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-FIRST MEETING OF THE DEVELOPMENT COMMITTEE

Chairman: Tarrin Nimmanahaeminda, Thailand

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RECORD OF DISCUSSION OF THE SIXTY-FIRST 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-first meeting on April 17, 2000, in Washington D.C. The meeting comprised a Chairman's dinner for Members, 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 7.30 a.m. and ended at 8.45 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. Fischer, ladies and gentlemen: It is my privilege to call to order the 61st meeting of the Development Committee. I would like to welcome the members and their delegations and extend my special greetings to our new members, to the new Chairman of the G-24, and to the observers of the Committee.

We are happy to have you with us today and particularly glad that you have been able to make your way successfully through the demonstrators and security forces. We are sorry for the inconvenience you have encountered, but I am sure you recognize that special arrangements were required to ensure your safety and to permit the meetings to proceed without interruption.

This has already been a busy time for Development Committee members. We had a very interesting dinner meeting last night, focused on how we might work together to address the great challenge of overcoming persistent poverty in developing countries. I am sure we shall hear more of this discussion as our meeting proceeds. But there is much more to do today. 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 then adopted. And may I say something about the arrangements for the meeting?

Let me summarize the new arrangements for our meeting today. In a moment, I will ask Mr. Wolfensohn to address us. We shall then hear from Mr. Fischer, followed by the Chairman of the Group of 24. After that, I will summarize the main points drawn from the members' circulated statements.

The restricted session will come immediately after this, from about 8:45 a.m. to 12:00 noon in the World Bank Board Room on the 13th floor. And there we shall focus on agenda items 1A, Intensifying Action Against HIV/AIDS and 1B, Trade Development and Poverty Reduction. We also hope to have a discussion on HIPC and finally approve our communiqué.

The luncheon for the members will be held on the thirteenth floor in Room MC 13-121 from about 12:00 noon to about 1:00 p.m. And then, the press conference will be in the Fund, Room B-702 at 2:30 p.m. Interested members of delegations are, of course, welcome to attend.

Now let me turn to the statements by the heads of our institutions. I wish to give the floor first to Mr. Wolfensohn.

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

Let me, first of all, thank Secretary Summers and the American authorities for the arrangements that they have made and the protection that they have given all of us and thank all of you for coming early so that we could avoid any problems. It has been a tense period for all of us who have been engaged in preparing these meetings, and we are very grateful to you for your cooperation, which has allowed us to proceed without incident as we would hope that we could.

The atmosphere outside is one that we have to take seriously in terms of the fact that it is happening, the fact that there are concerns about a variety of subjects, some of them quite unrelated, but many subjects, but equally as an institution that the brunt of their criticism we in the Bank and in the Fund need to listen to what they are saying and try and see if there are ways in which we can reach out and engage that community in a constructive fashion. And I can assure you that we will be giving thought to that.

The tragedy, of course, is that what we are doing today is, in fact, dealing with the very issues that most of them are concerned about. There will be 1,000 AIDS activists today participating in the manifestations, trying to stop the meetings when the first item on our agenda upstairs will be what we can do to assist in the combating of AIDS. And the second item relates to poverty and to trade and investment. And there are those outside who are pro-development in trade and those who are against development in trade. But, nevertheless, it is central to the discussions that we will be having.

So, something is really awry when organizers, some of them paid, some of them not, some of them anarchists, some of them with very serious and deeply-felt beliefs find it necessary to show their feelings in this way. And it looks to us as though this is not the last manifestation that we are going to have. It is very likely that we will also have it in Prague and at any other international meetings where these concerns are likely to be expressed.

So, it is a moment when we should not ignore what is happening and I assure you we will be trying to think of ways in which we can bridge the gap of understanding.

Let me start by saying that I want to thank Michel Camdessus, who is not with us today, for his remarkable leadership and for the friendship and for the partnership that we were able to establish during my period and before me with my predecessors. He made an enormous contribution and he was a full and welcome partner in the Development Committee, and we certainly miss him. But may I say also how happy I am that Stan is here and how seamlessly we have worked together in the period since Michel's retirement, as we had before. And I would like to record my welcome to Horst Koehler who will, of course, be joining us in May.

I think you know the agenda for today, but it was suggested that I might just touch on the framework. I have already indicated that the first item will be the item of AIDS. This is not just another disease. This has become in many parts of the world the most significant development agenda, not least in Africa where there are 23 million cases out of the global 34 million cases, where in five countries in sub-Saharan Africa the prevalence is roughly 20 percent, and in 21 countries in sub-Saharan Africa the prevalence is roughly 7 percent or more, having an impact of significant proportions on GDP, quite apart from the human impact that is involved.

We at the Bank have indicated that for AIDS prevention and for programs on health control, there will be no limit to the amount of funding that we are ready to provide, and what is really needed is all of us to get together to try and recognize that this scourge has a capacity to roll back the gains of previous years in life expectancy and in mortality rates, and that it is not only a tremendous human problem but a development problem. And we are one of those institutions that is taking a lead.

We are also working in the context of treatment, discussing with the drug companies in certain initiatives, some in this country under the leadership of President Clinton but also globally, on vaccine development and on the assurance of supplies of drugs for retro-viral treatment.

This will be a subject that will be of concern to us shortly.

On the issue of trade and development, we at the Bank have long taken the position that, as we look at the question of growth and development, that intrinsic in that discussion has to be the issue of trade. Working with countries to develop their economies and to build their output, we recognize the importance of being able to export that output and the obstacles imposed by tariff limitations or quantitative limitations. These issues are not only for our friends at WTO, but they are absolutely linked to the question of development and our position, which is that of free access and one in which, as the trading markets open, we provide additional assistance to the developing countries to make the sort of changes that are required. This is a second subject that we will be discussing.

We also will be reviewing the progress on HIPC, in which, as you know, five countries have reached the decision point and where there are another 15 that conceivably can reach that point or completion point before the end of the year. The difficulty we are having in nine or ten of the countries is a difficulty that is caused either by the lack of government or by wars or by conflict or by just total chaos.

And in the 32 countries that we are looking at, we are working absolutely jointly with our partners at the Fund. We have moved on to the Poverty Reduction Strategy Paper approach which we believe -- and you believe, as you indicated to us at the last meeting -- is a central element in the necessary process of HIPC. It is simply that there is a need for a country-led program that can give assurance that the savings which come from HIPC can be used for social purposes, to assist poor people.

And we will also be discussing the Interim Poverty Reduction Strategy Paper which can allow us to move more quickly to reach a decision point before the completion of the final document.

I am sure that that will be a lively debate. What is, of course, important and on our minds is the question of funding of the $12.8 billion in present value, more in nominal value, of the funds that are required for the multilateral intermediary institutions. We have to address that question. We believe we have reached an adequate level certainly to launch and keep this thing going in the early years. It is important that we understand that we are looking for additional funding for the HIPC Initiative.

We also have to focus our attention on some of those less-developed countries which are included in debt forgiveness which must, in order to meet the requirements of debt forgiveness, give up their claims on their other countries, and where that release of the claims is putting them under difficulty in terms of their own cash flows. And so, the issue of the multilateral institutions that are short of equity and the issue of those countries which are part of the debt forgiveness and find it difficult to forgive debt, is a subject which I know will occupy our attention.

We will be talking further about the multilateral coordination which I believe is moving along in an extraordinarily positive way in those countries that are involved in the PRSP and the Comprehensive Development Framework, this move towards greater coordination of effort between donors, private sector and civil society. And in that context, I would like to say that again we are working very closely with our colleagues in the Fund.

We also have presented, and you will have read the Small States Initiative which is a report to the Development Committee addressing the special challenges of small states. We will be pursuing further the discussions on international financial architecture and touching ever so briefly on the financial capacity of IBRD, which we regard as strong and not needing additional funding at this time.

That gives you a framework of what we will be dealing with in the Development Committee meetings. We will also, I am sure, be alluding to the discussions which we had last night, which dealt with the broader questions associated with development, our central concern of poverty, our concern to face not only the existing levels of poverty, the $1.2 billion under a dollar a day and $3 billion under two dollars a day, but the forthcoming issues of poverty, as in the next twenty-five years we add 2 billion more people to our planet, those 2 billion being added to the developing world to bring the total population from 4.8 billion to 6.8 billion.

This is a daunting challenge and in the meeting last night we had a very rich discussion on the importance of growth and on the need for equitable development and the need for coordination of activities between donor institutions, the private sector and civil society under the leadership of the governments that we are working with.

So, we have had a rich agenda so far and we are looking forward to continuation of those discussions in our private sessions.

Statement by Mr. Stanley Fischer, Acting Managing Director, International Monetary Fund

Let me first thank Jim for his remarks about Michel Camdessus, which I will certainly pass on to him, and his kind remarks about the cooperation we have had during the couple of months that I have been filling in between Managing Directors. Things have gone very well, and reflects that this is not only a personal relationship but also an institutional relationship.

Since the Development Committee last met, we have made important progress in strengthening the foundations for rapid, sustained and inclusive growth, and the acceleration of poverty reduction. The agenda today addresses several key issues relating to how to achieve these goals.

Jim has been very comprehensive on the HIPC Initiative, PRSPs and so forth. So, I will say just a bit on them and comment on a few other points as well.

On the growth prospects, we know that rapid and sustained growth is essential if we are to make more progress in reducing poverty in a sustained way. And so, the continued strengthening of the world economy and the prospects for stronger growth in 2000 are, therefore, very encouraging. It is also the case that the crisis-hit emerging market economies and many other developing countries are sharing in this improved performance and, of course, contributing to it as well.

Needless to say, speaking after last week's economic events (the sharp declines in global stock markets), there are risks that we are all aware of, and we all need to work to assure that the recovery is sustained. But the prospect is that we can work for a while further, we hope much further, in a good overall macroeconomic growth setting, as we endeavor to strengthen the international financial system and reinvigorate the attack on poverty.

On the Fund side, we have continued to make progress in our work on strengthening the architecture of the system. The work aims, among other things, at crisis prevention and resolution, but there is much more than just crisis prevention. We are also looking at laying and improving the basis for economic growth and for good governance in markets and institutions. Our work focuses on surveillance and assessments of external vulnerability; on the strengthening of financial systems, where we are working extremely closely with the Bank; on standards and codes, where again we are working very closely with the Bank and with other organizations; on transparency; on private sector involvement in crisis resolution; and on a comprehensive review of our own lending policies. Details of all of that are in my written statement, and I don't need to comment further now.

Since September, our work on PRSPs prepared by country authorities in an open, participatory way has proceeded and that will be the basis for the Fund's concessional lending under the Poverty Reduction and Growth Facility. Jim has said most of what needs to be said. Let me just make a couple of points about the PRSP and the PRGF framework.

First, we are encouraging donors and others to participate in the preparation of PRSPs and to provide support for them. The PRSP provides a way to coordinate our assistance and to avoid overlapping conditionality, as well as a framework for medium-term commitments of aid. And we need to take that seriously.

