in strengthening the cooperation between the World Bank and the IMF. There is, however, room for closer cooperation between the Bank and the Fund in emerging markets and in the poorest countries. The PRSP is a good basis for their joint efforts, as is the ongoing work on *Reports on Observance of Standards and Codes* and the *Financial Sector Assessment Program*. The current efforts to enhance the cooperation between the World Bank and the regional development banks should be stepped up.

Poverty Reduction and Global Public Goods

Many of the problems that cross borders have to be addressed through international collective action. This underlines the importance of partnerships and the relevance of the multilateral system. It is vital that actions at the global level are guided by the normative work of the respective lead agency, such as the UN on the environmental conventions. The World Bank should build its global commitments on partnerships with the UN, WTO and other development partners.

The main justification for the Bank's involvement in global action is its poverty mandate, its expertise and knowledge in fields where it has a comparative advantage as well as its ability to leverage private capital flows. This is where the Bank should concentrate its efforts. The relationship between the Bank and the UN in promoting, defining and financing global public goods needs clarification. The Bank must develop a strategy for its involvement in global public goods.

It is important to strike the right balance between the Bank's spending on global programs and its spending on national programs that provide global benefits. The Bank's main priority must be the country focus, while its involvement in collective global action should be seen as complementary to this.

More analysis on the long-term implications of the financing of global public goods is necessary. The Nordic and Baltic countries encourage the World Bank to strive to attract new financing. We should aim at creating additionality when financing global public goods. The high level event next year on Financing for Development can help us in this endeavour. We strongly support the active participation of the World Bank in the preparations for the event.

The collective effort to combat communicable diseases and especially HIV/AIDS is a clear-cut example of a global public good. For the World Bank to contribute to the action against HIV/AIDS, it must not only look for ways to step up its own efforts. It must make sure that its efforts are coordinated with those of other involved actors, in particular with the other co-sponsors of UNAIDS. At the country level, this means working through the UN theme groups on HIV/AIDS. The International Partnership Against AIDS in Africa is a good example of how to promote a global public good.

The new Global Alliance for Vaccines and Immunisation (GAVI) is an innovative partnership that holds great promise. It brings together multilateral institutions, governments and the private sector in a broad alliance. GAVI has great potential, and helps ensure the financial additionality that is being sought.

Update on IBRD's Financial Capacity

The Nordic and Baltic countries finds the present financial capacity of the World Bank to be satisfactory in a short-term perspective. However, the Nordic and Baltic countries wish to highlight the need for a broad discussion on the long-term implications of a smaller loan portfolio and an increase in non-lending operations and how these factors impact the Bank´s financial base.

Statement by Ms. Heidemarie Wieczorek-Zeul, Federal Minister for Economic Co-operation and Development (Germany)

The mere fact that we are holding our Annual Meetings in Prague, capital of our host country, the Czech Republic, illustrates the profound changes that have occurred over the last decade in Central and Eastern Europe, as well as in Central Asia. "Transition" has become the catchword used to capture a complex and demanding social, economic and political effort to achieve development resulting in democratic societies based on respect of human rights and the principles of social market economies, a process which is still ongoing. Substantial progress has been made in many countries. However, the transition process still poses difficult social and economic challenges and thus needs our continued sympathy and support.

Coincidence or not, the transition process of the last decade is embedded in a process of accelerated globalization spurred by rapid technological change. While globalization has bolstered overall global economic growth, it has also widened income disparities to unprecedented levels. The majority of the world's poor is threatened by further marginalization. The growing "income divide", reflecting persistent poverty in too many parts of our globe, is the true problem. This is the challenge we have to address, of which people in all our countries are aware and to which the non-governmental organisations here in Prague wish to draw attention.

Supporting Country Development - the Role of the World Bank

Public policy has an important role to play in fighting poverty and facilitating development at both the national and international level. It is now widely accepted that, without public policy constantly safeguarding an appropriate political and institutional framework for markets and private investment, sustained economic growth will not be achieved.

As outlined in the recently published World Development Report 2000/1, a key characteristic of poverty is the exclusion of the poor from the life of society and their lack of the opportunities and means to participate. Marginalization of the poor weakens social cohesion and leads to the rising uncertainty so characteristic of many developing countries. Thus, persistent poverty in many countries proves not only to be the key problem but also an obstacle to its solution. Therefore it is not enough to call for sound policies and an enabling framework; the challenge is to establish such a framework in the presence of abject poverty.

Development policy has come a long way in acknowledging this complexity, nowadays compounded by the twin trends of globalization and marginalization. At last year's meeting, we already agreed on the principles of a new development architecture, able to respond effectively to the support needs of poor countries in the new millennium.

The emerging new development architecture is founded on sound national policies, international treaties and agreements and strong global institutions. The World Bank's role in this setting – in keeping with its comparative advantage in the fields of social and structural policy – is to support countries to establish and implement the national (public good) agenda, to facilitate the implementation of the international public good agenda, and, thus, give globalization a more human face.

Country politics are the backbone of the World Bank as a co-operative institution and as an actor in development. The Bank's mission is the facilitation of the "public good" for people's, countries' and, in general, the international community's benefit. While we outlined clear policy guidelines regarding the role of the World Bank in low-income countries at our 1999 Annual Meetings, here in Prague we need to thoroughly discuss the role of the Bank in middle-income countries.

The Asian Crisis has reminded us that, despite the economic progress achieved in middle-income countries, the overall situation is still fragile, poverty still widespread and the social and structural agenda still unfinished. Because internal development capacity in middle-income countries has been developed to a considerable degree, the Bank's involvement must be based on a thorough role-defining process undertaken in close co-operation with the partner and founded on high quality analytical work. The objective should be to match the Bank's mission and institutional advantages with the priorities of a broadly-based national agenda. A division of labor along the lines of the Comprehensive Development Framework should be actively pursued. The outcome should be of high quality, with a visible and selective focus on and transparent orientation towards results and performance. Given the albeit limited and volatile availability of private financing in middle-income countries, facilitating and crowding in private investment should be a major and cross-cutting feature of the Bank's involvement. At the same time, consistency of instruments in line with the Bank Group's private sector strategy must be ensured.

Looking beyond specific country categories, the Bank's role in a rapidly globalizing world depends on its ability to continuously deliver high quality services aimed at a tangible development impact, matching the Bank's public mission with effective demand from clients. This implies applying greater selectivity, encouraging and facilitating ownership and sharpening the focus on performance and impact, *inter alia* by extending performance-based lending more vigorously to essentially all recipient countries.

On the supply side, we feel that the Bank's diagnostic work, including poverty assessments, public expenditure reviews and economic and sector work, would benefit from a more comprehensive approach. We are seeing the focus shift towards systemic problems, which should be addressed with programmatic instruments rather than discrete projects. This change towards key priorities and high quality programmatic interventions will strengthen the Bank's role, relevance and impact. However, while supporting the overall direction, we have to make sure that mechanisms to ensure quality and compliance develop accordingly and that we avoid over-stretching management capacities. It seems fundamental that safeguard policies, e.g. environmental assessments, also be extended to programmatic lending. We would welcome Bank proposals on how compliance with safeguard policies could be further strengthened and adapted while, at the same time, ensuring the necessary managerial and operational flexibility.

Finally, recalling the recent statement of the President of the Bank and the Managing Director of the IMF on the shared objective of both organizations of "helping to improve the quality of life and reduce poverty through sustainable and equitable growth", I would like to call for enhanced collaboration of both institutions in middle-income countries. The Asian crisis has illustrated the inter-linkages between financial and macroeconomic stability, growth and poverty reduction. It is not only in low-income countries that social, structural and macroeconomic issues are closely related and inter-linked. The constructive experience of this kind gained through co-operation on the PRSP process, as well as on the Financial Sector Assessment Programs, is a welcome example and points in the right direction.

Poverty Reduction and Global Public Goods

The World Bank, by supporting countries world-wide in implementing sound national policies in the social, economic and ecological field, is an indispensable instrument in fostering the overarching global objectives of peace and global stability.

The World Bank should focus its involvement on those areas in which a public good engagement is clearly linked to the development impact of the World Bank's country or regional work, such as areas directly related to poverty reduction. The Bank's involvement should focus strongly on the support of capacities in developing countries with a view

- to improving the implementation of internationally agreed conventions (e.g. environment),
- to supporting countries' participation in relevant global negotiations (e.g. trade),
- to improving their access to globally available resources, (e.g. knowledge) and, where appropriate,
- to further contribute to the abolition of and protection against "global bads".

In the long run, with a view to sustaining the provision of Global Public Goods, we should aim at increased support for and participation of the private sector. This requires appropriate incentives for private and co-operative actors to invest in the production and dissemination of Global Public Goods. However, there is certainly a need for additional financing, mostly grant financing, to facilitate the provision of critical Global Public Goods in the short and medium term. Since the scope for substantial additional grant financing from World Bank resources is limited and the Bank's financial and institutional integrity must be preserved, three options might be considered:

- focussing the Bank's Development Grant Facility on the relevant purposes,
- enhanced co-operation with actors who normally provide grant financing,
- pooling of (additional) grant funds along the model of the Global Environment Facility.

Remaining questions regarding financing for global public goods should be further discussed at the forthcoming Financing for Development event.

One specific area in the context of this discussion that warrants stronger World Bank involvement is certainly the promotion of basic workers' rights and core labor standards. Let me recall that at the 24th special session of the General Assembly of the United Nations on social development (Geneva, June 2000) the international community explicitly called for the ratification and implementation of the ILO conventions on basic workers' rights.

We therefore welcome the Bank's efforts in the area of labour market policy issues and core labor standards. We do, however, feel that more should be done: the issue of all core labour standards should be steadily introduced into the international agenda and the policies of the Bank itself. The promotion of internationally agreed basic workers' rights in the developing countries must go hand in hand with enhanced access of developing countries to the markets of industrialized countries.

Enhanced HIPC Initiative

Implementation of the Enhanced HIPC Initiative has gained substantial momentum in the last few months. We are confident that the milestone of 20 Decision Points by the end of 2000 can be achieved if we continue our work in the current constructive spirit and with determination. We are, however, concerned that progress in implementing the initiative in all eligible HIPC countries might be slowed down by conflict situations and flagrant neglect of the basic principles of good governance.

We are further concerned about two inter-linked issues concerning the aim of maintaining debt sustainability after HIPC debt reduction:

- the effect of detrimental commodity price movements; and
- ways and means of ensuring that debt sustainability is maintained after the provision of debt relief.

The effect of detrimental commodity price movements over the past year threatens the credibility of the enhanced HIPC Initiative. Due to significant export commodity price decreases (e.g. coffee, cocoa), those HIPCs with Decision Points in 2000 will face debt indicators above the HIPC thresholds even after HIPC debt relief. This effect is caused by the use of data from the end of 1999 in calculating debt relief for HIPCs with Decision Points in 2000.

In order to avoid this unsatisfactory outcome, we ask that the option provided for under the enhanced HIPC Initiative of re-examining and adjusting the level of debt relief at the completion point in cases of severe adverse external shocks be exercised. This procedure would prevent a potential loss of credibility for the HIPC Initiative.

In addition, the recent enormous rise in oil prices greatly increases the import bill of most HIPCs, resulting in fewer resources being available for poverty reduction and sustainable development. This effect is in no way taken account of when calculating debt reduction, because imports are not factored into the debt indicators used. It is therefore not possible to solve the developing countries' terms of trade problem by further debt relief alone. We therefore propose that this be remedied additionally by having the World Bank and the IMF expand all their relevant programs sufficiently. We thus welcome the clear statement of position by President Wolfensohn.

The issue of medium and long-term debt sustainability clearly emerges as a critical one. While there is broad consensus on the objective of maintaining debt levels below HIPC thresholds, the more difficult question is what kind of conclusions to draw should debt thresholds be breached after the completion point. We suggest that this issue be examined more closely in the coming months with a view to monitoring debt indicators closely and further strengthening debt management capacity in borrower countries.