In the IMFC meeting yesterday, there were concerns expressed about adding conditionalities rather than avoiding overlapping conditionalities, as we proceed to implement PRSPs. And, of course, as we combine our efforts, we should be able to reduce the strains on countries' institutional capacities. But if we are not coordinated, we will make life much harder for the countries we are trying to help.

The second point, which you are familiar with but which is again a real issue, is to recognize that we both want to accelerate progress under the HIPC Initiative, but we also want the anti-poverty strategy to be well prepared. And there is a tradeoff there. Insofar as the Bank and the Fund have been the cause of any difficulties—I don't think we have—we have set up a joint committee to help monitor progress and help resolve any institutional impediments to timely actions, as Jim and I announced last week. We have done very well with our Financial Sector Liaison Committee and I am sure that this one will develop effectively in the months ahead, not least because it will be headed by two senior staff members, Masood Ahmed in the Fund and Kemal Dervis in the Bank.

Third, I would like to thank you for your generous support in providing financing for the Fund's participation in the Enhanced HIPC Initiative. We, of course, await U.S. Congressional approval to reap the profits on five million ounces of gold (out of the total gold transactions of 14 million ounces), and we need that to complete our financing package, as well as completion of contributions from various bilateral donors.

The agenda contains many items related to the alleviation of poverty. Let me mention two of them. One is trade reform and the other is health.

Continuing trade reform is essential to fully integrate developing countries into the world trading system and thereby to promote faster growth and poverty reduction. I believe that as we listen to what is being said outside, we need to continue to reemphasize the benefits of integration into the international system as the best known way of promoting growth. But we need also to recognize that there are impediments to doing that, among them trade barriers. And we need to do what we can to promote faster integration into the world economy. That means on the side of developing countries: first, further liberalization of trade regimes, which will create opportunities for growth; second, no less important and politically perhaps even more important, we need to persuade industrial countries to further open their markets, especially to agricultural goods and manufactures, particularly in textiles; and third, we, the Bank, the Fund, other international institutions, and of course the WTO, need to work together with country authorities to ensure that trade policy is understood to be part of a broader, coherent strategy of sound economic management and structural reform.

We also need to provide the technical assistance to help make that happen. And we do have an integrated framework for the provision of technical assistance to promote the exploitation of opportunities for participating in the world economy by developing countries.

We in our institutions need to contribute to the creation of a broad consensus on the need for a more open and transparent world trading system.

Finally, let me comment perhaps on a more personal note on the fact that the Bank is taking up so vigorously the HIV/AIDS issue. I was in the Bank ten years ago when the Bank decided not to take up that issue, and I thought it was a mistake at the time. I would like to applaud the Bank's decision and Jim's leadership to that end in taking on this critical challenge. It is extremely difficult; it is extremely important, especially now in parts of Africa. To have this disease coming on top of other difficulties is potentially devastating.

And I hope that the discussions today can help pave the way for a decisive plan of action to help reverse the devastation of this disease with all it implies for development and for the human beings involved. So, let me express to Jim our strongest support. This is obviously not something that the Fund can contribute to directly, but, as we work together in an overall economic framework, I think this work, among other work that the Bank is doing, needs especially to be supported and applauded.

Statement by Mr. Germán Suárez, President of the Central Reserve Bank of Perú and Chairman of the Group of Twenty-Four

It is indeed an honor to address you as the Chairman of the Group of Twenty-Four.

Global economic prospects look better than in September last year, but significant risks persist – unstable oil prices, uncertain response of the Japanese economy to fiscal stimulus and the risk of a hard landing of the American economy are still present. Moreover, even though growth performance in developing countries is somewhat better than expected last September, recovery has been uneven and growth prospects are below pre-crisis levels. Mr. Chairman, there is still a long way to go to place developing countries in the path to sustained growth and poverty.

G-24 Ministers noted that the policies of industrial countries could contribute significantly to poverty reduction and growth in developing countries. In the present juncture, macroeconomic policies of industrial countries should not only consider their internal stabilization needs but also their impact on developing countries. In particular, financial policies of industrial countries should avoid excessive reliance on interest rates to control inflationary pressures and should aim at more stable exchange rates.

We welcome the inclusion of the discussion on trade, development and poverty reduction in the Development Committee agenda. We are convinced that a significant reduction of trade restrictions on exports of developing countries and in particular in the agricultural sector and textiles is a very important complement of their domestic reform efforts to combat poverty and attain sustained growth. We favor the World Bank’s analytical and capacity building support in this area.

Ministers are encouraged by the progress in the World Bank/IMF work on the international financial architecture. In particular, we commend progress in the elaboration of financial assessments, corporate governance and the reports on the observance of standards and codes. However, Ministers look forward to the implementation of these standards for global financial and business practices to be made in a voluntary way, assuring their ownership by national governance. In that sense, we welcome the meeting held in the IMF yesterday.

The G-24 Ministers welcomed the involvement of the World Bank and IMF in the implementation of the Enhanced HIPC Initiative. In particular, we commend Bank-Fund collaboration in supporting least-developed countries in their poverty reduction efforts as well as debt relief through the elaboration of poverty strategies.

However, Ministers are worried that the elaboration of poverty strategies may slow down the process of debt relief. Moreover, Ministers are deeply concerned that the HIPC Trust Fund remains significantly under-financed, and urge bilateral donors to step up their contributions. G 24 Ministers also expect that the World Bank's contribution to the Enhanced HIPC Initiative will not compromise financing made available through other concessional windows, such as IDA.

Even though last year official aid flows experienced a small upturn, marking a temporary end to a five-year fall in official assistance, Ministers are concerned that the level of official assistance is still well below the UN agreed target, and urged the OECD countries to increase their contributions.

We support the efforts of the World Bank and UN agencies to combat HIV/AIDS infection. This disease is reaching epidemic proportions in some of the poorest developing countries with severe social, moral and economic consequences.

Last but not least, let me congratulate Mr. Wolfensohn for the results the implementation of the Strategic Compact has brought about to the World Bank and the development of the community at large.

In the past three years, the Bank has increased the quality and quantity of its operations and non-lending services. In this regard, I consider it appropriate to continue exploring in diverse fora to expand the Bank's capital so as not to compromise its capital adequacy in periods of crisis and in the medium term.

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Chairman's Summary of Main Points Made in Ministers' Prepared Statements

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

Support for the Institutions

Many ministers expressed their strong support for the Bank and the Fund, saying that the radical reforms being proposed in some quarters are unnecessary and severely damaging to the interests of all members. Members did support continued gradual reform to increase effectiveness, to maintain relevance in the face of rapid global changes, and to promote achievement of the International Development Goals. Some ministers called on the Bank to demonstrate further budget tightening and greater selectivity in priority setting. One minister summarized the views of many by saying "As never before, the services, expertise and commitment of the Bank are needed to address the staggering challenges posed by continuing poverty across the globe".

Attack on HIV/AIDS

All ministers agreed on the nature of the development challenge and the need to act immediately. The national and international actions proposed in the paper were fully endorsed. Several ministers noted impressive achievements in their own countries.

As one minister noted, however, in some countries in his constituency cultural barriers still made discussion of the severe AIDS problem "taboo"; the Bank and NGO partners were requested to develop culturally sensitive education programs to increase understanding. Some ministers suggested the need for a clearer division of labor between the Bank and other agencies. There was strong support for mainstreaming the AIDS issue in PRSPs and the HIPC Initiative. While supporting increased resources devoted to AIDS, ministers also urged the Bank to help governments assess budgetary tradeoffs among competing priorities. Many ministers mentioned the need for the Bank to promote investment in global public goods, including work with pharmaceutical companies and other partners to create innovative financing mechanisms promoting development of affordable vaccines. The importance was noted of incorporating AIDS, along with other major diseases, into strengthened primary health care systems.

Trade, Development, Poverty Reduction

We shall be discussing this subject at length in the restricted session, so I will touch on only a few points here.

There was broad agreement on the significance of trade for development and the need to mainstream it in the CDF and PRSPs. In addition to its lending for trade-related infrastructure, the Bank was encouraged to help poor countries build capacity to analyze trade policy issues and participate more effectively in international trade negotiations. The Bank was also urged to strengthen its research effort, including studies on the growth and the impact of trade distribution. The Bank and other partners were asked to improve the effectiveness of the Integrated Framework for the Least Developed Countries. The commodity risk management proposals currently being tested drew mixed comments.

Industrialized countries were urged to open their markets wider for poor countries' products, especially agricultural commodities. While the need for developing countries to reduce trade barriers was not neglected, many ministers stressed the increasing "trade divide" and that fair competition among unequals cannot be expected. The several specific trade proposals made by Mr. Wolfensohn and Mr. Camdessus in Seattle and Bangkok were strongly endorsed by several ministers.

Small States

The report was welcomed. Most ministers agreed small states did have special characteristics, but also agreed with the report that a new country category should not be created. Many ministers urged the Bank and others to follow up on the report's recommendations with firm actions, with some concern that such steps not harm the interests of other countries. Technical assistance and capacity building were considered particularly important forms of Bank support. Small states were encouraged to open up to international trade, in their own interest, but the need for more time to adjust was noted by several ministers. Support was expressed for "novel regional integration modalities" to mitigate difficulties caused by globalization.

HIPC

Many ministers supported the following points:

Basic HIPC principles were reasserted, including that debt relief should be additional to on-going ODA.

1. Debt relief should not be at the expense of IDA or of other borrowers.

2. All bilateral creditors should contribute to the HIPC Trust Fund, and actual contributions should be speeded up given the special financing needs of many MDBs.

3. The difficult problems faced by non-Paris Club creditors, and especially other HIPC countries, were given special attention.

4. The desirability of moving ahead with HIPC debt relief as fast as possible.

PRSPs

Progress in PRSP development since September was welcomed. The PRSP process is recognized as complex and demanding. Because of this, the Bank and Fund were urged to listen carefully to country reactions and, while ensuring country ownership, to offer help in addressing key issues. Setting a smaller number of clear and measurable targets was recommended. Many Ministers commented on the inevitable tension between the dual objectives of speed for HIPC debt relief and ensuring the quality and country-ownership of PRSPs. Most ministers sought the common ground and particularly welcomed introduction of interim measures. Donor agencies were strongly urged by some ministers to rely more on PRSPs to guide their bilateral programs, both to enhance coordination and reduce burdens on poor countries.

IBRD Financial Adequacy

Ministers confirmed that the Bank's finances remain sound. Most recommended the Executive Board continue to review a wide range of longer-term options. Views vary widely on the most appropriate rationale for determining the proper level of capital; for example, some stress the resources needed for the Bank's poverty reduction mission, others the need to be prepared for unexpected crises. An early General Capital Increase is favored by some ministers as the most equitable and balanced option, but one minister suggested GCIs should no longer be expected. Some concern was expressed about the tendency for loan charges to increase, while others suggested radical administrative budget cuts were required to reduce pressure on Bank finances.

International Financial Architecture

Ministers commenting on this subject generally welcomed the Bank's role in this area and particularly encouraged it to continue to strengthen countries' financial sectors.

That concludes my review, but I hope you will read your colleagues' statements in full as they contain far more richness than I can capture in this summary statement.

Prepared Statements Circulated by Members

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

Thanks to the efforts of the international community, the risks to the global economy since the recent financial crisis in Asia have declined, and the recovery appears to be picking up momentum. Growth in world output has become more broad-based and is stronger than a year ago. In some industrial countries economic growth has been more robust than expected, while in others there are signs of growth strengthening or picking up. In the developing countries, growth, which is estimated by the World Bank to have reached 3.3 percent in 1999, is expected to strengthen further to 4.6 percent this year. This growth is based on a strong recovery of global trade, and on the firming of commodity prices.

As indicated in the World Bank's Global Economic Outlook, the recent recovery in oil prices, which has followed a quarter century of decline in real terms, has not led to an acceleration of international inflation or a dampening of growth. Contrary to perceptions, there is no significant link between oil prices and international inflation. Policies of major industrial countries matter more. What is also true is that volatility of commodity prices makes economic planning and adjustment, especially for commodity exporting countries, very difficult. An important factor contributing to such volatility is policies of countries that are major consumers of these commodities. Such policies include large farm subsidies that encourage over-production of agricultural products, and excessive taxation of oil. Nonetheless, the recent decision by OPEC countries with the active role of Saudi Arabia to increase oil supplies, is an important contribution by OPEC and other producers to stabilize oil prices. The industrial countries should assume greater responsibility for achieving the desired stability. They have the means to roll back oil taxes to alleviate concerns over inflationary pressures. In fact, excessive taxation distorts resource allocation.

The recovery in global trade and growth is indeed encouraging. Even more encouraging is that a large number of developing countries, which have suffered significant declines in real incomes during the recent financial crisis, will see a return to positive per capita growth this year. However, some 41 countries, with over one billion people, will have just barely achieved positive per capita growth by the end of this year. Most of these countries are low-income and/or commodity exporters, who have not as yet been able to successfully integrate in the global markets and capture the growth-inducing benefits of trade. It is therefore timely and appropriate that the agenda for this meeting of the Development Committee focuses on trade as an engine of growth and poverty reduction, and on the Heavily Indebted Poor Countries and small states, which are most vulnerable to external shocks and epidemics.

As the paper on *Trade, Development and Poverty Reduction* argues, the reasons for the failure of the majority of the poorest developing countries to grow and to integrate into the global economy as rapidly as other developing countries, are complex. They reflect initial conditions, including relatively low investments in infrastructure and human capital development, as well as protection against their exports.

The experience of developing countries that achieved rapid integration in the global economy shows that infrastructure and human capital development are needed for reaping the benefits of trade liberalization. In this context, the appropriate renewed Bank emphasis on the social sectors should not detract the Bank from also supporting infrastructure projects. Besides its contribution to trade, infrastructure investment contributes directly to employment and poverty reduction.

Lowering trade barriers between developing countries is certainly important, and could further stimulate South-South trade flows. But, removing trade barriers, which the industrial countries impose on developing countries' exports, is by far more important. There are at least two reasons for this. First, while industrial countries' tariffs are on average lower than tariffs imposed by developing countries against each other, they are highest in areas where developing countries have comparative advantage. As noted in the paper, for example, some industrial country tariffs on products of interest to developing countries include 826 percent on meat products in the EU; in Japan, 781 percent and 123 percent on processed food products and footwear, respectively; and 147 percent on fruit and processed food products in the United States. It does not make sense, therefore, to ask poor countries to open up their markets while they are denied access to industrial countries' markets for products in which they have a clear comparative advantage.

Second, non-tariff barriers usually accompany industrial countries' tariffs especially but not exclusively against agriculture. These barriers include quotas, marketing arrangements, export subsidies and other forms of agricultural support programs. Consequently, protection by industrial countries is more effective at blunting competition and growth of developing countries' exports. By the same argument, and given the size of markets in industrial countries, removing protection by these countries would benefit their own consumers, reduce distortions in resource allocation, and provide a much greater impetus to expanding and accelerating trade flows and global welfare.

There is a good body of research, including in the IMF, on the effect of trade on wages and employment. By and large, this body of research tends to show that for the industrial countries as a whole, trade with developing countries has had a modest effect on wages and income inequality, and some of these effects are explained by technological change. This research should address the claims or fears of protectionist constituencies in the industrial countries, particularly with respect to the presumed effect of imports on wages, employment, and income inequality. The Bank and the Fund should strengthen their research in this area. At the same time, the staffs of the two institutions should not shy away from highlighting the impact of industrial countries' trade barriers and policies on developing countries.

The empirical evidence, therefore, strongly support the efforts of the Director-General of the WTO to impress upon the industrial countries to grant LDCs duty-free and quota-free access for their exports. Of course, much work is still needed to help the rest of the developing countries access the WTO to participate more effectively in the world trading system. It is important for the WTO to address the concerns of all members irrespective of their level of development. It is also important to slow down the process of framing world trade regulations in order to allow more time for developing countries to understand the full implications of the obligations resulting from the Uruguay Round.

The initiative by the Director-General of the WTO to impress upon industrial countries to grant LDCs' exports free access, needs to be expanded to all the Heavily Indebted Poor Countries, as advocated by Mr. Wolfensohn and Mr. Camdessus in Seattle and Bangkok. Indeed the complementarity between debt relief and enhanced market access is critical for accelerating growth in these countries, for reducing poverty, and for keeping current on servicing their remaining debts. Estimates by the staffs of the two Bretton Woods institutions indicate that agricultural liberalization by industrial countries alone could yield annual global benefits worth over US$40 billion. In other words, in only one year, the benefits from agricultural liberalization alone would amount to about one and a half times the total reduction in debt under the enhanced HIPC initiative.

Arab and regional multilateral funds in which Saudi Arabia is a major shareholder, such as the OPEC Fund and the Arab Bank for Economic Development in Africa, despite being funded by middle-income developing countries, have been participating in the HIPC initiative. Indeed, as acknowledged by the staffs of the two Bretton Woods Institutions, Arab multilateral funds were among the first to participate in the original HIPC.

The financing requirements under the new enhanced HIPC framework have doubled for the international Multilateral Development Banks and have exceeded their capacity to fully meet their obligations. Unfortunately, this has shifted a greater share of the burden on IDA, which could undermine its ability to adequately serve its other client countries. For some non-Paris Club creditors, including Saudi Arabia, and for the Arab regional multilateral funds, the enhanced HIPC framework has increased the cost many times more. Consequently, the Bank and the Fund should continue to consult with the Arab multilateral and bilateral donors to tailor modalities that reflect their special circumstances and capacity, without impairing their ability to continue to provide adequate international development assistance.

More and more HIPC-eligible countries are developing their own poverty reduction strategies, which could be supported by the Bretton Woods Institutions and the donor community. If successfully implemented, these strategies could be more effective in the fight against poverty and improve the prospects for achieving the International Development Goals for 2015. But, implementation of these strategies will require substantial resources beyond what could potentially be made available through the enhanced HIPC Initiative. Effective implementation, however, will constitute a major challenge.

The way forward is for the major countries to show greater responsibility by providing IDA a larger share of the needed resources in addition to the normal replenishment. Equally important is for the industrial countries to provide free access to the exports of HIPCs, which would generate substantial additional resources that the poor countries can use to fight poverty.

Many of the countries eligible for debt reduction under the enhanced HIPC Initiative are in Africa, a region that has experienced the most severe impact of the spread of the HIV/AIDS epidemic**.** AIDS has claimed almost 14 million African lives, accounting for 85 percent of the global toll. The social effects have been especially severe. In the hardest hit countries, adult and child mortality rates have doubled, and life expectancy will soon be 17 years shorter than it would otherwise have been. Left unchecked, HIV/AIDS more than any other factor could swiftly dismantle the development achievements of affected countries.

Given that the poor suffer most from HIV/AIDS, it touches at the core of the Bank's overarching objective. The Bank has a role to play. Working with other partners, the Bank can do more to raise awareness of governments of the cost of late action and the benefits of early action. It should encourage IDA countries, especially, to use the funds that are currently available for this purpose. In fact, the experience in Africa should enable the Bank to be much more proactive and imaginative in joining other partners with their fight against this epidemic. Here, I note the Bank's involvement in UNAIDS and welcome it. I also attach particular importance to research and the development of vaccines that will be effective and affordable in developing countries. In this context, I welcome the Bank's active involvement in the Global Alliance for Vaccines and Immunization.

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

Fight Against Poverty

Poverty remains pervasive, and hundreds of millions of people continue to live in deprivation and hardship. Despite substantial economic recovery after the "lost decade of the 1980s", it is doubtful – looking at the current development trend – that the international community will achieve the agreed International Development Goal of halving global poverty by 2015. We are therefore faced with an urgent challenge.

The fight against poverty calls for a multi-dimensional approach. Sustained economic growth and stability are essential preconditions for lasting poverty reduction. However, we need to pay more attention to empowerment, which starts with granting basic education to everyone. Other factors are: reducing inequalities (inequality slows poverty reduction), human security, inclusiveness, and governance. I strongly advocate that we continue to pursue efforts for participatory strategies aiming at more social justice.

At this juncture, I consider that the international community must define additional and substantive action to give a new impetus towards achieving the international development targets. This calls for a Renewed Deal between developing and industrialized countries, in particular in the areas of liberalized and fair trade, debt relief, economic cooperation and good governance. I consider that the Comprehensive Development Framework provides a very valuable mechanism in this regard.

Industrialized countries should encourage private capital flows for productive investment in developing countries. I also believe that we need to work more actively on our internal political front: we need to convince people that investing in poverty reduction, in human capital development and in partnerships for global public goods is in our enlightened self-interest. In this regard, I consider that the Geneva Social Summit and the planned UN Conference on Financing for Development will represent opportunities to discuss strategic issues and to formulate new proposals and recommendations for action.

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

I commend the Bank and the Fund for the efforts made and the progress achieved in implementing the enhanced HIPC Initiative and in introducing the Poverty Reduction Strategy Papers (PRSPs). I note with satisfaction that the first PRSP exercises are indeed helping our partner countries to enhance the poverty diagnostics and identify structural reforms required for poverty reduction. However, lessons learned so far do also suggest that certain improvements would be necessary.