Poverty Reduction Strategies (PRSP)

Since our last meeting, there has been a lot of fruitful discussion on conceptual issues relating to PRSPs, further refining and clarifying the concept as such as well as the role of relevant stakeholders, including the Bretton Woods Institutions and donors. However, there are still some outstanding questions to be addressed, like the sequencing of structural and macroeconomic reforms, the analysis of the impact of macroeconomic interventions on the poor, the proper prioritisation of key PRSP interventions and country-specific modalities of participatory processes. We expect the World Bank and the IMF to make a visible departure from traditional lending conditionalities and concentrate instead on core PRSP priorities; this with a view to enhancing ownership and transparency and facilitating implementation monitoring.

As we increasingly move on to country-specific discussions, our focus will shift to expected results, monitoring and concrete PRSP implementation. We should be aware that enhancing the impact of public interventions for the poor will often require ex-ante changes in the structure, processes and management of public service delivery systems and related budget and accounting systems. Due attention should be paid to systemic problems in the public sector, including corruption. To address these problems, gain credibility and underline the seriousness of the effort, it might be recommended that some countries establish an interim pilot period to introduce special procedures governing PRSP expenditures -- like poverty funds -- that will ensure proper planning, targeting, spending and impact monitoring, in the interest of the people.

Comprehensive Development Framework

The PRSP approach is a concrete application of the principles of the Comprehensive Development Framework (CDF), stressing ownership and partnership, good governance, accountability for development results and a holistic and long-term strategic approach to development. Experience in CDF pilot countries so far is promising and I would like to encourage even more countries to join in and develop their specific CDF model. While the approach is feasible for all countries, in middle-income countries it might be advisable when introducing the instrument to limit its scope to specific sectors or subjects.

The World Bank's Role in International Financial Architecture

We welcome the role of the Bank in the International Financial Architecture, in particular the strong country focus. The constructive collaboration between the Bank, the IMF and other international actors in this field, based on differentiated but complementary roles, may be considered as an example for other areas, too, where success hinges on constructive partnerships.

Beyond its impact on overall international financial stability, we expect the Bank's involvement to bring tangible benefits for the Bank's country and sector work. A promising start has been made in the field of social policy and social protection. Along these lines, the experiences of joint work on *inter alia* the financial sector, corporate governance and accounting and auditing should be carefully evaluated and assessed, with a view to achieving an additional impact on the overall quality of country projects and programs.

Renewed German Commitment to Poverty Reduction

The German government has been active in putting the problem of poverty on the international agenda. The enhanced HIPC Initiative, launched at the G-7 summit in Cologne last year, is so far the most visible result. Implementing the initiative in a successful manner is imperative, however, and my Government is committed to making further progress.

Reflecting on the call of the Secretary-General of the United Nations to the international community to endeavor to halve the number of people living in extreme poverty by 2015, German Chancellor G. Schröder has expressed the German government's and the German people's commitment to this goal and has announced a concrete action plan detailing the German program.

While we are preparing our plan, I would like to call upon other partners and international organizations to engage in similar activities. A concerted and comprehensive effort on the part of all countries is required if the challenge of poverty is to be addressed and the goals are to be realized.

Statement by XIANG Huaicheng, Minister of Finance (People's Republic of China)

Entering into the new millennium, the world is advancing with new development prospects but confronted with daunting challenges as well. Characterized by high tech, the knowledge-based economy is growing daily and making the global economy more dynamic. The rapid globalization marked by the increasing integration of economy and trade is bringing unprecedented opportunities and hopes to mankind.

However, development has been uneven across the world -- the rich countries are getting richer and the poor poorer. Addressing this issue calls for the concerted efforts by members of the international community. In this context, the World Bank, as a multilateral development institution, must make its contribution more effective and efficient in its support to developing countries. I, therefore, welcome discussions on the Bank's role and related issues at this Development Committee.

Global Public Goods

On this issue, first and foremost, there must be a clear definition of global public goods. And in providing global public goods, the World Bank and other multilateral institutions should adhere to the principle of political neutrality and represent equally the interests of each and every member country. They should participate in the process in light of their own mandates, charters and comparative advantages with a view to promoting balanced development in the world economy and poverty reduction. Given the fact that provision of global public goods covers a wide range of activities, the World Bank simply cannot involve itself in all of them, but instead should start with undisputed areas, such as the environment and communicable diseases.

Due to their special features, the global public goods have to be financed by concessional resources. In doing so, the international community should mobilize additional concessional resources, instead of tapping already over-stretched existing funding mechanism for development. The industrialized countries have an undeniable obligation to provide new resources for the global public goods.

Poverty Reduction and Development in Low- and Middle-Income Countries

It is our consistent position that the World Bank's assistance strategy should be adapted to different stages of development and specific circumstances of individual recipient countries. We fully support the Bank's continued assistance to IDA countries, and its efforts to help address economic development issues in IBRD countries. The per capita income of many IBRD borrowers, which are the home to the majority of poor people in the world, is still very low. Even though some of them have access to international capital markets, such access is still very limited and unstable, far from sufficient to meet their tremendous financing need for poverty reduction and long-term development. Meanwhile, private sector development in these countries still has a long way to go. The Bank's mission to promote economic development and poverty reduction in these countries is far from fulfilled.

It is of great importance that the Bank must strike a balance in its assistance to member countries between: (1) private sector vs. public sector; (2) programmatic lending vs. project lending; and (3) reform vs. development.

The recipient countries should enjoy full ownership in formulating their reform and development agenda. The Bank's assistance strategy should not only be based on the strategies of recipient countries, but more importantly also be prepared and developed in collaboration with respective recipient countries, so as to avoid imposing unilaterally formulated strategies on recipient countries.

Comprehensive Development Framework (CDF)

Every country that is committed to long-term social and economic development needs to formulate its overall strategies in a comprehensive approach. While we endorse the principle of CDF, we think that it is also critical to strike an appropriate balance between full ownership of recipient countries and the role of international aid agencies in formulating and implementing country assistance strategies.

Despite the progress made in the CDF pilot phase, many challenges have yet to be addressed. It is not realistic to push pilot countries to implement within a short period of time a comprehensive agenda on economic, social and structural reforms and development, due to their political, economic, developmental, and institutional constraints.

It is our view that social and structural change is a long and complex process. Therefore, implementation of CDF should not be rushed and it is unrealistic to expect developing countries to meet all requirements over night. We agree that at macro and strategic level, countries should set forth an overall, systematic and long-term strategy. However, in its implementation, countries should be allowed to decide on appropriate sequencing and pacing on the basis of their specific country situations. The ownership and choice of recipient countries should be fully respected, and for those countries with weak institutional capacity, assistance should be provided in this regard.

Moreover, aid agencies, multilateral and bilateral alike, must take concrete actions to improve coordination among them. They should take the lead in implementing CDF by harmonizing their respective procedures in their aid activities.

It is necessary to stress broad public participation in the decision-making process. However, the rule of games for the process and procedures of participation must be worked out first, objectives and accountabilities must be clearly defined, and the effective way must be explored in dealing with the situation when consensus fails to be reached and views remain divided. Effectiveness of consultations should be stressed, different approaches to consultation should be encouraged and different social and political systems of countries should be fully respected.

Politicization

In recent years, under the complex international circumstances, politicization of the World Bank has been intensified. The Bank has been increasingly involved in internal political affairs of its borrowing member countries. In its decision making, the Bank tends to give way more and more to the pressures from some shareholders and politically motivated NGOs, but respond less and less to the concerns and legitimate interests of developing countries.

Such politicization of the Bank has seriously jeopardized the interests of developing countries, especially small ones. Given the organizational and voting structure of this development institution, the Bank is not in a position to represent the political interests of member countries on an equitable basis. Therefore, the Bank should not involve itself in any political affairs. Otherwise, politicization will eventually lead the Bank towards a political tool for a few countries and adversely affect the legitimate rights of developing countries especially, the small ones. A case in point is the China's Western Poverty Reduction Project, as well as a number of projects of other countries, which are victims of politicization.

In applying its assistance strategies, the Bank should not be obsessed with the intention to resolve such issues as governance and institutional reforms, which should be, handled by developing countries themselves. Otherwise, the Bank's focus would be diverted from essential issues about development and resources transfer.

In recent years, we have been greatly concerned over the continuous decline of official assistance and the increasing conditionalities that are difficult to meet. The Bank's resources have been allocated less and less to address the real and concrete concerns of developing countries, but more and more to over-sophisticated but often ineffective institutional assessments, diagnosis and consultation. And the issue of distorted international order has not been given adequate attention while unfair criticism more frequently has been directed against developing countries with regard to their existing social and institutional weakness.

Experience shows that the World Bank could best fulfill its developmental mission when it fully follows its mandate. We call on the Bank Management and all member countries to strictly adhere to the Bank's Articles of Agreement, particularly with regard to the principle that only economic considerations are relevant in serving its borrowers. The Bank must not make concessions to political pressures from some members. Instead, it must stand firm against politicization and maintain its political neutrality.

Cost of Doing Business with the Bank

In recent years, the cost of doing business with the Bank for the borrowing countries has been rising considerably, even to the extent of an unaffordable level. The major causes for high cost include: (1) Safeguard policies which have often been arbitrarily interpreted and the standard have been raised unrealistically high; (2) Rapid proliferation of assessments and diagnosis; (3) High loan charges, despite strong objections from all developing countries. All these have contributed to high cost of doing business with the Bank and added to burdens borne by borrowing countries directly or indirectly.

The high cost of doing business has restricted Bank's ability in helping developing countries, undermined Bank's developmental effectiveness and led in part to dramatic decline of lending last fiscal year which was even lower than that of Pre-Crisis period.

The issue of high cost of doing business deserves urgent attention of all member countries. As a development financial institution, the Bank should take concrete steps to simplify and streamline its safeguard policies, diagnosis and assessments. It is the Bank's high priority to improve the quality of its products and reduce the cost of delivering of its services and to ensure competitiveness of its lending.

Facing the rapid globalization, the Bank is expected by the international community to address many new issues. To this end, the Bank must listen more to developing countries and help them resolve specific issues in their development course. Only by so doing, will the Bank be able to make greater contribution to global poverty reduction and long-term development.

Statement by Mr. Tertius Zongo, Minister of Economy and Finance (Burkina Faso)[7]

I am honored to be addressing the Development Committee, for the first time, and would like to begin by welcoming the new Chairman of the Committee, Mr. Yashwant Sinha, Minister

[7] On behalf of Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Côte d'Ivoire, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Republic of Congo, Rwanda, São Tomé and Príncipe, Senegal, Somalia (informally) and Togo.

of Finance of India. I would also like to pay tribute to the outgoing Chairman, Mr. Tarrin Nimmanahaeminda, Minister of Finance of Thailand, who has discharged his responsibilities with effectiveness and dignity throughout his term of office.

On behalf of my group of countries, I take this opportunity to express our appreciation to the President of the World Bank, Mr. James D. Wolfensohn, and the Managing Director of the International Monetary Fund, Mr. Horst Köhler, for their excellent written communications and for the quality of the documents the staff of the two institutions have placed at our disposal. My thanks also to the Executive Secretary of the Committee, Mr. Alexander Shakow, for the excellent organization of our work on the occasion of this Sixty-Second Meeting.

My statement will deal with all six items on the Agenda, namely: Poverty Reduction and Global Public Goods; Supporting Country Development; the Comprehensive Development Framework (CDF); Implementation of Poverty Reduction Strategy Papers and the HIPC Initiative; and, finally, the Bank's Role in International Financial Architecture.

At the outset, I would like to say a few words on the problem of the transfer of resources to the developing countries. From my reading of the document "Recent Trends in the Transfer of Resources to the Developing Countries," I see that the flow of concessional funds to our countries continues to give cause for concern. While official development assistance increased in 1999, confirming the tentative improvement seen in 1998, and concessional aid increased by 11 percent to US$41 billion, this trend reflects two important developments. First, the absolute figure of US$41 billion is approximately US$5 billion, or 10 percent, less than in 1994. Second, the increase seen in 1998 and 1999 was mainly the result of a substantial expansion in the Japanese Special Program of Assistance for countries affected by the Asian financial crisis and of European Union and international community aid to Kosovo. Official assistance to other developing countries, particularly in Africa, has not increased. It is for this reason that we reiterate our plea for an increase in concessional funds for the poorest countries, that lack access to capital markets and include many countries in Sub-Saharan Africa.