Although the co-operation between the Bank and the Fund has definitely improved, I consider that their respective expertise and capacity could be used in an even more complementary manner. Indeed, the participatory process that is required to lead to a fully country-owned PRSP is very demanding, and calls for the most effective assistance from the multilateral financial institutions. A substantive problem concerns the adequate medium to long term financing of PRSPs. The credibility of the whole exercise will obviously depend on its capacity to deliver concrete results; I would like to request that the fiscal implications of PRSPs and the mechanisms to incorporate them fully into the budgetary process of a given country should be looked at more carefully. Finally, we have to admit that the successful elaboration of a good Poverty Reduction Strategy takes time and requires a massive additional effort by the developing countries. I would like to reiterate once more that this process should not unduly delay a country’s access to debt relief under the Enhanced HIPC framework. Conditions to trigger the floating completion point should therefore be limited to a small set of key measures that can be satisfactorily monitored.

The funding of the HIPC Initiative remains an area of serious concern. When the Modalities for Implementing HIPC Debt Relief under the Enhanced Framework were recently discussed, Switzerland only very reluctantly adopted the proposal to use IDA resources as bridging finance for the Initiative. Indeed, this proposal could have negative impacts on the integrity and additionality of IDA resources. Beyond debt relief, a true debt exit strategy for the HIPC countries will continue to require a sustained high level of concessional Official Development Assistance, including substantial IDA net flows. In this context, I would like to underline once more Switzerland's objection with regard to the restructuring of IBRD debts in HIPC countries with IDA resources.

I call on all bilateral and multilateral creditors, as well as on all donor countries to contribute actively and substantially to the financing of HIPC. The scope and nature of the Initiative, as well as the expected broad benefits, do indeed call for a fair and equitable burden sharing within the international community. In this regard I would like to see a more active participation of non-OECD creditors and donors. In addition, in the light of the commitments made in Cologne, the G-7 countries have in my view a particular responsibility in mobilizing adequate financial resources.

For its part, and hoping that others will follow, Switzerland has the pleasure to announce a further contribution to the HIPC Trust Fund, in the amount of fifty million Swiss francs, bringing our total contribution to the HIPC Trust Fund to 90 million Swiss francs. This comes in addition to the 70 million Swiss francs we have already disbursed for commercial debt reduction and to further substantial contributions to various multilateral debt funds that provided interim assistance to HIPC countries. It also adds to the substantial Swiss contributions made at the IMF.

Intensifying Action against HIV/AIDS

I agree with the World Bank that AIDS is a major human and development challenge for the world, with potentially disastrous effects on poverty reduction efforts. The AIDS pandemic has already had a devastating impact on all social and economic sectors. Moreover, HIV-infected people are often excluded from society and millions of children are orphaned: social cohesion is in danger. Once more it is the poorer people who bear the most dramatic consequences of AIDS, being deprived of adequate social safety nets. For this reason, I appreciate that the World Bank encourages local governments and civil society to consider AIDS as a multi-sectoral development problem and to intensify their action against it.

A striking aspect of the AIDS pandemic is the urgency for preventive action. At a relatively low cost, the further spread of AIDS can be effectively curbed**.** I wish to stress the importance of adapting prevention programs to the local and cultural realities, to the religious values of the people and to the concrete needs of the local communities, with a special focus on young people and women. On a perhaps longer term, the development of an AIDS vaccine available and affordable for the poorest is another important goal. In my view, it is primarily the responsibility of the private sector to continue spurring investments in this crucial field.

The World Bank's commitment to the fight against AIDS is important. However, in my view, it is up to UNAIDS to take the lead of the international action against AIDS and to co-ordinate it. The World Bank is right to make us more aware of the development threat that AIDS represents, and it makes an important contribution to raise additional resources for this purpose. I believe that the Bank must also fully integrate the AIDS dimension in its policy dialogue and strategic analysis with developing countries. At the same time, the role and action of the World Bank must remain subsidiary to – and very coordinated with - the joint international efforts led by UNAIDS.

Trade, Development and Poverty Reduction

Trade liberalization is a crucial engine to achieve rapid and sustainable growth. Developing countries, in particular the poorest ones, have to be put in a position allowing them to make effective use of the trade opportunities. They still have an unfinished reform agenda to liberalize their own markets and to achieve export diversification. At the same time, their easier access to the markets of OECD countries and to the international financial markets is also essential.

Issues on trade and development have to be addressed and coordinated by the specialized and competent international organizations, i.e. WTO, UNCTAD, ITC. However, the Bank and the Fund have also an important – although subsidiary – role to play in complementing the work of these organizations. They must focus on issues where they have a comparative advantage. I believe the Bank could make important contributions. It could promote sequenced trade policy reforms based on individual country conditions. It could contribute to strengthening national capacities such as customs, the financial sector, and the fight against corruption to enhance regional integration. And it could support innovative approaches to facilitate the access of the poorest countries to market-based mechanisms for securing export transactions on raw materials.

International Financial Architecture

The Bank is making substantial and useful contributions in its fields of competence and expertise. But I still wonder if these efforts in standard setting, in diagnosis making, in systems assessing, are concretely bearing fruit in strengthening the national financial systems in developing and emerging economies. Have we already made a difference at the country level? I invite the Bank to give more information in the coming months on the results and progress achieved in this field. I would appreciate having a more comprehensive progress report at the time of the Annual Meeting.

I am pleased to note the effective coordination with the IMF on the Financial Sector Assessment Programs (FSAP) and the Reports on Observance of Standards and Codes (ROSC***)***. However, the respective roles of the Bank and the Fund in delivering specialized technical assistance and capacity building, based on the outcome of the FSAP exercises, deserve some additional clarification. Even more important: I am still missing a substantive discussion on the expected role of the World Bank in the context of the resolution of future financial crises. This is a strategic discussion for the shareholders. I have strong reservations as regards the excessive involvement of the Bank in providing massive short-term resources when international financial crises occur.

IBRD Financial Capacity

Switzerland supports an in-depth and regular review and analysis of the long-term structural sustainability of the Bank's finances. Indeed, although the current financial standing of the Bank remains sound, and recent economic developments have reduced the urgency to act in the short run on its financial and risk-bearing capacity, we must still look at the fundamentals. I believe there are areas of persistent concern (e. g. equity to loan ratio, Bank's return on capital) which deserve strong and decisive action in the medium term. I therefore very much support the

Bank's efforts to push further the discussion on possible options for enhancing IBRD's financial capacity.

This being said, I would like to caution the Bank that it would be illusory to expect the identification of concrete options to emerge, without an adequate prior debate among the shareholders on the strategic direction of the Bank. In this debate, the new development architecture and the Bank's role in poverty alleviation will have to be carefully considered, and more particularly its role in situations of future international financial crises. I call on the Bank to contribute actively to ensure that this important strategic discussion takes place in the coming months.

Statement by Mr. N'Golo Coulibaly, Minister of Economy and Finance (Côte d'Ivoire)

I would like to begin by saying how pleased I am to participate in this spring meeting of the Development Committee. Our meeting is taking place at a special time for the Bretton Woods institutions, as they are confronted by a number of challenges from within and without. The primary external challenge has to do with the reduction of poverty**.** We need imagination and perseverance to achieve this objective, but we also need to win on another front. I am convinced that the Bank will come away from these struggles a stronger institution if at the same time it faces its internal challenge by pursuing a program of reform that will make it a bank of knowledge and a bank that capitalizes on its extensive experience, thereby enabling it to ensure the best practices found anywhere in the world. This reform, which the World Bank embarked on several years ago when it adopted its strategic pact, is a response to the many appeals for reform voiced by member countries.

In this statement, I intend to focus on the five key items on our agenda, namely: (1) Intensifying Action Against AIDS; (2) Trade, Development and Poverty Reduction; (3) the report of the Task Force on Small States; (4) the Progress Report on Implementation of Poverty Reduction Strategy Papers and the HIPC Initiative; and (5) the financial capacity of the IBRD.

Intensifying Action against HIV/AIDS

With regard to the scourge of AIDS, the report prepared by the World Bank staff is alarming. This document reveals that HIV/AIDS currently affects nearly 34 million people throughout the world, a third of who are young people between 10 and 24 years of age. Moreover, it is spreading at a rapid rate far in excess of the most pessimistic forecasts prepared just a few years ago. The report emphasizes that the HIV/AIDS epidemic must be dealt with not only as a critical public health problem of modern times, but also as an unprecedented threat to the development of many countries on all continents, but especially in Africa.

What can we do? First, we must realize that the solution to this problem requires the participation of all stakeholders in the development process. This is why we are launching an appeal to all national and international decision-makers to get involved in efforts to fight this terrible epidemic. The Bretton Woods institutions must strengthen their internal capacity for action and form partnerships with the specialized institutions in the sector, such as UNAIDS, to combat HIV/AIDS more effectively.

We must forge new alliances among our countries, development partners, and producers and distributors of pharmaceuticals, to ensure that supplies of medicine at affordable prices reach the ill. In fact, because AIDS is spreading faster among the poor, we should encourage the local production of medicines to fight AIDS at prices that the poor in developing countries can afford. We welcome the steps taken by the Bank, in cooperation with the International AIDS Vaccine Initiative (AVI) and the Global Alliance for Vaccines and Immunizations (GAVI). We are relying heavily on the Bank to move forward in these different areas.

Trade and Development

We congratulate the World Bank and the International Monetary Fund (IMF) on the work that they have done on the links between trade, development, and poverty reduction, at the request of the Development Committee. If we are to stamp out poverty, we must introduce in-depth changes in the international trading system, so as to make sure that the poorest countries and the need to accelerate their growth are taken into account. Of course, reform of the trading system can only produce the desired results if it is accompanied by other policy measures to stimulate growth and reduce poverty. Aside from traditional export promotion policy measures, we believe that policies to diversify the economy are also called for. We are of the opinion that trade policies should be included as an integral part of discussions on the global assistance strategy of multilateral institutions, for the benefit of the borrowing countries and the new integrated development framework in those countries. In this regard, the aid of multilateral institutions could either be financial, in support of structural reforms, or technical, in support of economic or institutional capacity-building studies. Every institution should of course focus on the areas where it has a comparative advantage. The staff of the IMF or the World Bank could provide valuable assistance on possible alternatives to public revenue, when liberalization leads to large deficits as a result of elimination of foreign trade tariffs.

Another example of assistance that could be provided in this area of trade has to do with commodity risk management. Developing countries, and especially the poorest ones with the least diversified economies, have to cope with problems related to management of the risks inherent in the highly unstable markets for their commodities. We welcome the initiative taken by the World Bank's management to create an international task force to study new market-based approaches for helping developing countries better manage their vulnerability as a result of unstable commodity process. We strongly support this type of initiative, since we believe that market mechanisms, together with appropriate international support and effective local institutions, can make a significant contribution to reducing poverty. Moreover, in the past three years, our countries have appreciated the assistance in preparing for accession to the WTO which has been provided by the Bank, in cooperation with other partners, such as the IMF, UNCTAD, and the International Trade Center. We trust that this assistance will continue in the context of the negotiations on the new agreements and their implementation.

Finally, I would like to say a word on regional integration and regional agreements. In principle, the regional groups many of our countries belong to should not be regarded as obstacles to global economic integration. On the contrary, these groups have proven very helpful to our countries by offering them an opportunity to mobilize their meager individual resources to form broader-based markets and hence to take advantage of the resulting economies of scale. In practice, these groups also make for a useful transition to integration into the world economy. We would urge the World Bank to fine-tune its instruments so that it is in a better position to assist the regional integration process under way in our sub-regions.

Small States: Meeting Challenges in the Global Economy

We welcome the Joint World Bank/Commonwealth Initiative on Small States. We congratulate the Joint Task Force for having produced an excellent report analyzing the specific problems facing small states in their efforts to meet the new challenges of globalization. This document also provides an ideal vehicle for describing the activities of small states and the assistance of the international community. We also appreciate the fact that the Task Force held many consultations with the small states themselves in the course of drawing up this report.

The recommendations of the Task Force are relevant and could form the nucleus of the policies to be adopted to help bring these states out of their isolation, either through regional integration policies or new approaches in cooperation with bilateral and multilateral development institutions. We support the recommendations to mitigate the destabilizing impact on revenue and the vulnerability of these countries to natural disasters. In addition, we give our support to the proposals to ensure a calm transition to a new world trading system, and to strengthen human and institutional capacity.

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

We take note of the Progress Report on Implementation of Poverty Reduction Strategy Papers and the Enhanced HIPC Initiative. Although the process of qualifying for the Initiative seems to be progressing at a satisfactory pace, progress in financing the Initiative is somewhat disappointing, in our view. Based on the revised estimates of the Bank and Fund staff, the cost of the Initiative, estimated in terms of net present value at around US$28.2 billion, should be financed equally by bilateral and multilateral creditors. However, we do not see any significant progress so far in this area, on the part of either bilateral or multilateral donors, despite the oft-repeated declarations of intent in support of the enhanced Initiative. There is even a proposal now to have IDA replace the HIPC Trust Fund for purposes of granting relief on the debt owed to IDA. This disturbs us, since this could entail a real risk to IDA's financial integrity.

Our countries, which rely for the most part on IDA for financing our development programs, fervently hope that the recommendations from the last meeting of the Development Committee to make debt relief under the HIPC Initiative more significant, more expeditious, and more accessible, be implemented quickly without thereby jeopardizing IDA's capacity for action. We therefore appeal to bilateral and multilateral creditors for a show of solidarity, so that financing under the enhanced Initiative can be promptly released. In this context, we would highlight the need to mobilize resources to help finance the contributions of the regional development banks, and specifically the BOAD and AfDB. Finally, we would draw attention to the fact that the principle of equal treatment advocated by all creditors could lead to incongruous situations in which relief of debt owed by poor countries to other poor countries or their multilateral institutions is granted, without first identifying the sources of external financing. This situation could in fact undermine the benefits of the Initiative for this category of creditors.

Update on the IBRD's Financial Capacity

After reviewing the financial situation of the World Bank at its fall 1999 meeting, the Committee concluded that the Bank's situation was essentially sound. It recommended that the Bank should continue monitoring its financial situation and that, if necessary, it should propose corrective measures, including a capital increase if changes in its portfolio and prudential rules should so dictate. In that event, the main concerns in our opinion should be to ensure that the solutions put into play guarantee an adequate transfer of resources from IBRD to IDA and other programs to assist poor countries, such as the HIPC Initiative, the Africa Capacity-Building Initiative, and the post-conflict assistance program, among others.

To sum up, the issues on the Committee's agenda are of critical importance to our countries and the future of our people. In this regard, I would once again salute the Bretton Woods institutions for the cooperation framework they have initiated in the areas of development and poverty reduction. I know that I can count on the World Bank's spirit of partnership and the international financial community's sense of solidarity for continued support for our efforts in all these fields.

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

Report of the Task Force on Small States

Although we do not consider adequate the enactment of a new and special category of countries only on the basis of their size, it is necessary to analyze them within the context of their particular characteristics. The global economy may impose heavy adjustment costs on some small states and compel them to assume higher risks. Their economic exposure, remoteness and insulation, their proneness to natural disasters, inadequate institutional capacity and lack of export diversification leave small states unprotected in the face of external shocks. However, although globalization may entail a higher degree of volatility, it is important to remember the countless opportunities it creates for raising average national income.

The Commonwealth has long recognized ways, in numerous instances, to incorporate exposure in the design of development strategies for small states. The World Bank has pledged to further help small states that have difficulty mastering the complexities of market access and external imbalances. The joint Commonwealth Secretariat/World Bank Task Force advances a suitable contextual framework to deal with threats from external shocks.

The framework also provides for the use of quantifiable indicators—like the Commonwealth's composite index of vulnerability—to measure progress toward assistance goals. Although the index encapsulates the key causes of vulnerability, the Bank cannot apply it in isolation to determine whether a small state is eligible for differential treatment. In our opinion, assistance should be judged on a much larger perspective than that merely provided by an index in isolation.

The Bank's Country Assistance Strategies (CASs) made in full consultation with the small states should be the vehicle to address their particular features. They should establish the main determinants of their vulnerabilities and propose remedies tailored to each individual country. This instrument should establish clear policies, expected results and outcome benchmarks. It should also include strategic areas selected for Bank-supported investment. Technical assistance—by far the most powerful device for the Bank to assist small states—should be given high priority. In this vein, we encourage the use of market-based instruments, such as derivatives, and the creation of stabilization funds to smooth-out volatility in commodity prices and income.

Concomitant to the discussion on trade and poverty reduction at the Development Committee, we are raising the issue that trade liberalization is central for poverty reduction. Liberalization will not necessarily reduce volatility and, in some instances, it may actually increase it. But not accepting it may lead to further stagnation and poverty. On the other hand, taking it up will provide the mechanisms and resources for reducing the impact of volatility. Small states should have an open attitude towards eliminating agricultural subsidies and reducing tariffs and non-tariff barriers to international trade in goods and services. In this context, we would like the CAS to include a much closer partnership with the World Trade Organization to help integrate small states into a rules-based trading system, and to develop their institutional capacity to participate in trade negotiations.

It should also be considered that the ecosystems of small island states are fragile. We believe that there is a place for the International Task Force on Commodity Risk Management working on the insurance market to cover natural disasters and fluctuation in the prices of commodities and volumes traded. Recent experience at the Bank shows that adaptable program loans and learning and innovation loans are flexible enough to accommodate support to mitigate the effects of natural disasters.

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

The conditions of abject poverty of the 2.8 billion who live under $2 a day and the dim prospect of improving their lives significantly within the next fifteen years pose a challenge that the Bretton Woods Institutions cannot disregard.

Presently we welcome the Bank's proceeding with the Poverty Reduction Strategy Papers (PRSPs) in collaboration with the IMF, especially in light of the Development and Interim Committees endorsement—in September 1999—of a framework to strengthen the link between debt relief and poverty reduction to enhance the focus on poverty in all Bank and Fund concessional lending.

The Bank has adopted a Comprehensive Development Framework (CDF) as the guiding principle to integrate macroeconomic, structural and social factors, taking into account the inter-sectoral determinants of poverty. We share the view that not only is growth essential to reduce poverty, but that poverty, inequality and social exclusion in turn influence a country's growth and poverty-reduction prospects, and that institutions play a key role in this process.

The design of a PRS should build on the experience of implementing the CDF, with the key principle that strategies need to be owned by the societies that will implement them. It should be result-oriented, comprehensive, long-term, and carried out in partnerships among development actors with complementary roles to play. To be effective, a PRS would need to be built in partnership with multilateral and bilateral donors.

As for the HIPC Initiative, we welcome the enhancement approved in September 1999. The lower debt sustainability thresholds and earlier calculation of assistance will more than double the amount of debt relief, compared to the original framework. Bolivia, a member of our constituency, has been—together with Mauritania, Mozambique, Tanzania and Uganda—among those countries that have already reached their new decision points under the enhanced framework. Certain aspects, however, deserve further comments:

(a) A key requirement for reaching the floating completion points is the adoption of a fully developed Poverty Reduction Strategy Paper (PRSP). It should also be noted that, since the universe of these countries consists basically of the poorest and perhaps not the most politically mature, the qualifying process required to access the debt relief is perhaps too sophisticated and calls for unusually intense support and assistance efforts.

(b) We welcome the fact that an important component of the PRSP will be measurable results. The Interim PRSP for Bolivia shows that 70 percent of households live below the national poverty line. Bolivia is committed to reduce poverty from 55 to 45 percent of the urban population, and from 80 to 68 percent of the rural population by 2010.

(c) Updated total costs are estimated at US$28.2 billion in 1999 NPV terms, of which US$6.3 billion correspond to the World Bank. We can only point out our concern that financing of debt relief should not compromise financing made available through concessional windows such as IDA.

(d) The IMF's Executive Board has authorized transfer of the proceeds from gold sales to be used for the benefit of the HIPC Initiative. Transfer of the remaining five-fourteenths requires an Executive Board decision, with an 85 percent majority. At the same time, other MDBs are currently exploring their options internally and with their shareholders. If these final steps are delayed, there will be a shortfall in resources available for debt relief. It is in the best interest of all parties concerned to do well on their political commitments so we may have a full-fledged enhanced initiative as soon as possible.

We look forward to the Bank's and the IMF's final poverty reduction view, which will be presented at the Annual Meetings in September 2000 in Prague. Needless to say, discussions on the draft report and some of the key elements that have emerged so far have laid the grounds to be optimistic about the approach and direction of the same. The details are, however, what will ultimately confirm whether more progress on poverty reduction can be achieved in the future than has been the case in the past decade.

IBRD's Financial Capacity

Recent favorable developments in the global economy should not be reason for complacency. In this respect we welcome the discussion on IBRD financial capacity. It is a fact that when capital flows are normal they dwarf the flows of MDBs. Yet, we must be prepared for the unexpected. In this respect there are several options: to increase the capital of the Bank, to increase the price of its products or to better focus and reduce administrative expenses.

We have seen a disturbing tendency to increase prices. This was the case for the Special Structural Adjustment Loans, and now there is a proposal to increase the price of the Bank Guarantees. We do not support this policy. We think that the Bank budget should be overhauled and administrative expenses drastically reduced. In this respect the cost of deploying field offices should be examined and peripheral activities sharply trimmed down.

Furthermore, the proposed exercise should explore other creative possibilities for reducing the Bank's administrative budget, including the outsourcing of some activities. Budget constraints are binding, but one way out is to increase the budget envelope (capital or price increases) and another is to reduce expenditure.

The Bank has to shape its long-term financial strategy within a desired or expected growth trend. This strategy should include short-term deviations from trend due to financial shocks that would drastically increase the demand for funds. Accordingly, it should build up contingent reserves and use them to bear the risk of higher and riskier lending.