Poverty Reduction and Global Public Goods

Globalization has confronted the international community with various challenges, including the need to create and fund the production of international public goods. Although these problems are by no means new, each raises the question of how to apportion the cost involved. The international community should be able to rely on voluntary contributions, from the more affluent to finance public goods. The World Bank, in cooperation with other development partners, has already helped fund several goods of this type in the past by providing either financial resources or technical assistance. In our opinion, the Bank should continue to take part in operations where its action would result in real value added and serve as a catalyst for resources from other quarters, particularly in view of its comparative advantage.

The main areas for Bank concentration identified in the document handed to us are appropriate. We fully endorse interventions to facilitate the unrestricted and orderly movement of information, capital, trade, and manpower; measures to prevent financial abuses; inclusion in, rather than exclusion from, international trade; protection of the environment and natural resources; and knowledge-sharing. Given the accelerating pace of globalization, we trust that the Bank will also be able to intensify its regional integration assistance program, which seeks to ensure a smooth transition to global integration. In addition, considering the persistence of armed conflicts in several Sub-Saharan countries, and the ensuing exacerbation of poverty, we appeal to the Bank and other multilateral institutions, in particular the International Monetary Fund, to adopt new, more creative approaches to this problem, and to provide the countries affected with assistance in organizing a peaceful transition toward reconstruction and in re-establishing normal relations with the Bretton Woods institutions. This means that the Bank must also have sufficient budgetary resources to enable it to raise its activity level in this sphere.

Supporting Country Development: World Bank Role and Instruments in Low- and Middle-Income Countries

We have studied the Bank document made available to us, and also the Executive Directors' conclusions regarding the role of the Bank, as a development aid institution, in the ongoing work program to strengthen the international financial architecture.

The Bank's approach in this area has evolved over the last few years as the result of ongoing reflection and debate on the subject and in step with the changes in both its own country assistance strategy and the responsibilities of other international financial institutions, particularly the IMF. In this regard, the Bank has to track the more than one hundred countries it is called on to assist. Each has its own characteristics and its own needs. This group includes small states, large federations, very poor countries, and middle-income countries. Despite their differences, these countries are generally poor, and unable to assure their inhabitants of a level of social and economic development commensurate with their economic potential. As the document in question indicates, World Bank assistance to these countries is based on a case-by-case approach founded on an appropriate vision, a sound diagnostic study, careful scheduling of interventions, and the results obtained. Formulation of the vision for a particular country is the prerogative of the country itself. The Bank, like the IMF, may assist the process with professional advice based on a diagnostic assessment as to which policies and institutions the country would need to put in place if it is to see its vision materialize. This advice is then incorporated into the two institutions' assistance plans for the country.

In the case of low-income countries, we endorse the current approach, which is based on Poverty Reduction Strategy Papers. This type of document sets out the particular country's chosen poverty reduction strategy in terms of the principles that form the Comprehensive Development Framework. This same approach is appropriate for IMF approval of aid granted through the Poverty Reduction and Growth Facility and decisions under the HIPC Initiative.

Where middle-income countries are concerned, the Bank should also develop additional instruments that would enable it to assist these countries, too, with poverty reduction. It has already taken innovative steps in this area, chiefly by utilizing new instruments during crisis periods, in particular special structural adjustment loans and policy-based guarantees. We encourage it to continue its research and discussions on ways to systematize and perfect an intervention model and, if necessary, new lending instruments.

Progress Report on the Comprehensive Development Framework (CDF)

We welcome the Bank's progress report on implementation of the CDF pilot program. Ever since it was first introduced, our countries have adopted the CDF concept, which advocates a holistic approach to development that balances macroeconomic with structural, human, and physical development needs. We continue to support the four interrelated principles that underlie the CDF, namely: a long-term vision and strategy; enhanced country ownership of development goals and actions; more strategic partnerships among stakeholders, both domestic and external; and accountability for development results.

The results of implementation of the CDF in a number of pilot countries, including Côte d'Ivoire, a member of our own group, are encouraging. The document made available to us indicates clearly which components have succeeded and which have not. On the whole, however, the experiment is going ahead well in the pilot countries. Several of these have adopted long-term strategies that focus on structural and human as well as macroeconomic concerns. Progress has also been made in the area of consultations with stakeholder groups. On the other hand, as the Report notes, local political sensibilities have been the cause of difficulties in some instances. We note also that reliance is frequently placed on the CDF concept when Poverty Reduction Strategy Papers are being formulated. We therefore endorse the widespread acceptance of both the CDF and PRSPs based on it.

Progress Report on the Implementation of Poverty Reduction Strategy Papers and the HIPC Initiative

We were very gratified at the opportunity to examine the Report on the Heavily Indebted Poor Countries Initiative. This new approach, based in each case on a strategy for the reduction of poverty formulated by the country itself and presented in the form of a Poverty Reduction Strategy Paper, appears to us to provide a very appropriate method of defining the context for the use of concessional aid made available to low-income countries by the Bretton Woods institutions.

We endorse the concept of a PRSP based on a joint appraisal by the World Bank and the International Monetary Fund and regarded by the Executive Boards of the two institutions as the foundation for a new arrangement under the Poverty Reduction and Growth Facility, and also for key decisions (determination of decision and completion points) under the HIPC Initiative affecting IDA countries. The fundamental objective of the support programs offered by the World Bank and the IMF is to back up the integrated effort made by the particular country to give poverty reduction the priority it warrants as a component of development strategy. This enables the two institutions to help make the country's own strategy more effective, and to serve as catalysts for possible support from other external development partners. A sound poverty reduction strategy implies broad consultation with Parliament, other democratic domestic organizations, civil society, and, above all, the stakeholders themselves – in other words, the poor. Finally, to be effective, the PRSP needs to draw its inspiration from the principles of the Comprehensive Development Framework. Those countries in our group that have formulated a PRSP, either wholly or in part, as is the case with my own country, Burkina Faso, have come to realize the complexity not only of this internal consultation process itself but also of its beneficial effects on the national dialogue.

In the case of the HIPC Initiative, we note that it has been reinforced by a series of innovations, approved by both this Committee and the Interim Committee subject to one major reservation, namely the availability of financing. We have made progress in implementing the Initiative, especially as regards the processing of country documentation. On the other hand, there is less evidence of progress in mobilization of the anticipated funding. We make an appeal for early completion of these financing arrangements. In this context, we also appeal to donors to allow fully, during negotiations for the 13th IDA Replenishment, for IDA's real funding requirements, its development objectives, and, if necessary, any unfunded portion of the enhanced HIPC Initiative that is its responsibility. In addition, we draw the attention of the international community to the situation of regional and sub-regional institutions whose participation in the Initiative is of real interest to their member states only if they can be assured of sufficient external support to offset the losses that will result from debt relief arrangements they consent to within the framework of this participation. This applies particularly in the cases of the African Development Bank and the West African Development Bank.

Update on World Bank Financial Capacity

We point out that the Note to the Committee from the President of the World Bank addresses, among other matters, the institution's current financial situation. This Note is a response to a request, made by the Committee at its April 17, 2000 session, for a regular report on the Bank's financial performance during a specified observation period. We are gratified to learn that Bank's risk absorption capacity remains adequate, and that, unless a sharp deterioration in the international situation affects this capacity, the Bank will take no emergency measures and will simply continue to monitor its financial status. Should this deteriorate unexpectedly, the Bank would be obliged to reconsider remedial measures, among them those proposed in a recent report from the so-called Committee of Wise Men.

In contemplating the possibility of such an emergency situation, we can only reiterate our appeal that any response by the Bank to such an eventuality not have an adverse effect on the level of, and arrangements for, resource transfers to IDA and other programs to assist poor countries such as the HIPC Initiative, the African Capacity Building Initiative, the Post-Conflict Program, etc.

Progress Report on the Bank's Role in International Financial Architecture

Finally, we welcome the Report from Bank staff on progress with discussions regarding the role of the World Bank Group in strengthening the international financial architecture. Given the recent financial crises which affected first Mexico and then Asia, the international community, not surprisingly, began a quest for means of preventing this type of crisis in the future. We applaud the collaboration between the Bank and the IMF to this end. Having agreed on a division of labor between themselves, the two institutions are now going ahead with more in-depth discussion and analysis, each in its own sphere of comparative advantage. It is our view that the role of the Bank here should be determined by its mandate to reduce poverty, by its knowledge of the specific problems of the countries concerned, and by its commitment to development-related matters. In this context, the Bank should focus on formulating standards, critical assessment and reform of the financial sector, corporate governance, accounting and audit practices, insolvency and creditor rights, debt management, and social protection. In this regard, we fully endorse Bank initiatives such as its Financial Sector Assessment Program (FSAP) and its Reports on the Observance of Standards and Codes (ROSCs). In both these cases, it leads the way in examining the administration of enterprises, accounting and auditing practices, and insolvency, in the drafting of debt management guidelines, and the formulation of practical instructions for the development of local financial markets for government debt instruments.

Prepared Statements Circulated by Observers

The following statements were submitted by Observers in addition to the foregoing statements by Members:

Statement by Mr. Jean-Claude Fauré, Chairman, Development Assistance Committee (DAC)

PARTNERSHIP FOR POVERTY REDUCTION: FROM COMMITMENT TO IMPLEMENTATION

Under this title, Ministers and Heads of Aid Agencies meeting for their annual High Level Meeting of the Development Assistance Committee in May 2000, issued a policy statement which clearly expresses the international bilateral donor community's strong commitment to fight poverty in a partnership mode, not only directly involving Governments of partner countries but also their civil society and private sector.

Now that the international community's thinking on these issues has converged to an unprecedented degree, the Statement rightly focuses on the implementation of the shared objectives. In doing so, the Statement not only refers to ongoing work but also identifies challenges for the future. These include:

- how to approach development co-operation as effectively as possible in countries where policies and performance are not yet supporting poverty reduction strategies (including those countries in conflict or just emerging from conflict);
- how to facilitate the public management tasks of partner countries when dealing with the many different procedural requirements from donors;
- how to effectively engage civil society and the private sector in poverty reduction strategies;
- how to enhance the capacities of developing countries to benefit from globalisation and manage the impacts of the globalization process;
- how to effectively promote greater coherence of overall OECD member policies in pursuit of the international development goals.

The DAC is engaged in working on these challenges. Poverty Reduction Guidelines are now being finalized in close consultation with development partners from all regions, civil society and international organizations. Linked to these Guidelines, policy coherence is being approached in the wider OECD context, with a view to producing a Policy Coherence Checklist. Guidance is also being compiled on capacity building for trade in support of pro-poor growth. These instruments will be submitted to the next DAC High level Meeting April 2001. Furthermore, the DAC's annual Development Partnership Forum in December will focus on civil society involvement in poverty reduction strategies, and next year's High Level Meeting will confront the issues arising from poor performance.

In all of these endeavors, the commitment and active participation manifested by the Multilateral Development Banks, the IMF, the UN and its agencies, as well as many other organizations that are actively engaged in fighting poverty, are essential. These endeavors should bear fruit within the country-level frameworks that have emerged over the past two years. The implementation process will be a challenging one, asking for significant evolution in donor practices. Such concerted efforts of all donors, increasingly led by the governments of developing countries themselves and in close consultation with these countries' civil societies, has the real potential to boost development and bring achievement of the international development goals within reach.

PARTNERSHIP FOR POVERTY REDUCTION: FROM COMMITMENT TO IMPLEMENTATION

At the beginning of the century we reaffirm our commitment toward achieving the international development goals and endorse the following key orientations and actions for the implementation of development co-operation policies.

1. Four years ago we set out a vision of a global development partnership. In our report *Shaping the 21st Century: The Contribution of Development Co-operation*, we focused attention on the following goals from the commitments reached by the international community at the major UN Conferences of the 1990s:

- Reduce by at least one-half the proportion of people living in extreme poverty in developing countries by 2015. (Copenhagen)
- Universal primary education in all countries by 2015. (Jomtien, Beijing, Copenhagen)
- Demonstrated progress toward gender equality and the empowerment of women by eliminating gender disparity in primary and secondary education by 2005. (Cairo, Beijing, Copenhagen)
- Reduction of infant and child mortality rates by two-thirds by 2015. (Cairo)
- Reduction of maternal mortality by three-fourths by 2015. (Cairo, Rio, Beijing)
- Access through the primary health-care system to reproductive health services for all individuals of appropriate ages, including safe and reliable family planning methods, by 2015. (Cairo)
- National strategies for sustainable development in operation in all countries by 2005, so as to ensure, by 2015, a reversal of current trends in the loss of environmental resources and the accumulation of hazardous substances. (Rio)
- Continue addressing qualitative aspects of development that are essential to the attainment of the aforementioned goals; these include capacity development for effective, democratic and accountable governance, the protection of human rights and

respect for the rule of law. (Copenhagen, Vienna)

2. In the past four years, in partnership with developing countries and multilateral organizations, we have made major strides towards the common ground of a more effective model of development co-operation, including an agreed set of indicators to monitor progress towards achieving the international development goals. Our meeting has provided an opportunity for us, with the United Nations, the World Bank and the International Monetary Fund, to reconfirm shared commitments to this broad partnership. We look forward to enhanced collaboration in country-level frameworks.