International Financial Architecture

Financial stability and development are inextricably linked; to enhance capital markets is *per se* a developmental issue, and the World Bank is using the comparative advantage of the International Monetary Fund (IMF) in surveillance. Given the financial turmoil of recent years, to gain knowledge of and to implement a systematic approach to social and structural issues under the umbrella of a new financial architecture becomes a learning-by-doing exercise.

We have reviewed the *Progress Report on the Bank-Fund Financial Sector Liaison Committee* and on the *Financial Sector Assessment Program (FSAP)* and we welcome both with enthusiasm. We acknowledge 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. These will undoubtedly help to strengthen policies and to reduce the possibilities of crises.

The institutional underpinning, such as effective judicial systems, corporate governance and sound accounting and auditing practices, together with good structural and social policies for protection, are of paramount importance to reinforce financial systems and to harness the benefits of globalization. In the end, financial stability rests on vigorous economies.

A year ago, at this same Meeting, our Chair emphasized several issues that had to do with enforcement mechanisms. Among those we cited property rights, the strengthening of corporate law, bankruptcy procedures, corruption, the exchanging and pooling of information as a valuable economic activity, and laws and regulations for mergers and acquisitions. The World Bank has responded appropriately to these and other demands placed upon it right after the Asian and Russian crises. But there is much left to be done.

We encourage the Bank to proceed with the Corporate Governance Forum launched in partnership with OECD and to supplement the work being done on accounting and auditing principles by other professional bodies. There is also much to be accomplished in terms of the development of best practice in insolvency regimes and the social dimensions of crises.

The Bank and the Fund have jointly sought to develop a strategy for fostering surveillance through the analysis of vulnerabilities and risks, and to strengthen financial systems. The Financial Sector Assessment Program (FSAP) will give us a comprehensive diagnosis of financial systems. As a place to set priorities in technical assistance, the FSAP will help to prescribe correct answers in our race against crises that, as we know, have a severe impact on the reduction of poverty. Understanding financial sector weaknesses is instrumental to prevent the occurrence of future crises and, should they occur, to mitigate the severity of their impact.

Having the FSAP anchored in the IMF's surveillance process is key when it comes to exploiting the comparative advantage of the IMF. In the context of the Fund's Article IV Consultation Process and the Reports on the Observance of Standards and Codes (ROSC) the IMF has been dealing with these issues for a long time: they are embedded in its mandate since its inception. Hence, we must not supersede or overlap that work. Besides, the World Bank has neither a mandate to act on surveillance nor a comparative advantage to work on it by itself. Surveillance should be left on the IMF's hands. The expertise collected from FSAPs will surely help to better focus the Bank's CAS and to strengthen international cooperation. FSAPs will also provide an opportunity to advance capacity-building for regulatory and supervisory agencies in developing countries, and, as such, it should be considered as a learning-by-doing device for poverty reduction.

As it transpires from the experience collected from the pilot cases, the role of standard assessments is not helpful in isolation, as standards cannot be assessed by means of a checklist procedure. An overall assessment of observance of standards should take into account the special country circumstances, such as the stage of banking and capital markets development. By assessing vulnerabilities in the financial sector the FSAP is the natural framework to undertake the assessment of the observance of standards. It should be considered a tool to assess vulnerability and developmental issues, and for that reason, we hold to the idea of conducting theFSAP together with ROSC modules.

We very much welcome the progress report on the international financial architecture. It is comprehensive and reflects the collaborative efforts with all our partners.

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

At a time when public opinion --even in this place--is questioning and concerned about the effects of globalization and the lag in development in the poor countries, we must demonstrate, more strongly than ever, clear policy to enhance development and fight poverty.

I intend to concentrate on two main points:

We must make a common commitment to increased solidarity with poor countries. This commitment must go beyond declarations of principle. We must actually achieve this solidarity through consistent and determined pro-poor country policies: effective debt reduction, trade liberalization, and enhanced Official Development Assistance. I am proud that my country and the European Union are keeping their promises on all these fronts. We expect other countries to shoulder their full share of the burden.

We must respond to doubts about our institutions by strengthening their legitimacy, transparency and effectiveness. We must increase our Solidarity with Poor Countries

Putting an End to Over-Indebtedness.

Our common commitment to put an end to the problems of over-indebtedness is well known. From now on, we must do everything possible to see that this commitment rapidly becomes reality for eligible countries, effectively creating for them a new opportunity for development.

The implementation of the Highly Indebted Poor Countries Initiative (HIPC) has made progress since the fall meetings. We must continue to go forward: each donor country must honor its commitments and the institutions must work together with the eligible countries to put poverty reduction strategies in place. I spoke yesterday to the International Financial and Monetary Committee of the three principles, which seem to me essential to be successful on the financial aspects of the Initiative. I will repeat them briefly:

- Debt alleviation is urgent. We decided last September on a rapid timetable for deciding on eligible countries. We cannot betray expectations.

- Financing for the initiative must be definitively secured. Most of the donors, including the European Union, have done their share. I appeal to other countries to keep the promises they made.

- It is possible to go farther. France did so, in committing to cancel, on a bilateral basis, the totality of its Official Development Assistance debt at the completion point and the totality of its commercial debt eligible for Paris Club treatment. France will thus cancel nearly 8 billion euros of debt within the enhanced HIPC framework.

I want to address more completely in this Committee another aspect of the HIPC Initiative: that which is meant to assure that debt reduction allows for effective and lasting poverty reduction.

We decided during the fall meetings to ask the countries eligible for the Initiative to establish a national poverty reduction strategy, which would constitute the “good faith contract” among each country, the Bretton Woods Institutions, and the whole international community. Notable progress has been made since then, and I am grateful to the governments of the concerned countries and to the institutions which supported them.

In the weeks and months to come, we must continue to work toward the design and the endorsement of these national strategies, navigating between two, sometimes contradictory, objectives: timing and the definition of priorities.

- Timing, because developing these strategies must not lead to a slowdown of the initiative.

- Quality is also a key element, since it will condition the credibility of the initiative. A strategy is not a shopping list.

France is counting on the professionalism of the institutions and the will of member Governments to develop strategies –with the dual objectives of speed and quality. My country is ready to assist its partners in the process. We attribute great value to the contract implicit in the commitment of each eligible country. This strategy is the guarantee of our common action to support development through debt cancellation.

We Must Accept Opening our Borders Wider to Products from Poor Countries

To develop, poor countries must have access to world trade. At present there are still obstacles blocking their products from reaching the markets of the wealthy countries.

The Marrakech agreements were a first step towards opening the markets of the developed countries to the majority of products coming from the least developed ones. France and Europe have already opened their markets to essentially all products from these countries. The European Union grants enhanced access - tariffs and quotas free - to all manufactured products of the least developed countries, including textiles and clothing. The Union stands ready to go beyond this framework to include agricultural coverage--which is already quite extensive—to include preferential treatment on tariffs.

We believe that there is a role for regions in strengthening the growth and stability of the global economy. Europe, after 40 years of clear political will and incremental commitments, chose to adopt the euro, which today benefits the whole international community. In this same spirit, we must encourage trade agreements that strengthen regional cohesion and allow poor countries to integrate progressively into global trade.

Europe has long established a partnership with the 71 African, Caribbean, and Pacific countries which allows them the benefit of temporary preferential trade arrangements and to strengthen their regional integration. We support these sorts of transition measures to market liberalization and fuller integration in the international markets.

Developing countries themselves must adopt internal measures to facilitate their access to international trade. The IFI's have an important role to play in assuring that these reforms take place in a coherent economic and social framework and within a time frame which protects populations from the potentially damaging effects of too rapid liberalization.

Official Development Assistance is More Indispensable Than Ever

Debt cancellation and trade liberalization are not sufficient to fuel the poor countries' take-off. Financing basic infrastructures, such as health or the foundation of a quality education system can only be achieved through public finance. Private capital will follow, when investors are sure of the political and economic environment. We can't use the welcome return of private capital to the development world as a pretext to abandon our public effort. We know that private flows are very concentrated, both geographically and sectorially. Most of the poorest countries remain outside this source of financing.

Let us assist the development of private direct investments, because they transfer technology and wealth, but we mustn't forget our own responsibilities.

Official Development Aid must be more concentrated than ever on the poorest countries, in order to allow them to develop with full respect for social equity, democratic transparency, and strong cultural bonds.

The Action of Our Institution Must Be Better Defined to Be Better Understood

Strengthen the Recognition of IFI's Mandates, Respect their Complementarity and Universality

We have a responsibility to give clear guidance to our international financial institutions so that their delegation to act for us is clear. France expects the Committees of the Bretton Woods institutions to fully play their role of policy orientation for the IMF and the World Bank.

Inspired by this concern, the Interim Committee was transformed into the International Financial and Monetary Committee, so that international economic and financial issues could be more effectively handled. I would see only advantage if the World Bank took similar action for the Development Committee. I welcome the Inter-American Development Bank's first Ministerial Committee on Development, which took place recently in New Orleans, and its decision to renew it yearly. These changes will strengthen international consensus and the general agreement on these institutions' role.

Some voices have been raised in favor of dividing the responsibilities of the international institutions in categories of countries or regions, at the risk of further isolating the poor countries. This temptation must be avoided. We need strong and universal international financial institutions, able to give the same support to poor countries and as they do to emerging ones.

Development is an ongoing process; we have nothing to gain by creating artificial separations. In this regard, France does not share the analysis, which would group countries according the theoretical categories--for example "small states".

Each of our institutions was created with its own area of responsibility and complementary callings, at the regional or global level. We, in our capacity as governors, must define their objectives and monitor their effectiveness.

IFIs Must Concentrate their Action on Priority Goals

We have entrusted heavy responsibility to the multilateral institutions: financing development, preventing crisis, reducing debt. In an increasingly complex environment, it is crucial that each institution concentrate its action on priority objectives, in close cooperation with others. On this point, I must admit to mixed emotions--divided between satisfaction and concern.

First, satisfaction, for the way in which the World Bank and the IFI's have conducted the implementation of the debt initiative. This difficult gamble, which is based on an assumption of unprecedented mobilization of all the multilateral financial institutions, is well underway. In another context, we can also be satisfied with the way in which the IMF, the World Bank and the regional banks organized to help the Asian countries emerge from crisis and to prevent the Latin American countries to enter it. After a difficult start, this experience has actually produced a better framework for forecasting and managing crises.

But, I should also share my concern.

Commitments to concessional windows for poor countries, notably IDA financing to sub-Saharan Africa, have hit historic lows, completely out of sync with expectations and with commitments for replenishment. This situation is critical and calls for immediate action because our priority has not been taken into account. Local difficulties do not suffice to explain a fall this sharp. The institution must reexamine its strategy and its methods to reach the goal of allocating 50 percent of IDA funds to sub-Saharan Africa.