Poverty Reduction

Development co-operation now relies on a broad, multidimensional understanding of poverty.

3. Eradicating poverty is a shared objective of the international community. We are establishing a broad and multi-dimensional perspective on poverty reduction. This includes the policies needed to generate pro-poor economic growth, producing broadly based rises in incomes through private sector-led, activity. Investment in basic social services (education, health and water) is also fundamental in this perspective. At the same time, this approach extends to addressing, with governments and civil society, issues of equity and the risks and vulnerability the poor face, as well as to supporting their empowerment to change the unacceptable conditions of their lives, through the active exercise of their rights and their capabilities.

4. Development co-operation is ultimately about our joint interest in peace and sustainable development, and our commitment to the respect for the equal rights of all human beings. These universally accepted norms are manifested in the UN Charter, in the UN Declaration on Human Rights and in the Conventions based on the Declaration.

5. Gender equality and the empowerment of women to fully share in all aspects of economic, social and political life has to be an integral part of this comprehensive effort to fight poverty. The promotion of environmental sustainability is equally important. This calls for a systematic integration of these dimensions into all areas of development.

6. We have mandated the DAC to develop guidelines on poverty reduction, laying out the essential building blocks of coherent and more effective policies and action.

Ownership and Partnership

Partnership with developing countries which have ownership in the process is the foundation of our co-operation.

7. The main responsibility for combating poverty lies with the government and the people of each developing country. The role of development co-operation is to support national policies based on self-reliance and responsibility by the partner countries. Ownership and partnership -- involving in particular national and local government, but also civil society and the private sector in both donor and partner countries --

based on a shared view of countries' needs, capacities and objectives are the foundation of our co-operation with partner countries. This requires the building and strengthening of the developing country's own capacity to diagnose and act on its anti-poverty agenda and other development issues.

8. An agenda for strengthening ownership and partnership has already emerged in recent years: common frameworks for program implementation; partner-led co-ordination; transparency, simplification and, wherever feasible, sustained progress towards harmonizing donor procedures, in particular those concerning auditing and procurement of goods and services; continuing efforts toward untying; discouraging the proliferation of isolated projects; enhanced use of local capacities; joint monitoring and evaluation; improved coherence; and innovative ways of financing.

9. While we underline the importance of transparency and accountability in the use of aid, including for our own constituencies, we must pursue concerted efforts to reduce multiple procedural requirements which impose a serious burden on limited partner country capacity. Such requirements translate into separate procedures for each donor, for example on reporting, procurement and project supervision. And where projects establish stand-alone management structures, they often hire away the best talent from government and civil society, at the expense of strengthening existing government and other institutions. We must end such practices and work together to support national programs, involving government and civil society.

10. We welcome the convergence within the international community around comprehensive country-level development frameworks, integrating national anti-poverty strategies (as captured in country-owned Poverty Reduction Strategy Papers). There are promising experiences in implementing partnership principles on the ground in a number of partner countries. Now, this effort has to spread and become the guide for development co-operation. Country ownership takes time to fully develop and requires mutual trust between the developing country's government, its people and its external partners. Some key challenges remain, however, to be addressed, both by recipients and donors. We call upon the DAC to consider the guidance needed to implement the partnership agenda.

11. Pursuing a partnership approach to development will tend to focus bilateral co-operation on those countries that have demonstrated willingness and ability in taking ownership of their own development process. This is important to increase aid effectiveness, and builds on the results of intensive research on how to maximize returns from aid in terms of poverty reduction.

12. At the same time, we are deeply concerned by the situation in those countries where such willingness and/or ability does not yet exist. Where willingness exists, we will support governments to strengthen institutional capacity and ability in order to improve their governance and policies. All too often, national capacities in these countries are further diminished by

recent or ongoing conflict and ravaged infrastructures, compounding the challenges of poverty and human misery, in many instances against the backdrop of overpopulation. Furthermore, some of these countries pose continuing risks of embroiling neighboring countries in violent conflict. In addition to humanitarian assistance, we can best help these countries by encouraging them to pursue policies that will prevent future conflict as well as otherwise address issues of sustainable poverty reduction and by helping them build human and institutional capacities.

Globalization and Policy Coherence

Greater policy coherence is essential so that developing countries can take advantage of the globalization process to reduce poverty.

13. Global co-operation, exchange and integration are in the interest of all. Globalization is bringing new opportunities to the partnership with developing countries, especially in areas such as trade and investment, finance, knowledge and technology. The challenge is to ensure that globalization will benefit poor people.

14. In many parts of the world major economic and social progress has been made. In other parts of the world successful development is still all too rare or fragile, and depends on meeting complex challenges of governance, conflict resolution, demography and disease. A concerted effort in partnership is urgently required to prevent diseases such as HIV/AIDS, malaria and tuberculosis from becoming even greater obstacles to development.

15. Developing the social and economic capabilities needed to participate in an increasingly competitive global economy is also a major frontier for many developing countries. For developing countries to take advantage of the globalization process and to minimize the risks, the international community will have to take some key actions in areas such as security, transparent and stable financial systems, trade access, agricultural policies and the environment. In these areas, regional and broader South-South co-operation is also important. We will encourage and support progress and programs at these levels.

16. In the area of trade, we welcome the wide recognition among developing countries that liberalizing trade and investment, as an essential part of a comprehensive development strategy, is instrumental to sustained poverty-reducing development and that they have a major responsibility for their own policies in this regard. We clearly recognize that the efforts of the OECD countries to promote policy coherence are essential as well. This involves, for example, policies relevant to providing enhanced access to our markets, improved rules under the WTO system, appropriate responses to environmental and social concerns, and effective participation of developing countries in international negotiations and system building. It also calls for the development of competitive capacities of partner countries in international trade. We must contribute to enhancing the capacities of developing countries to benefit from the globalization processes and to participate in the development of the international framework, as provided

under the WTO system.

17. We are committed to promoting greater coherence of overall OECD Member policies in pursuit of the international development goals. We have mandated the DAC to develop a checklist on policy coherence that can be a reference point throughout our public policy systems. In this connection, we encourage the OECD in its commitment to systematically integrate development issues throughout all its work.

Human rights, democracy and good governance form the foundation for poverty reduction.

18. The success of the fight against poverty depends on the will and capacity of individual countries to pursue policies that promote equitable growth and social development. Recent analyses of impediments to poverty reduction -- including that by Nobel Prize winner Amartya Sen -- have shown that, for the incomes and the general well-being of the poor, women and men, to rise, human rights and freedom are essential prerequisites for them to take part in the development process. Democracy, participatory development and good governance are thus central to poverty eradication.

19. Good governance requires a broad approach to partnership extending beyond government and parliaments to include civil society and the private sector. Together with partner countries, we will intensify our efforts to effectively involve local civil society Organizations, as well as other key development stakeholders -- including professional associations -- in the early stages of program and project planning.

20. However, with responsibility and partnership go accountability, transparency and predictability. Recent financial crises have brought home the importance of improvements in corporate governance, domestic and international, to a stable financial framework. The OECD Convention on Combating Bribery in International Business Transactions has been an important milestone in international corporate governance.

Financing Development

The role of official development finance, both in qualitative and quantitative terms, is crucial in complementing domestic and private resources for development.

21. Looking at the future of development financing, it is important that developing countries progressively rely on their own domestic resource mobilization, complemented increasingly by sustained long-term private capital flows. A role of aid is to contribute to this process and to support efforts to diminish aid dependence, particularly in those countries, regions and sectors where access to private capital flows is still elusive or limited.

22. In the field of global public goods, aid will have to play an active role in financing crucial inputs to development that private investors or individual countries are themselves unable to produce. These include, for example, appropriate health and medical research, environmental programmes which can only be produced by collective action, regional and global peace and security, as well as respect for human rights.

23. Aid has a crucial role in achieving the international development goals by supporting the efforts the developing countries are undertaking themselves to make development progress, especially in the area of poverty reduction. In committing ourselves to this course for the future, we will continue improving the quality of our aid flows. We further recognize that an increased volume of aid, linked to its effective use, is an essential contribution towards achieving the international development goals. We will increase our efforts to make additional funds available. In so doing, most Members are guided by the 0.7 per cent ODA/GNP target.

Statement by Mr. Ahmad Mohamed Ali, President, Islamic Development Bank

The agenda of the sixty-second meeting of the Development Committee covers items with special significance to the World Bank Group such as its role in poverty reduction and global public goods, its support to country development, and progress being made in applying its Comprehensive Development Framework, implementing HIPC Initiative and Poverty Reduction Strategy Papers, strengthening its financial capacity, and defining its role in international financial architecture. Since these topics are highly relevant to most developing countries including member countries of to the Islamic Development Bank (IsDB), I would like to share some of my thoughts on the agenda items of this very august meeting. As usual, I begin with the assessment of the performance of the world economy in general and of IsDB member countries in particular and give some observations on the recent trends in the transfer of resources to developing countries.

As you are aware, during the year 2000, the world economy has continued to recover its growth momentum after it had slowed down due to financial crises. The growth rate of the world output is expected to accelerate from 3.3 percent in 1999 to an estimated 4.2 percent this year. While the economic growth in major industrial countries is expected to remain satisfactory with an estimated overall growth rate of 3.3 percent in 2000, developing countries will realize a higher economic growth than the world average. Their rate of growth is estimated to be 5.4 percent in 2000 after registering 3.8 percent in 1999. This level of performance was made possible by the continued and successful efforts to implement structural adjustment programs and other important reform measures as well as by increased oil and primary commodity prices and economic recovery of their trading partners in Europe and North America.

With the global economic recovery, world trade is also expected to improve, registering an estimated growth rate of 7.9 percent this year. In addition, inflation, as measured by changes in the general consumer price level, is projected to remain low at 1.8 percent in 2000 in industrial countries, while in developing countries as a whole, although still higher, it is projected to decrease from 6.7 percent in 1999 to 5.8 percent in 2000.

Obviously, a favorable global economic environment helped IsDB member countries improve their economic performance. The Gross Domestic Product (GDP) of these countries reversed its downward trend with a growth rate expected to increase to 4.5 percent this year. In particular, the growth of the Least-Developed IsDB Member Countries (LDMCs) is projected to be even higher at 5.2 percent in 2000. The trade balance position of IsDB member countries as a group is also expected to improve significantly from a surplus of US$38.6 billion in 1999 to a surplus of US$66 billion in 2000. Regarding the trade balance of the LDMCs group, its chronic deficit position persisted but is expected to fall to US$7.9 billion in 2000 due, among others, to improve international primary commodity prices.

Despite these improvements in the performance of the world economy in general and IsDB member countries in particular, they continue to face a number of challenges that are likely to affect their performance in the next decade. These mainly include the risks of global slow-down, unbalanced pattern of growth among industrial countries, and macroeconomic instability in many parts of the world. The emerging economies confront the challenging tasks of financial sector restructuring and privatization in order to strengthen their recovery and reform their corporate sectors to achieve greater efficiency and international competitiveness. Concerning developing countries, including many IsDB member countries, poverty continues to be a major source of concern, although efforts for poverty alleviation have been made at all levels.

In recent years, there was not only further deterioration in the poverty profile of African member countries, but some Asian and Arab member countries also experienced an increase in poverty due to financial crisis and a decrease in revenues of primary exports. According to available data, three out of five individuals in IsDB member countries currently live on incomes that are less than US$2 a day, representing about a quarter of the world’s poor. In many of these countries, rural poverty incidence is even more severe than urban poverty. In general, this high degree of deprivation is reflected in very low social indicators such as low access to safe drinking water and sanitation, low enrolment rates in primary education and low literacy rates.

Accordingly, it is clear that poverty will remain a complex problem posing a challenge to policy makers in most developing countries as well as to multilateral financing institutions (MFIs). While it is generally observed that the reduction of poverty is not possible in the absence of economic growth, a broad-based growth and investing in human capital of the poor, the provision of social protection for vulnerable groups of society should constitute an important element in a comprehensive strategy to reduce poverty. In this respect, modern, publicly organized safety nets can help the poor achieve a minimum standard of living and protect them from unexpected shocks.

Furthermore, it is expected that, because of poverty, developing countries will continue to rely on external flows of resources for the success of their structural reforms and developmental efforts. These capital flows may be in the form of official development finance, foreign direct investment and other capital flows from international capital markets. According to available data from the World Bank, the total volume of net long-term flows to developing countries decreased by US$43 billion between 1998 and 1999 because of the significant decline in flows from international markets. This decline resulted mainly from the deterioration of investor confidence in emerging markets, although economic recovery was observed in many countries affected by the recent financial crisis.

Concerning official development finance, while welcoming the increase in the net volume for the third consecutive year from US$52 billion in 1998 to US$56 billion in 1999, reflecting a better economic situation in most donor countries, the IsDB shares the deep concern arising from the low level of aid flows or net concessional finance which is still below its level for 1994 by about US$5 billion. In addition, although foreign direct investment (FDI) to developing countries increased slightly in 1999 to reach the volume of US$180 billion, the share of these countries in world FDI flows continues to decline since 1997. FDI flows also remain relatively concentrated in very few developing countries and efforts should be made in order to reverse this trend particularly in Africa.

Finally, serious concern arises with respect to the sharp decline in flows from international capital markets, which constituted the second largest source of finance for developing countries during the last few years. These flows decreased sharply by more than 50 per cent between 1998 and 1999 because of the significant decline in commercial bank loans and bonds. However, portfolio equity increased significantly due to better conditions in the capital markets of emerging economies reflected by a sharp increase of stock prices and supported by large privatization transactions particularly in East Asia.

In the light of the economic situation in developing countries, including IsDB member countries, the IsDB fully agrees that poverty should continue to be on top of the agenda of all MFIs. Accordingly, it is not surprising that almost all the items on the agenda of the Development Committee are related to this crucial issue, as the global objective in this area is to reduce poverty by half by 2015.

As far as the first item on the agenda is concerned, I do not think that the IsDB needs to give a different definition for global public goods and stress the importance of global collective action aimed at facing the developmental challenges. However, while it is true that support to global collective action is not new, the IsDB shares the view that new approaches and instruments need to be designed in order to reduce poverty significantly. This requires the mobilization of additional resources to participate in collaborative partnerships at national, regional and global levels. In this regard, we feel that the World Bank has a greater role to play in this area because of its comparative advantage in mobilizing and managing large financial and knowledge resources at the international level. However, this role should not be incompatible with the view that the World Bank as well as each concerned institution should confine its intervention to activities in areas that are within its mandate.

In this context, the IsDB broadly agrees with the areas presenting several cross border externalities, identified by the World Bank for global collective action. Among these areas, creating and sharing knowledge may be emphasized since knowledge constitutes a public good that is critical for socio-economic development. In general, supporting global collective action is fully consistent with the promotion of cooperation, which constitutes the overarching development theme in IsDB’s Strategic Agenda. In this respect, many actions have been already undertaken by the IsDB at various levels, including cooperation with MFIs by maintaining close contacts with several multilateral and regional financial institutions including the World Bank, the Asian Development Bank, the African Development Bank, the European investment Bank (EIB), the European Bank for Reconstruction and Development, FAO, IFAD, etc., with a view to further expand its working relationships and broaden its vision of economic development.

Forms of cooperation with these institutions range from project co-financing and program coordination to exchange of information. For instance, the World Bank and the IsDB have already decided to build and nurture a lasting alliance on development efforts of common perspective and to strengthen their relations in the fields of project evaluation, co-financing and staff training. In this connection, an Aide Memoire was signed to strengthen the partnership between the two institutions. The Aide Memoire focuses on the need for more strategic coordination between the IsDB and the World Bank Group in operational areas, such as in the preparation of Country Assistance Strategy (CAS) documents, in co-financing projects and improved implementation. In addition, both institutions will explore the potential for developing new financial products to better respond to demand from common member countries; and improve information and staff exchange.

As regards the second item on our agenda, which clearly complements the previous one, like other MFIs, the IsDB recognizes that in order to strengthen its role in development and help its member countries facing the challenges, new operational modalities should be designed. In this respect, while greater cooperation among MFIs is needed, a clear division of labor will make their intervention more efficient. For its part, the IsDB supports any action aimed at streamlining the development assistance system by enhancing the effectiveness of multilateral efforts in supporting country development.

In this area, it is to be noted that the IsDB has gradually launched various windows with the objective to enhance its developmental impact in its member countries. In particular, the establishment of the Islamic Corporation for the Development of the Private Sector (ICD) is expected to support its intervention in its middle-income member countries where the private sector is playing a leading role in the process of economic growth and development.

Concerning the third item of our meeting, the IsDB welcomes the idea of a comprehensive approach to development and would like to learn from the experience of the World Bank Group with its Comprehensive Development Framework although it is still at an early stage of implementation.

In this context, it may be worth to recall that the IsDB itself has always attempted to implement a similar approach. In particular, its current Strategic Agenda for the Medium-Term constitutes a framework which is enabling the IsDB to anticipate and respond to challenges facing its member countries by providing a clear set of priorities, objectives and identifying the most effective means of achieving these. This framework covers a wide range of development themes, namely promotion of cooperation among member countries particularly through trade financing, poverty alleviation, support for science and technology, human resource development, conservation of environment, and private sector assistance. In addition, the IsDB considers as priority sectors for its medium-term strategic plan the agriculture and food security, medium and small-scale industry, education and health, transport and communication. Finally, the IsDB recognizes that a process of “dialogue-in-partnership” needs to be undertaken in order to define appropriate programs of action.

Concerning the fourth item on progress in implementing the HIPC Debt Initiative, while we would like to express our satisfaction for the adoption of the enhanced framework, we consider that the issue of external indebtedness remains a serious problem in developing countries and continues to be a source of deep concern. For IsDB member countries as a whole, the ratio of external debt to exports of goods and services is expected to be as high as 126.8 per cent in 2000 while in the case of the LDMCs it is estimated at 488.3 per cent. Obviously, more efforts need to be deployed by the donor community in terms of debt relief for the least-developed countries, including the IsDB LDMCs, as their external debt to export ratio is unsustainably high and well beyond the threshold level for HIPC eligibility for debt relief.

In this regard, we hope that the enhanced HIPC Debt Initiative, endorsed by our member countries one year ago, will give more concrete results in terms of reducing this heavy debt burden. As intended, qualified countries will now receive "*broader, faster and deeper*" debt relief. By mid-September 2000, debt relief packages approved by MDBs under the enhanced Initiative will reach US$ 10.5 billion or more than US$ 6 billion in NPV terms. Combined with debt relief under the Paris Club and debt relief and cancellation by other donors, this assistance will reduce debt of qualified countries by about two thirds.

It is evident that such expected achievement should encourage MFIs to continue their cooperation in order to help a greater number of developing countries reach as quickly as possible their decision points. In this respect, we agree that leading MFIs, mainly the World Bank Group, should maintain Poverty Reduction Strategy Papers flexible by focussing on essential policy requirements for accelerating growth and reducing poverty. For its part, the IsDB has reiterated its participation in principle in the enhanced HIPC Debt Initiative, including for the provision of interim debt relief if such relief can be effectively delivered through re-scheduling of debts. While re-scheduling will continue to be used as the modality for delivering the IsDB's share of debt relief on case by case basis, the IsDB participation is, however, subject to availability of funds from the HIPC Trust Fund or any other outside sources.

Finally, while the fifth item on the IBRD's financial capacity does not need any comment from our part, for the sixth item relating to the international financial architecture, the IsDB would like to reiterate its support to the efforts aimed at reforming and strengthening the present system and agree with the areas of reforms identified so far, namely corporate governance, accounting and auditing, insolvency regimes, social protection and financial and corporate restructuring.

On this occasion, it may be useful to mention that the IsDB has played a pioneering role in the area of Islamic banking by developing new financial modes for financing development projects and programs in both public and private sectors in member countries. These include instruments such as leasing, installment sale, equity participation, profit sharing and *Istisna'a* or contract finance that generate financial flows directly linked to actual transactions. This may prevent speculation and contribute to better discipline in both financial and real markets.

Furthermore, the IsDB has actively contributed in the establishment of the Accounting and Audit Organization for Islamic Financial Institutions (AAOIFI) which is expected to play a critical role in the codification of accounting principles for the whole range of Islamic banking activities.

Currently, the IsDB is also leading the process for the development of internationally acceptable regulatory standards for Islamic banks in collaboration with IMF. It is evident that an appropriate regulatory framework is needed to ensure the success and expansion of Islamic banks in the global environment. Besides ensuring compliance with international standards and promoting efficiency of capital markets and institutions as with other banks, the regulation of Islamic banks should ensure the safety of depositors' funds, shareholders' equity and safeguard security of public interest by protecting payments and the financial system from instability. It should also provide equal opportunity for competition, enhance fairness by promoting transparency, facilitate macroeconomic management and motivate efficiency in internal governance.

However, it should be noted that despite the need for adhering to the international standards, due to the unique nature of Islamic banking operations, such an adherence couldn't be expected to be effective without proper adaptation of the particular standards. While a number of suggestions are put forward for a suitable adaptation of the international standards to Islamic banks, the issue of capital adequacy has become of paramount importance in the aftermath of the Southeast Asian financial crisis. Therefore, in my view, while new initiatives are being launched to strengthen the international financial architecture, it is necessary to initiate a wide-ranging consultative process among key players to set an internationally acceptable and codified prudential framework for the Islamic banking industry.

In sum, although the items on our agenda are addressing issues specifically related to the role of the World Bank in supporting development, they are covering crucial areas of cooperation among all partners in the process of poverty alleviation, including the IsDB. Therefore, we are confident that the debate in the sixty-second meeting of the Development Committee will help in devising new approaches and instruments for enhancing global collective action for accelerating economic growth and reducing significantly poverty in our member countries.

Statement by Mr. Poul Nielson, Commissioner for Development and Humanitarian Aid, European Commission

Enhanced Initiative for Heavily Indebted Poor Countries and the Poverty Reduction Strategy Papers

In my two letters to Michel Camdessus and Sven Sandström in March 2000, I had the opportunity to welcome strongly the new approach of the Bretton Woods Institutions and our support for the Poverty Reduction Strategy process. I also welcomed the opportunity for the EC to be involved in this process, both at headquarters and field level.

Since that time, in parallel with regular consultation between the IMF, WB, EC and other donors, the Commission has taken some important decisions:

- on HIPC, over €1 billion was committed: to support the EC's involvement as a creditor (€ 349 million) and to support the initiative as a donor (€ 680 million for ACP countries and €54 million for Latin American and Asian countries). Furthermore, more than €300 million were disbursed this summer to the Trust Fund;

- guidelines were sent to all ACP delegations to improve and focus on key points of EC involvement in the PRSP process. All our budget/ structural adjustment support to ACP countries involved in the PRSP process has been linked to it. Lastly, I decided that the 9 EDF programming exercise, which will follow the signature of the Cotonou agreement, would be embedded in the overall strategy for growth and poverty reduction developed by these countries.

The EC calls on other donors to also make their pledges available quickly so that the new enhanced HIPC framework can be implemented without delay.

I congratulate the IMF and the World Bank for the clarity and honesty of the two reviews of the implementation of HIPC and PRSP which were discussed on 5 September by the Boards. While these documents give a clear picture of where we are, they do not fail pointing out the difficulties.

The situation regarding the transparency of the process, and the involvement of civil society and other donors, has differed widely from one country to another. In a large number of cases there are still important weaknesses in the process.

EC involvement in the process will be oriented towards ensuring that PRSPs lead to important changes in the partnership with developing countries, following the Comprehensive Development Framework principles that we share:

- a long-term vision and strategy;
- enhanced country ownership of development goals and actions;
- more strategic partnership among stakeholders; and
- accountability for development results.