The World Bank must manage the risks of too much dispersion of its activities in the emerging countries. Faced with strong demand in a wide variety of areas, the Bank must determine with each country the several priorities which require its action. It should, in particular, concentrate on structural reform of the financial sector and on the implementation of social protection mechanisms. It is not necessarily the time for large financial volumes. For emerging countries, which have access to capital markets for their development finance, the World Bank should assist through expertise and advice.

The International Finance Corporation must adopt prudential measures to protect its preferred creditor status in its partnerships with the private sector. As an international financial institution, it should not simply promote private investment, but it should also measure systemic risk, promote transparency, and discourage business with non-cooperative jurisdictions.

On these three points, I expect President Wolfensohn will have the World Bank Group rapidly reassure us and remove all doubt for the future.

The World Bank Must Help Developing Countries Integrate Global Public Goods

The greenhouse effect, the preservation of bio-diversity, and the fight against pandemics such as HIV/AIDS, are a few of the examples of new problems, which have emerged on a global scale. Multilateral Development Banks must be the international community tool to articulate these global phenomena with local realities.

HIV/AIDS is doubtless the most striking current example of these new complex sets of interrelated problems. We have to mobilize against AIDS. One cannot effectively combat HIV/AIDS at the global level unless there is systematic internalization of the fight against this disease in every country's national policy. The World Bank and the regional Banks must play precisely this linking role.

The proposals made to us on the fight against HIV/AIDS go in the right direction. I particularly welcome that the Bank is advocating an approach which combines prevention and patient care and treatment, thus converging with France's long-standing position. I hope that France's experience with the International Fund for Therapeutic Solidarity can fully benefit from this new commitment from the Bank.

More generally, in the context of global public goods, it seems to me that the World Bank should fully participate in the efforts of the international community, in taking care to avoid two pitfalls: abstraction and dispersion.

Abstraction, because these new global phenomena will require enormous initial intellectual efforts to be completely understood. While certainly participating in the above effort, the Bank's priority must be to plan a course of action.

Dispersion, because the Bank must resist the temptation to create an independent course of action for every new set of problems, a temptation which would isolate the institution. It should, on the contrary, assimilate these new phenomena through mainstreaming them into the totality of its work.

Conclusion

France, who provides the largest share of development assistance in relation to GDP of all the G7 countries, confirms its commitment to solidarity with the poor countries. With our European partners, we are conducting a consistent policy of trade liberalization, and development assistance to allow these countries to gain access to global trade and to fully benefit from globalization. I expect this commitment to be shared by all the other developed countries.

To achieve this commitment, to allow for a globalization defined in human dimensions and rejecting the inhumane, we are counting on strong financial institutions politically mandated to act for the international community. We assure them of our confidence to successfully complete the ambitious programs we have entrusted to them. At the same time, we inform them of our requirements of strengthened transparency. We expect them to explain their actions more openly to public opinion.

This is how we will improve aid effectiveness and convince others of the relevance of our efforts.

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

Attacking the Problem of Poverty at Its Roots

A global economic recovery is taking hold faster than expected but there is a risk that its benefits will escape those countries where poverty has deeper roots. A major mobilization effort is needed to ensure that the growth dividend is not wasted but can be used most effectively to regenerate economic and social development in the poorest countries. Without prompt action and support from the international community, a large share of the world population will be bypassed by the benefits of globalization.

In the year 2000 a comprehensive initiative aimed at providing debt relief to some of the poorest countries has attracted worldwide attention. The objective of the enhanced debt reduction effort is to offer the opportunity for a fresh start in the fight against poverty to countries whose development prospects are undermined by an unsustainable debt.

These countries will be able to use the resources released by the debt reduction initiative for programs targeted to poverty alleviation.

The HIPC Initiative considers it essential to provide debt relief to the countries which show a good performance, since only the adoption of sound policies can secure them a permanent exit from the debt trap. Besides, were it not linked to good performance, the provision of debt relief would be inequitable with respect to other poor countries that have followed good policies and have maintained their debt on a sustainable level.

The provision of debt relief is dependent on the adoption by the recipient countries of a comprehensive program for directing resources freed up from loan payments into productive poverty-reducing investments and services. The country-driven Poverty Reduction Strategy Papers developed with the participation of civil society and the assistance of the Bretton Woods institutions provide an integrated framework linking macroeconomic, structural and poverty alleviation measures for delivering lasting results in growth, poverty reduction and stability.

The World Bank and the IMF are engaged in a cooperative effort in assisting countries in the designing of effective and comprehensive poverty alleviation programs. The two institutions may play a useful role in helping solve potential conflicts when reform programs imply difficult decisions and coordination problems.

While the initiative is already underway, the question of financing remains still unsolved and may threaten the implementation of the debt relief program. The success of the enhanced HIPC initiative will depend on the full participation of all creditors and the availability of adequate funding as well. The multilateral institutions should maximize their contribution consistently with the need to preserve financial integrity.

Italy has strongly supported the initiative for alleviating the debt of the poorest countries. In the past we have bilaterally provided a very generous amount of debt relief. A draft Law currently under Parliamentary exam contains unilateral measures that will raise the value of the debt Italy has cancelled to over 3 billion dollars. The Law will also enable us to cancel all aid credits to countries hit by natural disasters, which face difficult humanitarian emergencies. In the last Annual Meetings we pledged a $ 70 million contribution to the HIPC Trust Fund in support of poverty alleviation programs implemented by the Multilateral Development Banks.

We must remember that the HIPC initiative is only a part of the needed effort to attack poverty worldwide. There are poor countries that do not qualify for relief under HIPC, and there are poor people in countries with higher average per capita income levels. These include largely populated countries such as China and India which are experimenting growth whose benefits have not reached all strata of population and Eastern European countries whose outstanding debt is modest since the deterioration of their economic conditions is a relatively recent phenomenon.

Since poverty is a multidimensional phenomenon and its roots can be highly diverse both between and within countries, we need a multifaceted strategy to address poverty in different circumstances and to respond to changing needs with the appropriate instruments. The main components of the development agenda for the near future will need to put emphasis on market opening and the integration of developing countries in the global trade and financial system. Countries should achieve a higher quality of growth through investment in the social sector, particularly health and education. In all these areas a key role can be played by the multilateral institutions with the World Bank in a leading position.

Trade and Development

When accompanied by the complementary institutional, human capital and infrastructure development, the global trading system can make a major contribution to growth and poverty reduction. Improved market access and more balanced rules can help poor countries boost their exports and foster their integration in the global economy, thereby complementing the initiative for the reduction of debt. The international community is called upon to act on both the numerator and the denominator of the debt-to-export ratios that measure the sustainability of the debt in these countries.

We believe that the trade dimension should become an overarching theme in the development agenda. Particular attention should be given to supporting countries in implementing trade reforms and addressing the social implications of trade liberalization. The multilateral institutions need to intensify their cooperation in assisting countries to fully integrate trade policies in their growth and poverty reduction strategies and building up trade-related institutional capacity in line with their respective mandates.

The World Bank has a clear operational role in integrating trade issues in its development assistance programs. Work should be focused on strengthening supply capacity in export-oriented sectors by improving infrastructures and the provision of trade-related services and stressing the links between trade reforms and social, human and environmental concerns. Countries need advice on issues related to participation into regional trade arrangements including work on cross-border facilities and custom regulations and administration. The Bank can also assist developing countries in trade negotiations by enhancing their capacity to participate in the debate on the global trade regime.

Health and Education

Lack of education and diffused illness go hand in hand with poverty. Their combined effect weakens the labor force, reduces human capital and permanently lowers the growth potential of developing countries. The development agenda needs to give priority to investments in these areas with a view to making education affordable to the poorest and to upgrade and improve the existing health facilities. Only a concentration of efforts from all sides can help developing countries generate the resources required to reduce the gap with more prosperous nations. The International Financial Institutions and Developmental Agencies are called upon to assist countries in creating the necessary domestic conditions for attracting private investment, by identifying instruments and mechanisms for an innovative and more effective approach in these fields.

The HIV/AIDS epidemic is advancing fast in many developing countries. Its economic consequences can be devastating especially for the less advanced regions, since the poorest are the most exposed to the disease and are also those who suffer most from the spreading of the epidemic. Prompt and decisive action is needed first in the countries themselves to increase awareness and open discussion of the issue, to make prevention and education a priority in public expenditures, to provide assistance to the ill, and to sustain the community-oriented approach to curing the disease. The international community can contribute by financing efforts for the development of vaccines and for making drugs and medicines more affordable to low income countries.

The World Bank is actively engaged in the fight against HIV/AIDS. Assistance to developing countries in this area has become a priority in recent years and has been integrated in the lending and consultative activities carried out at the regional level. We encourage the Bank to step up collaboration with other multilateral organizations such as UNAIDS and WHO to set up partnerships aimed at mobilizing financial resources for funding research on a vaccine and for helping bring down the cost of drugs for major disease in developing countries.

The Financial Architecture

The experience of the past year has shown us that financial crises in developing countries have deep and widespread effects that can nullify the gains achieved in decades of growth. The international community has embarked on an effort to strengthen the financial architecture and to make the international financial system more resilient to shocks, with the contribution of, among others, the multilateral institutions according to their areas of responsibility.

The World Bank is an active participant in this endeavor. We support the extension of the financial sector assessment program carried out jointly by the Bank and the Fund to monitor, identify and address vulnerabilities in countries' financial systems on a regular basis. We encourage the Bank to continue the work undertaken in collaboration with other relevant international bodies for developing standards and codes of best practice for corporate governance, accounting and auditing, insolvency regimes, and social protection.

The Financial Capacity of the Bank

For the Bank the intensification of the efforts aimed at implementing the debt relief initiative is compounded by the need for stepping up activity in crucial areas such as trade, social policies, health and education for faster progress towards poverty reduction. A financially healthy and strong institution is needed to meet these challenges.

Although the financial capacity of the Bank remains sound, the room for maneuver is constrained and the ability to respond to future crises may be limited. We need to look with an open mind for ways in which the risk-bearing capacity of the Bank can be strengthened and take advantage of the favorable conjuncture to start exploring all feasible options to build up financial headroom for the future.

Statement by Mr. Jorge Giordani, Minister of Planning and Development (Bolivarian Republic of Venezuela)

Small States: Meeting Challenges in the Global Economy

We are grateful to management for commissioning this carefully balanced report. We are convinced not only that the cooperative relationship which already exists between the World Bank and other organizations should be encouraged and deepened in the immediate future, but also that such cooperation should be broadened to include additional multilateral organizations. At a time when financial restrictions are severe and widespread, renewed emphasis on inclusive and concerted institutional action is clearly both justifiable and appropriate.

We endorse the general recommendation that a special category of small states should not be created. Nevertheless, the report is of particular interest to the members of this constituency, primarily because many of the countries it discusses are our immediate neighbors and share similar problems. Unfortunately, the intensity and consistency of our relations has generally not reflected our geographical proximity. Often, past history and bilateral trade agreements these countries have negotiated with their former colonial powers during their recent decolonization process have posed an obstacle to our relations with them. We are convinced that the strengthening of novel, albeit still emerging, modalities for regional integration will – by expanding trade and interregional cooperation – mitigate some of the difficulties associated with the globalization process, and compensate in no small measure for the specific problems – and in some cases relative problems such as geographical distance from their primary markets – facing these countries.