I should first like to address the question of excessive pressure on the elaboration of the full PRSP. While speed in preparing the interim PRSPs is understandable, to allow countries to meet the decision deadlines and benefit from HIPC debt relief, time must be allowed to the countries to elaborate their full PRSPs. Time is necessary to facilitate a real participatory process, and to allow countries to elaborate new policies that can have a real impact on poverty reduction. Time must also be given to building monitoring capacity, identifying pertinent result-oriented indicators, and to addressing the question of improving management of public resources.

Capacity building is essential for the success of these fundamental changes. The EC stands ready to provide support to countries in these key areas, in collaboration with other donors.

Clarification and improvements have still to be sought on the question of conditionalities. The EC favors a more result-oriented conditionality, which gives more flexibility to countries in the choice of their policies.

Finally, illumination is needed on the issue of monitoring the implementation of the PRSP, following endorsement of the full PRSP. Mechanisms have to be found to ensure institutionalization of this monitoring and transparency of the annual reviews. The involvement of civil society, stakeholders and donors in this review process will be essential.

Improvements in informing key partners who are not represented at the Boards is a challenge which has also to be addressed.

Statement by Mr. Juan Somavía, Director-General, International Labour Office (ILO)

The theme for the Annual Meetings: "Making the Global Economy Work for Everyone" is most opportune. In fact, the international conferences that have taken place since last Spring underscore the importance of this theme. The ILO has, on various occasions, emphasized that globalization is delivering enormous new opportunities, particularly as a result of the information and communication revolution in technology. However, there are reasons for concern as the benefits of globalization have been highly concentrated. In particular the global economy has performed poorly in meeting the majority of people's aspirations for decent work.

The Annual Meeting of the joint Bank and Fund Development Committee takes place against renewed optimism about growth of the world economy. In the words of the IMF, *World Economic Outlook*, "the outlook for the global economy has continued to strengthen, with GDP growth projected to increase in all major regions of the world". This has to be seen against the backlog of problems that drive the development agenda. Despite progress in recent years, unemployment and poverty remain pervasive. The ILO estimates that at present more than 1 billion workers — or one-third of the world's labour force — are either unemployed or underemployed. Of this total some 150 million are openly unemployed. Youth unemployment rates continue to be on average double those of adults. There are about 60 million young people between the ages of 18 and 24 who are in search of work but cannot find it. Two hundred and fifty million children below the age of 14 have to work — 60 to 80 million of them exploited in the worst forms of child labor. The task of creating jobs is becoming more and more daunting as the economically-active population is projected to reach 3.5 billion by 2010.

It is against this backdrop that the issues proposed on the Agenda of the Development Committee acquire an added importance. The ILO welcomes in particular the novel topic on "Poverty Reduction and Global Public Goods". We fully support the statement that "the trend toward global problem-solving has potentially significant implications for international institutions and for development assistance more broadly: new approaches and instruments will need to be developed to enhance the current national frame of reference". Clearly, it is necessary to develop a more integrated approach to policy proposals among major international organizations.

There is a feeling that in this crucial area, the multilateral system is under-performing. It is basically perceived to be a set of organizations working in parallel, relatively disconnected, each pursuing its own sectorial mandate despite important examples of joint cooperation. The capacity to deliver coherent policy advice is probably the most important global public good we can offer. For the international organizations to continue to be relevant as a multilateral "system", they must develop the capacity for integrated thinking on the basis of their respective mandates and experience. There is a need to promote *a shared understanding* of people's needs to reduce poverty, increase employment and promote social inclusion. Employment creation, whether wage or self-employment, must be at the centre of that endeavour. Its absence is making democracy and markets appear unable to deliver decent work for people. It also weakens families by undermining their sense of dignity and self worth. The Committee's document on "PRSP — Progress in Implementation" is right to note that "countries, NGOs, and donors have also stressed the importance of focusing on employment and the problem of 'jobless growth'". The X Summit of the Heads of State and Government of the G-15 echoed this in its Statement in

Cairo (June 2000) by re-calling their "*initiative to the ILO under the caption "Comprehensive Employment Strategy", which seeks to ensure the development of policies geared towards stable economic growth and social development. We reiterate the urgency for the ILO to design such a strategy so as to stimulate employment creation in all developing countries*".

The other issues on the Agenda of the Development Committee are equally important especially those related to the progress made in the implementation of the Poverty Reduction Strategy Papers (PRSPs) and the initiative for debt relief of the Heavily Indebted Poor Countries (HIPC). Poverty reduction continues to be a central objective of international policy-making. This has been emphasized in various fora and aptly reflected in the G8 Communiqué of Okinawa 2000 where leaders stated that they were "keenly aware that even now in many parts of the world poverty and injustice undermine human dignity, and conflict brings human suffering". We fully share the concern to balance timeliness in the preparation of the PRSPs with their quality, but we also understand the need to speed up the PRSP process as a prelude to achieving concrete results. In this respect, the conclusions of the Committee in April 2000 remain relevant. Moreover, the question of country ownership is crucial for the success of the whole exercise. People would only support the reforms in which they have a stake.

Finally, the HIPC initiative must be supported. There is a need here also to balance macroeconomic cohesion with timely and tangible debt relief. The Millennium Assembly of the UN (September 2000) has emphasized the need "to implement the enhanced programme of debt relief for the heavily indebted poor countries without further delay and to agree to cancel all official bilateral debts of those countries in return for their making demonstrable commitments to poverty reduction".

The ILO is actively working with its constituents to achieve these objectives in its areas of competence. It is within this framework that collaboration is taking place with the Bank and the Fund in their efforts to implement the PRSPs in two ways: (a) by promoting an enabling environment for job and enterprise creation as key components of sustainable poverty reduction strategies; and (b) ensuring the ownership of PRSPs by the countries concerned through dialogue among the social partners, governments, employers' and workers' organizations as well as pertinent civil society voices, using the Organization's unique tripartite structure. Plans are underway to put this collaboration into practice at the national level in some selected PRSP countries.

This is being done within the framework of the *Decent Work* agenda which has been endorsed by our constituency as well as the General Assembly of the United Nations and the Millennium Summit. Accordingly, *"the primary goal of the ILO today is to promote opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and human dignity".* Decent work is the way ordinary women and men express their needs and aspirations. We have been focusing on building up the four pillars of decent work: creating employment, ensuring fundamental rights at work, providing social protection and promoting social dialogue, and now we are in the process of deepening and operationalizing the Decent Work agenda at the national level. In developing our mandate, we want to be a team player within the multilateral community in making the "global economy work for everyone". We start from the premise that we all need each other to understand better the way globalization impacts on the different areas of our activity; in the case of ILO it is the world of work. We do not just mean coherence and coordination, but a truly integrated thinking, defining the big picture collectively, the new realities of a knowledge-based society in a competitive global market. In the statement to this Committee last April, we have highlighted the major issues that needed to be addressed. Now, three areas are suggested where contributions could be made and synergies could be further achieved:

Understanding the way the global economy functions and its impact on the world of work. Major shifts are taking place in both the structure and nature of work. These will provide new opportunities, but may also result in different short and long term insecurities, and will certainly require fresh approaches to labor issues. A major challenge is how to understand the processes of change and design appropriate policies for coping with their impact on workers and their families. There is a need for a well-studied and broad-based understanding of the processes involved and their outcomes for human beings. These issues are being addressed by the Working Party on the Social Dimension of Globalization which benefits from the participation of the World Bank, the IMF, WTO, UNCTAD, UN Development Group and other organizations of the multilateral system.

Acknowledging rights at work as part of development. A promotional approach is adopted based on constructive partnership, dialogue with the stakeholders, ownership by countries and joint definition of policy advice and technical cooperation needs. An active campaign to help member States implement the Declaration on Fundamental Principles and Rights at Work is underway. Particular emphasis is put on the elimination of child labor, especially in its exploitative forms, following the unanimous adoption of Convention No. 182 on the Worst Forms of Child Labor. We are happy to see the World Bank accelerating its efforts in the area of international labor standards in general and child labor in particular in cooperation with interested countries. It is hoped that through international cooperation we can help every society to find ways to acknowledge that everyone at work has rights.

Ensuring that global public goods, represented by multilateral policy advice, help attain national objectives. Efforts are required to re-engineer international cooperation efforts to support national policy options. This is particularly important in the area of poverty reduction. The ILO strongly supports the objective of halving poverty by the year 2015, and is prepared to play its role in achieving this objective especially through technical policy advice based on the strong linkage between the promotion of decent work and poverty reduction. In this respect, the Bank and the Fund, as well as other members of the multilateral system, are invited to become partners in the preparations for, and the work of, the *World Employment Forum* to be organized in Geneva in November 2001. This has been endorsed by the 24th Special Session of the General Assembly entitled "World Summit for Social Development and Beyond" which, "*recognized the need to elaborate a coherent and coordinated international strategy on employment to increase opportunities for people to achieve sustainable livelihoods and gain access to employment, and in this connection support the convening of a world employment forum by the International Labour Organization in 2001."* It has also invited *"the International Labour Organization to facilitate a coordinated exchange of best practices in the field of employment policies to stimulate and expand employment generation, reduce unemployment, enhance the quality of work and improve labor market and employment services."*

The ILO reiterates its readiness to be a partner in a team effort which aims at charting a global social agenda to ensure that the global economy works for everyone.

Statement by Mr. Nitin Desai, Under Secretary-General for Economic and Social Affairs, United Nations

Millennium Summit

Two weeks ago, at the world's largest ever gathering of Heads of State and Government, there was a clear acknowledgement by all nations, large and small, rich and poor, of the need to work together to achieve a common destiny. Although the Millennium Declaration adopted by the Summit starts by addressing peace and security issues (including their link with development), most of the text speaks to development issues. During the formal and informal exchanges among Heads of State and Government at the Summit, particular attention was focused on globalization, the management of the international economic system, the challenges faced by Africa and the continuing external debt difficulties faced by many developing countries. The Millennium Declaration reflected a commitment to tackle these challenges, as reflected in the following selection of extracts:

> "In addition to our separate responsibilities to our individual societies, we have a collective responsibility to uphold the principles of human dignity, equality and equity at the global level. As leaders we have a duty, therefore, to all the world's people, especially the most vulnerable and, in particular, the children of the world, to whom the future belongs."

> "Global challenges must be managed in a way that distributes the costs and burdens fairly in accordance with basic principles of equity and social justice. Those who suffer, or who benefit least, deserve help from those who benefit most…"

> "We are concerned about the obstacles developing countries face in mobilizing the resources needed to finance their sustained development."

> "We resolve to ensure greater policy coherence and to improve better cooperation between the United Nations, its agencies, the Bretton Woods institutions and the World Trade Organization…"

On distinct issues, the Millennium Declaration reiterates the Geneva 2000 commitment to reduce poverty and also includes specific and time-bound pledges to achieve universal primary education and to reduce the proportion of the world's population suffering hunger, the proportion without clean drinking water, the maternal mortality rate and the child mortality rate. In addition, it includes commitments to reverse the spread of HIV/AIDs and other major diseases and to improve the lives of slum dwellers. It also addresses the environment, human rights, democracy and good governance, vulnerable groups and the special needs of Africa.

It was universally recognized that concerted action would be required to achieve the goals adopted at the Summit and a few countries indicated their intention to enhance their ODA performance to this end. There was widespread support for the role of multilateral agencies, although there were also many references to the need for further institutional reform, including of the United Nations.

“Beijing + 5” and “Copenhagen + 5”

The Millennium Assembly was preceded in June by the five-year follow-up reviews of the Beijing Conference on Women and the Copenhagen World Summit for Social Development.

The Special Session of the United Nations General Assembly entitled ‘Women 2000: gender equality, development and peace for the 21st century” confirmed the links between population, development and women’s equality. It recognized that poverty among women is increasing and that, without reducing female poverty, the global poverty goal would be impossible to achieve. The special session also underlined that all development issues – ranging from reform of the global financial architecture to primary education – are of concern to women and men equally. The outcome document contained various actions and initiatives to promote gender equality at the national, regional and global levels.

At the Special Session of the General Assembly on social development, there was, for the first time, universal intergovernmental agreement on a global goal of halving the proportion of people living in extreme poverty by 2015. This is implicitly understood to at least include the estimated 1.2 billion people with incomes of less than a dollar a day. It was also decided to begin a more integrated global campaign to reduce poverty. Preparation of an international employment strategy by the ILO will begin with the holding a global employment forum next year.

There are about 40 additional substantial initiatives or new international agreements for action in the Declaration adopted by the Special Session. These include: an agreed target of access to basic education for all by 2015 a call for all UN agencies to integrate health policies more effectively into their programs in other areas; action through trade agreements, and increased incentives for research to improve access of developing countries to affordable and effective pharmaceuticals; strengthened commitment to basic workers' rights, and to social protection for the vulnerable; and recommendations for national targets and more affirmative action to achieve gender equality. Corporate social responsibility was added to the international agenda for the first time. A number of countries used the opportunity to make concrete announcements as well. For example, Ireland announced plans to reach the ODA target of 0.7 per cent of GNP; Japan announced cancellation of debt for low-income countries; and Italy announced an aid initiative of over US$100 million.

Financing for Development

Many of the commitments made at the global conferences and at the plus-five processes, as well as at the Millennium Summit, have financial implications, but these have been given scant attention during the process of reaching agreement on goals and objectives. The high level international intergovernmental event on Financing for Development to be held in 2001 offers an opportunity to ensure that the requisite resources can be mobilized and the Millennium Declaration contains the commitment that “We will, therefore, make every effort to ensure the success of the High-level International Intergovernmental Event on Financing for Development…."

This event is expected to bring together political decision-makers on both financial and development matters from around the world in order to reach agreements on how to improve the mobilization of financial resources for development. The topics on the provisional agenda that has been agreed by the Preparatory Committee for this event are: mobilizing domestic financial resources for development; mobilizing international financial resources for development (foreign direct investment and other private flows); external debt; trade; increasing international financial cooperation through, *inter alia*, ODA; and enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development. The subjects to be addressed in the financing for development initiative therefore overlap with the main concerns of this Committee, as well as of the World Bank more generally, and steps have correspondingly been taken to ensure that the World Bank is fully engaged in this process.

As part of the preparatory process for this event, there is, for the first time ever, a dynamic structure of cooperation with the Bretton Woods institutions (and also the WTO), covering both the inter-Secretariat and inter-governmental aspects. These arrangements in themselves greatly enhance the chances for a successful and meaningful event. On the Secretariat side, both the World Bank and the IMF have appointed senior officials to liaise with and help the United Nations' Financing for Development Coordinating Secretariat on an ongoing basis; they are also providing technical support to special inter-agency working groups that have been set up to help prepare the report containing the Secretary-General's recommendations that will be issued early in 2001.

At the inter-governmental level, a three-pronged interface mechanism has been put in place with the World Bank. This includes interactions between members of the Bureau of the Preparatory Committee and the Executive Directors of the Bank. We hope that a similar modality might soon be set up with the IMF. Agreement has also been reached for the Preparatory Committee to link periodically with the WTO Council's Trade and Development Committee.

Debt of the Poorest Countries

It is now universally recognized that sizable debt cancellation is vital to economic recovery and sustained growth in many poor developing countries. Nevertheless, four years after the launching of the Heavily Indebted Poor Countries (HIPC) Initiative, high levels of external debt are still a crushing constraint on growth in too many of these countries.

It is encouraging that implementation of the enhanced HIPC Initiative has accelerated in recent months and it is hoped that the stated goal of having 20 countries reach decision point by year-end will be met, recognizing that reaching this modest goal will involve doubling the pace of approval of the last four months. Even if this goal is achieved, the 20 countries will comprise less than half of the 41 members of the HIPC group. The debt relief approved to date (but not yet disbursed) is only about one sixth of the US$100 billion pledged at the G-7 Summit in Cologne in June 1999.

In response to the widespread concerns about achieving a speedy, equitable and sustainable solution of the debt crisis, the Secretary-General has put forward in his Millennium Report a number of proposals on new steps to handle the debt problem. They include immediate cancellation of the debts owed by countries that have suffered major conflicts or natural disasters; expanding the number of countries in the HIPC initiative by allowing them to qualify on grounds of poverty alone; pegging debt repayments at a maximum percentage of foreign exchange earnings and establishing an arbitration process to balance the interests of creditors and sovereign debtors and to introduce greater discipline in their relations.

Statement by Rubens Ricupero, Secretary-General, UNCTAD

The world economy made a welcome turnaround in 1999, confounding fears that it would drop into recession. Robust growth was accompanied by an improvement in world trade and the return of some degree of normalcy to currency and financial markets, after the chaotic conditions of the previous two years. A combination of one-off and unexpected events certainly helped: expenditures undertaken to avoid any potential disruption from the Y2K computer bug provided a massive shot in the arm for the world economy; the reversal of policies of austerity in East Asia in the second half of 1998 helped spur growth in that region; and the United States economy continued to surge ahead, belying forecasts and growing well above what was customarily believed to be its longer-term potential.

All in all, the immediate prospects for the world economy have improved, with growth this year expected to exceed three percent. Attention is now turning to how best to consolidate global growth and ensure a much wider disbursement of the benefits of globalization.

For developing countries this will require renewed private capital flows, together with continued domestic reforms and the spread of new technologies. However, the wreckage from the Asian crisis will not be cleared away by simple incantations to the new economy. Making good on the promises of globalization will call for considerable policy effort. Not only are the root causes that led to the fear of recession during 1998–1999 still present, but further fault lines have emerged, along which any unexpected movements could have damaging consequences for both industrial and, of greater concern, for developing countries. Prospects for the latter could deteriorate rapidly if the major industrial countries continue to set policies without regard to their global repercussions on trade and capital flows.

In this respect, the continued rise of oil prices is cause for concern. The onus is on policy makers to avoid this triggering an inflationary or deflationary spiral. Appropriate policy responses in industrial countries should include, where necessary, fiscal measures. These countries are indeed better placed than in the 1970s and 1980s to make the adjustments needed. For oil importing developing countries, facing the burden of a rising import bill, compensatory financing from multilateral institutions on soft terms should be considered. We are happy to hear that the World Bank is prepared to make available structural loans and other forms of emergency funding to oil-importing poor countries. The need for more active responses would seem particularly appropriate in view of the uncertainty surrounding the future course of oil prices.

Two big global economic forces are competing for the world's attention. On the one hand, the promise of a "new economy" underpinned by information and communication technologies is exciting policy makers, including those from the world's poorest countries. On the other hand, growing instability and uncertainty linked to globalization has left policy makers deeply worried about the impact of financial shocks on growth prospects.

So far, only the United States furnishes the outstanding example of a country able to turn these forces to its advantage. On some accounts the spread of new technologies has already significantly lifted its productivity performance and raised growth potential. By contrast, the impact of new technologies has been much less evident in most of Europe and in Japan. And for policy makers in developing countries the digital divide is of growing concern. Little wonder that foreign investors have been scrambling to buy financial assets in the United States. But that economy has also been helped by economic uncertainty elsewhere in the global economy: financial crises in emerging markets have helped to sustain its rapid growth as capital is attracted to this safe haven and cheap imports help keep the lid on inflation. The recent recovery in emerging markets has further added to demand for dollar assets as reserves are piled up as a safeguard against future crises.

The disparities in growth rates within the industrial world and a strong dollar have resulted in growing trade imbalances as the United States has become "buyer of last resort" to the world economy. The countries with trade surpluses are more than willing to hold the proceeds in dollar assets in the United States. At the same time, the combination of technological and financial innovations has aggravated the underlying fragility of current financial and trade flows. European and Japanese TNCs have joined in the process of buying into the technological gains already made by United States firms. Headline-grabbing mergers and acquisitions in the high-tech sector have spilled over into a financial bubble in technology stocks, where self-fulfilling expectations rather than solid earning prospects have been moving the market.

The task of correcting these global economic imbalances has fallen in a one-sided manner on monetary policy. This will not carry the day. Hikes in United States interest rates have been adding to the attractiveness of assets there, and have thus failed to check spending in the United States economy. And if policy makers in Europe and Japan feel obliged to follow suit, the existing pattern of exchange rates and trade balances will remain essentially unchanged. All this bears some disturbing resemblance to the macroeconomic imbalances of the 1970s and 1980s, when the absence of cooperation and coordination among the major economic powers led to systemic breakdown and hard landings. But unlike then, private debt dominates today`s capital flows with the attendant dangers of volatile market sentiment. And what we have learnt about the global economy over the past few decades tells us that failure to resolve imbalances in an orderly manner will be most damaging to growth in the developing countries.

The vulnerability of developing countries to any policy shifts in the major industrial countries will, of course, depend on their current state of health. The picture since the beginning of last year offers a measure of hope with stronger than expected recoveries in some of the economies badly affected by financial shocks. However, with persistent biases and asymmetries in the trading system and structural uncertainty and volatility continuing to characterize the financial system, growth in many countries remains beholden to unstable capital flows. But any large reflux of capital anticipates growing risks as well as improving opportunities for these economies.

The problems facing much of Africa are of a different order. The basic policy challenge for much of the continent remains how to overcome savings and foreign-exchange constraints and to raise investment to the level required for growth of at least six percent per annum. The current level of private capital inflows is too small to fill the resource gap but still big enough to make many African economies vulnerable to the arbitrage arithmetic of short-term capital flows. This also means a steadily growing dependence on official flows. But in recent years these have barely compensated for resource losses due to unfavorable trading conditions. The only way to end Africa`s aid dependence is to launch a massive aid program and to sustain rapid growth for a sufficiently long period so as to allow domestic savings and external private flows to gradually replace official flows.

The HIPC initiative can also play an important role in this respect. However, a much bolder approach is required if the initiative is to retain its credibility and succeed in removing the debt overhang of the world's poorest countries. One approach would be recourse to an independent panel of experts which would assess debt sustainability, eligibility for debt reduction, conditionality and financing. This approach should incorporate a broader spectrum of countries in need of special measures to overcome their official debt problems. Until the panel has decided on its recommendations, HIPCs debt-service payments should be suspended with no additional interest obligations being incurred in consequence.

The pace of recovery of East Asia over the past year has been encouraging. However, the fact that neither the depth of crisis nor the speed of recovery was anticipated even by those responsible for policy should caution against excessive exuberance. Although the crisis in each country had its own characteristics, there is little doubt that the extremes of collapse and recovery have, in large part, been due to misguided policies. The initial policy response was unnecessarily severe and the expectation that tight monetary policies would quickly stabilize the currency, resulting in an investment-led recovery, was misplaced. Indeed, the hike in interest rates proved to be much more damaging than currency depreciation, causing serious dislocations in the corporate and financial sectors.

These economies only bounced back when policies of austerity were reversed and governments were allowed to play a more positive role. The policy reversal was brought about by the depth of the crisis and by widespread criticisms rather than as part of a carefully sequenced policy package. In retrospect, provision of adequate international liquidity to replenish reserves, accompanied by temporary exchange controls and a debt standstill and roll-over, would have been a much more effective response than the policy of high interest rates actually followed.

With the exception of Indonesia, per capita incomes have returned to or exceeded pre-crisis levels; exchange rates have strengthened; interest-rate spreads in international borrowing have narrowed significantly; and foreign capital has begun to return. However, there are reasons for concern. In the first place, recovery has been accompanied by only limited corporate restructuring, and the health of the financial system continues to rely on public intervention in the credit mechanism. Second, exports are unlikely to continue at their recent pace, and public deficits and debt have been on the rise in most countries seriously hit by the crisis. Since premature fiscal tightening could stifle growth, fiscal consolidation needs to wait until private demand takes the lead in growth. But this process may be delayed because of persistent unemployment and the existence of excess capacity in many branches of industry. Finally, the recovery has so far been supported by highly favorable conditions in the world economy which are susceptible to change. A sharp slowdown in the United States and a deterioration in global financial conditions could be particularly damaging.

A fundamental lesson of the financial crisis is surely that excessive reliance on foreign resources and markets leaves growth prospects vulnerable to external shocks. In an increasingly interdependent global financial and trading system, it is clear that trust in market forces and monetary policy alone will not be sufficient. Increased international cooperation and dialogue are needed if the full potential of new technologies to bridge the growing gap between the rich and poor is to be realized. This calls for bold leadership, of the kind which heralded in the postwar Golden Age.

ANNEX A

DC/2000-13
July 6, 2000

NOTICE OF MEETING

The 62nd meeting of the Development Committee will be held on Monday, September 25, 2000, commencing at 9:00 a.m. in the Forum Hall at the Prague Congress Center (PCC), Prague, Czech Republic.

PROVISIONAL AGENDA[1]

1. Topics for Discussion in the Restricted Session

A. Poverty Reduction and Global Public Goods [2]

B. Supporting Country Development: World Bank Role and Instruments in Low and Middle-Income Countries [3]

2. **Items for Comment in Circulated Ministerial Statements**

A. Progress Report on the Comprehensive Development Framework (CDF) [4]

B. Progress Report on Implementation of Poverty Reduction Strategy Papers and the HIPC Initiative [5]

C. Update on the IBRD's Financial Capacity [6]

D. Progress Report on the Bank's Role in International Financial Architecture [7]

3. **Other Business** [8]

* * *

[1] The President of the World Bank and the Managing Director of the Fund will each provide a statement, in advance of the meeting, focused on agenda topics and other items. A Note on Recent Trends in the Transfer of Resources to Developing Countries will provide background information relevant to the Committee's work.

The tentative schedule for the meeting is as follows: Plenary Session 9:00-10:00 am (PCC - Forum Hall); Restricted Session 10:15 am-12:30 pm (PCC - Panorama Hall); Chairman's Lunch 12:45-2:30 pm (PCC – Club A).

Main points of the Members' statements prepared for circulation before the meeting and received at least 24 hours in advance will be highlighted in the Chairman's statement to the plenary session. The plenary session will be limited to statements by the Chairman, IMF Managing Director, World Bank Group President, and the Chairman of the Group of 24.

[2] An issues note on this subject will be prepared by Bank staff.

[3] A background note, including preliminary consideration of the Bank's evolving relationships with other institutions, will be prepared for ministers' discussion of this item.

[4] Bank Executive Directors will consider a CDF progress report on August 31, after which the report's executive summary and a note reflecting the Board discussion will be provided to the Committee.

[5] A joint Fund/Bank Progress Report on these subjects will describe significant developments since the April 17 Committee meeting. If Members wish to discuss these matters, time will be made available during the Chairman's lunch.

[6] This brief progress report and attached table respond to the Committee's request "that the Bank report regularly on … issues" concerning IBRD capital adequacy (September 27, 1999 Communiqué, para. 11).

[7] Bank staff will prepare a report describing recent developments in the Bank's work on international architecture issues.

[8] At the Chairman's lunch for Members, the President and the Managing Director, Mr. Wolfensohn will invite Members' views on a number of major issues facing the World Bank Group. Members will also be asked to approve the Communiqué at the close of the lunch.

ANNEX B

September 27, 1999

COMMUNIQUÉ

1. The 60th meeting of the Development Committee was held in Washington, D.C., on September 27, 1999 under the chairmanship of Mr. Tarrin Nimmanahaeminda, Minister of Finance of Thailand.

2. **Heavily Indebted Poor Countries Debt Initiative (HIPC) and Enhanced Poverty Focus of IDA and ESAF Supported Programs.** Ministers expressed their appreciation to the Bank and the Fund for the transparent and participatory manner in which they conducted the 1999 HIPC Initiative review. They welcomed the important role played by civil society in the development of proposals designed to make the debt relief under the HIPC Initiative deeper, broader and faster.

3. Ministers endorsed—subject to the availability of funding—the enhancements to the HIPC Initiative framework for countries pursuing sound policies and committed to reform. In this context, they expressed support for: (i) a lowering of the debt sustainability thresholds to provide a greater safety cushion and increased prospects for a permanent exit from unsustainable debt; (ii) the provision of faster debt relief through interim assistance; (iii) the introduction of floating completion points that would shift the focus of assessment toward positive achievements and outcomes rather than the length of track record; and (iv) the resulting increase in the number of countries expected to be eligible for debt relief.

4. Ministers also endorsed the proposed framework for strengthening the link between debt relief and poverty reduction, while recognizing that debt relief alone would be insufficient to achieve this goal. In this context, they welcomed the proposed Poverty Reduction Strategy Papers, to be prepared by national authorities in close collaboration with Bank and Fund staff. They stressed that the Poverty Paper should be in place by the decision point; they recognized, however, that on a transitional basis the decision point could be reached without agreement on a Poverty Paper, but in all cases demonstrable progress in implementing a poverty reduction strategy would be required by the completion point.

5. Ministers also welcomed and endorsed the proposals developed by the Bank and Fund to extend the same approach to enhance the poverty focus of all IDA and ESAF supported programs, and to strengthen collaboration between the two institutions. The Committee emphasized that the strategies set out in the new Poverty Papers should be country-driven, be developed transparently with broad participation of elected institutions, stakeholders including civil society, key donors and regional development banks, and have a clear link with the agreed international development goals—principles that are embedded in the Comprehensive Development Framework. They stressed in particular the need to develop macroeconomic, structural and social policies that will contribute to long-term poverty reduction, and the need to develop measurable intermediate and outcome indicators to monitor progress. Ministers stressed the crucial role good governance plays in HIPC implementation in establishing a framework that discourages corruption and provides more effective monitoring and quality control over fiscal

expenditures. Ministers called on the Bank and Fund, in accordance with their respective mandates and expertise, to give all possible assistance to countries in bringing together the necessary social, structural and macroeconomic policies required in developing poverty reduction strategies, recognizing the countries' capacity constraints. The Poverty Papers would provide the basis for all IDA and Fund lending to low-income countries. Ministers also encouraged regional development banks and donors to use the Poverty Papers to guide their support.

6. Ministers welcomed the proposed reform of the ESAF aimed at giving greater prominence to the goal of supporting countries' poverty reduction efforts and the proposed renaming of the facility as the Poverty Reduction and Growth Facility. Recognizing that the new approach will involve substantial changes in Bank and Fund operations to combat poverty, and the need to tailor the approach to individual country circumstances and to learn quickly from experience in early cases, the Committee strongly welcomed the commitments of the President and Managing Director to its effective implementation. Ministers looked forward to receiving reports on progress achieved.

7. Ministers reaffirmed the importance of implementing the enhanced HIPC Initiative framework in accordance with the principles that have guided the Initiative since its inception, including (i) additionality of debt relief (ii) the maintenance of the financial integrity of multilateral financial institutions, and (iii) the importance of burden sharing on a fair and equitable basis, including of the costs to multilateral institutions. They agreed financing of debt relief should not compromise the financing made available through concessional windows such as IDA. Ministers expressed appreciation for the many contributions to the HIPC Initiative made thus far, and for the efforts made by multilateral development institutions to provide funding for the Initiative from their own resources. Ministers recognized that most of these institutions will need bilateral support on an urgent basis in order to meet the additional costs resulting from the proposed enhanced framework and to enable them to implement the Initiative rapidly. The Committee welcomes the agreement on the financing of the IMF's participation in the HIPC Initiative and continued concessional lending by the IMF for growth and poverty reduction in low income member countries.

8. Ministers also welcomed agreement on the elements of a financing plan for multilateral development banks that respect the above principles. This will permit the Enhanced HIPC Framework to be launched and the delivery of debt relief to begin for those countries requiring retroactive relief and those expected to reach their decision points over the near term. They asked the World Bank to work actively and closely with the whole group of donors and other MDBs to ensure that financing is mobilized to fully fund HIPC debt relief over the longer term.

9. Ministers also welcomed the agreement by the Paris Club to increase its debt relief under the enhanced framework by providing increased debt reduction in NPV terms up to 90 percent or more, if needed, on commercial loans as well as additional relief on ODA claims—up to full cancellation—on a bilateral basis.

10. Ministers welcomed the continuing progress in the implementation of the Initiative, noting that to-date 14 countries have been considered under the Initiative—with four brought to their completion points. The Committee urged the speedy implementation of the enhanced Initiative so that as many countries as possible qualify for assistance under the Initiative by end 2000.

11. **IBRD Capital Adequacy.** Ministers reviewed a report from the World Bank that reflected ongoing discussions by the Bank's Executive Board and management on options to maintain and support the IBRD's financial capacity. The Committee agreed with the report's finding that the Bank's finances remain sound. Ministers also recognized that the Bank's financial capacity may limit its ability to respond to future demands, especially when there was a deterioration in the global financial environment. Ministers requested management and the Executive Board to continue their examination of the level of financial capacity needed to preserve the IBRD's financial integrity while permitting it to help meet, within its mandate, the development needs of borrowing member countries. Ministers requested that the Bank report regularly to the Committee on these issues.

12. **Developing and Transition Countries and the International Trade Agenda.** The Committee noted that effective development and trade policy have become increasingly intertwined. They emphasized the importance of trade to development, poverty alleviation and sustained global economic recovery. Ministers also emphasized that the next round of trade negotiations needed to deliver early and substantial benefits for developing and transition countries, in particular for the least developed countries. This would require improved market access and further reducing barriers to trade. They stressed that if developing and transition countries are to use the international trading system effectively to promote growth and reduce poverty they will need to become active partners in the next round of trade negotiations. Ministers welcomed the commitment of the new Director-General of the World Trade Organization (WTO), Mr. Mike Moore, to achieve this goal and urged the World Bank, the Fund, WTO, UNCTAD and other agencies to help developing and transition countries build their capacity to participate in further rounds of negotiations. The Committee called on the World Bank, IMF and WTO to cooperate with other parties in developing effective programs of capacity building for trade, including through the Integrated Framework for Trade Related Technical Assistance for the Least Developed Countries. The Bank, in particular, could provide financial and technical support to improve trade-related infrastructure and institutions, helping to build capacity in domestic institutions involved in trade policy and negotiations, and undertaking research on trade barriers to developing countries' exports.

13. **World Bank Support for Strengthening International Financial Architecture.**
Ministers welcomed the role the World Bank Group is playing to help strengthen the global financial architecture to reduce the risk and severity of financial crises, and to reduce the vulnerability of developing countries to crises when they occur. The Committee stressed that at the country level the Bank's primary focus, given the objective of preventing crises, should be on assisting developing countries to strengthen their domestic financial markets and their integration with the global financial system. This should be done through helping countries overcome structural and social sources of vulnerability and build the needed policy and institutional capacity. Given the breadth and complexity of the agenda, Ministers encouraged the Bank and the Fund to focus on their areas of comparative strength while developing partnerships with other international institutions. Ministers welcomed progress in the joint Bank/Fund program of financial sector assessments and the Bank's program of Social and Structural Reviews. They also welcomed the proposed enhanced collaboration with the IMF in assisting interested countries to assess their progress in implementing a range of international norms and good practices, with due consideration to differing country conditions. The Committee encouraged the Bank to continue to bring developing country experience and perspectives to the international debate. In this context, they noted the establishment of a global forum on corporate governance, launched

in collaboration with the OECD, and the Bank's supportive role for work on insolvency, accounting and auditing.

14. Ministers welcomed the Bank's help to developing countries on social issues, as well as its report on managing the social dimensions of crises and good practices in social policies. They encouraged the Bank to continue to develop this work and draw on it in supporting countries' poverty reduction efforts. The Bank should accumulate and disseminate knowledge of good practices to help guide countries seeking to create institutions and implement policies that will forestall and mitigate the social costs of economic shocks and protect the most vulnerable.

15. Ministers welcomed the steps being taken to strengthen the work of the Development and Interim Committees, both to better reflect the enhanced level of cooperation between the Bank and the Fund and to reduce duplication in the committees' agendas. They encouraged the Bank and Fund to continue to review experience in this area.

16. **Next Meeting.** The Committee's next meeting is scheduled for April 17, 2000 in Washington, D.C.

DEVELOPMENT COMMITTEE

Prague, September 25, 2000

Yashwant Sinha, Chairman

Horst Köhler, Managing Director, International Monetary Fund

James D. Wolfensohn, President, World Bank

Alexander Shakow, Executive Secretary

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Arab Bank for Economic Development in Africa	Medhat S. Lotfy Director-General
Arab Fund for Economic and Social Development	Abdulatif Y. Al-Hamad Director-General
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Asian Development Bank	Shoji Nishimoto Director, Strategy and Policy Department
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Cooperation Council for the Arab States of the Gulf	Ajlan A. Al-Kuwari Assistant Secretary-General for Economic Affairs
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