Heavily-Indebted Poor Countries Initiative

We reaffirm our strong support for the Enhanced HIPC Initiative. We firmly believe that it will provide beneficiary countries, including some members of this constituency, with deeper, broader, and faster debt relief.

While some countries have made or announced substantial contributions we are particularly concerned that sufficient sources of financing have still not come up. Although we could agree with the intention by IDA to provide funds at commitment, to be reimbursed subsequently by the Trust Fund, the delay by some developed countries in providing bilateral contributions risks jeopardizing the financial soundness of multilateral organizations, particularly small institutions operating in the Western hemisphere.

Placing Paris Club creditors on the same footing as non-Paris Club creditors could well put severe budgetary pressures on some creditors – some of which are, themselves, heavily-indebted poor countries – and jeopardize their international reserve position. This is unrealistic, and efforts must be stepped up to find ways to finance the costs of creditors experiencing difficulty making their contributions for debt relief.

Central America offers a concrete example of this situation. In the interests of regional solidarity, many bilateral loans have been made in the region to neighboring countries in the face of particularly adverse circumstances. In this subregion, one bilateral creditor is also a heavily-indebted poor country, and in the case of Guatemala and Costa Rica, their share of credits as a proportion of exports or GNP is the highest among non-Paris Club creditors. Moreover, the amount of debt relief required from the Central American Bank for Economic Integration (CABEI) for the HIPC Initiative represents roughly half of its shareholder capital and net income for the past 16 fiscal years. Clearly, then, poverty alleviation cannot be achieved by drawing on the meager resources of less poor countries.

Update on the IBRD's Financial Capacity

We are pleased that the recent improvement in the international financial environment, and the favorable outlook for the future of the global economy, have helped to reduce pressure on the Bank's finances and improved the quality of its loan portfolio.

At the same time, we note that estimates of loans and disbursements for FY 2000 have declined, evidencing a downward trend, which has been under way since 1993. We find it paradoxical that in a situation in which – as the President of the World Bank has himself observed – the global battle against poverty is faltering, the institution is not offering sufficiently attractive financing options to reverse this trend. This being the case, we believe it would be unwise to increase the cost of loans currently available.

In this connection, we wish to reaffirm the traditional position of this constituency:

- We believe that the concerted effort by multilateral institutions during the recent crisis in Asia played a crucial role in preventing a more severe crisis in the international financial system. Although we agree with management that additional improvements are needed in mechanisms for monitoring, preventing, and providing early warnings against crises, we remain convinced that it is vitally important to ensure that multilateral institutions have sufficient resources to head off future crises.

- We believe that, in contrast with unilateral decisions, the best way to develop a negotiated and balanced solution is through multilateral negotiations between the developed and the developing countries. The worrisome decline in real flows of official development assistance from the OECD countries should be countered by a general increase in World Bank capital, or at least in voluntary contributions by countries interested in increasing their share capital.

- Against the background of recent successful efforts by the Bank, the measures it adopts to improve its administrative efficiency are always timely and welcome. However, we do not believe that such measures have the potential to generate a significant volume of resources.

Recent Trends in the Transfer of Resources to Developing Countries

The high volatility of private international capital flows remains a source of ongoing concern to the members of this constituency. This volatility suggests that foreign investors have reacted in the absence of a fair and balanced assessment of economic conditions in the developing countries and of the actual ability of these countries to meet their financial obligations.

This inaccurate perception – the result of insufficient and incomplete data – exacerbates the domino effect and leads to differential treatment of emerging markets, thereby increasing the external debt burden of the developing countries. Paradoxically, this will increase the likelihood that the very outcome it was hoped could be avoided, – default on debt payments – will in fact materialize.

Multilateral organizations have – at considerable financial cost – improved their ability to cope with short-term illiquidity crises in emerging economies and to avoid speculative contagion. Nevertheless, we believe that any improvement in the development and exchange of information and experience among economic agents can only enhance financial discipline, thereby yielding a broader and more transparent perspective that will serve as an antidote to speculative volatility.

In an environment rife with global turbulence, we welcome the relative stability in foreign direct investment flows to the developing countries. However, the enormous lure of certain Asian countries and their consequent ability to attract investors has left promising opportunities untapped in other emerging economies, including some Latin American countries. This situation underscores the need to encourage urgent institutional reforms that will spur greater domestic savings and to develop sophisticated financial instruments for domestic capital markets. We agree with management that the existence of robust national financial systems within a context of macroeconomic stability and effective and transparent institutional frameworks constitutes a powerful deterrent to the volatility of international financial markets. Such systems should therefore be deemed to be international public goods, and multilateral support is vital in order to create and strengthen them.

Fortunately, the traditional areas of expertise of the World Bank ensure that it is up to the crucial task of strengthening national financial systems.

We also wish to reiterate our belief that increased financing to improve the quality of public goods and the efficiency of infrastructure supporting production is a powerful tool for stimulating private investment flows to relatively less developed countries.

The New International Financial Architecture

The financial crisis of the 1990s which rocked the economies of no small number of Southeast Asian countries exposed hitherto unexamined ways in which instability can manifest itself. The causes and repercussions of this crisis shifted attention to an approach focusing on the balance of payments on capital accounts as opposed to the conventional current account deficit approach applied by multilateral institutions. The need to control volatility generated by financial upheavals in an open capital market environment compelled the Bretton Woods institutions to adopt a set of preventive measures to minimize the impact of such crises.

This constituency therefore welcomes the fact that the IMF and the World Bank – recognizing the impact which such crises have on growth and wellbeing in generally weaker economies – have launched a set of actions designed to improve financial management, particularly with respect to banks.

The joint approach by these two institutions to a matter that is crucial for improved global wellbeing in the coming years is the best way to both inform and convince economic agents of the necessity of ensuring that existing institutions can and must monitor such financial crises flexibly and forcefully.

The joint IMF/World Bank Financial Sector Assessment Program (FSAP) was launched to analyze the basic causes of financial system vulnerabilities in countries most likely to experience a crisis. This constituency welcomes the initiative, which will both facilitate a better understanding of the destabilizing forces in capital markets which accentuate volatility and cause crises to spread and help find remedies to mitigate their impact. To the extent that resources are made available to deal with crisis situations, *a priori* understanding and dissemination of the measures required will enable multilateral institutions to devote more resources to combating the problems of poverty and human welfare, the basic objectives of development.

In addition, coordination and harmonization – processes already under way – with respect to national accounting and auditing standards, corporate governance, and insolvency regimes should of necessity enhance financial system efficiency. To the extent that these efforts foster improved financial resources management and restore and enhance lender confidence, this constituency believes that the institutional framework for capital flows will become broader and more transparent, and that markets will deepen. The beneficiaries will obviously be the countries most in need of resources, provided that their financing costs decline and they enjoy increased access to such funds. We therefore unreservedly support the joint efforts currently being pursued by the IMF and the World Bank.

Finally, we believe that with a new international architecture based on these fundamental components, it should be possible to direct resources to the most dynamic sectors of countries and communities that currently need them most. This should in turn lead to increased growth and, consequently, greater wellbeing, for society as a whole. Insofar as wellbeing is included in social protection plans – the Poverty Reduction Strategy Papers which the World Bank is preparing with governments – the globalization of the world economy and the enhanced efficiency of the financial system will ensure a more effective and equitable fight against poverty.

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

Introduction

We find ourselves in Washington this time with many extra visitors to the meetings of the International Monetary and Financial and Development Committees. The criticism we hear may sometimes be off the mark, misguided or disagreeable, but it does show that many more people besides those who gather in these Bretton Woods meeting rooms are taking poverty reduction and economic development seriously.

At least in one fundamental way I disagree with the people who now march the streets of Washington. It is not the World Bank and the IMF that are responsible for policies in the developing world. It is primarily the shareholders of the IMF and World Bank who are responsible, whether we are on the assistance receiving or assistance rendering side. Bank and Fund should be "listening" institutions. There have been times when this "listening" role has proved to be elusive to these proud Bretton Woods sisters. But the Bretton Woods Institutions deserve our full support in the face of unfounded criticism. They are our main instruments for promoting global economic well-being. We are committed to continue working with them. Furthermore, we turned an important corner during the last Annual Meetings. We firmly re-established that when it comes to the over-arching objective before us in developing countries, poverty reduction and eradication, the countries concerned are themselves in charge, "in the driver's seat". The introduction of the PRSP as a document that is owned by countries themselves is proof of that.

The change is rolling forward. The World Bank has made available to us the "Voices of the Poor" project, a landmark in information about the essence of the poverty problem. The WDR 2000/2001 is shaping up as a document that should vastly improve our understanding of, and ability to fight poverty: implementing this agenda is key. Gender should always feature in any poverty approach in view of increasing evidence that empowerment of women is good for women, men, children and the economy. HIPC debt relief for instance, though not free of problems, has solid political backing. We should work towards taking away political and financial barriers to implementation.

HIV/AIDS

The HIV/AIDS pandemic is having a disastrous impact in developing countries and countries with economies in transition. Many of the gains in achieving our development objectives have now been wiped out. Despite the many efforts to stop the HIV/AIDS crisis, much more still needs to be done. An adequate and successful response is unfortunately hindered by many obstacles.

In some affected countries an effective and coordinated approach to the HIV/AIDS crisis is prevented by a poignant and shocking lack of both political commitment and recognition of the problem. How can we expect people to change their behaviour if officials deny the problem? This is absolutely unacceptable.

It is clear by now that there is a reciprocal relationship between poverty and HIV/AIDS. HIV/AIDS is not a specific health sector problem but a development problem. HIV/AIDS affects every corner of society. Teachers, students, labourers are dying, the number of orphans is on the increase and life expectancy is dropping dramatically in some countries. Empowerment of women and the education of girls is key for prevention.

How can the World Bank, as a cosponsor of UNAIDS, contribute to a more effective effort against HIV/AIDS? First of all by improving internal coordination on this subject: we sometimes have the impression that not all activities within the context of HIV/AIDS are geared to one another within the World Bank. Furthermore, the role of the World Bank vis-a-vis other actors should be more clear. What is the division of labour and what are the specific responsibilities of the World Bank? Coherence and coordination within a comprehensive framework will be key to a successful approach of the HIV/AIDS crisis.

We would like to see the following steps by the World Bank:

1. A multi sectoral approach. HIV/AIDS should when necessary become an integral part of poverty reduction, and more specifically of PRSPs;
2. Provide assistance in the field of capacity building with the means available to the World Bank;
3. Advise governments on how to mainstream HIV/AIDS policies in all departments;
4. Make sufficient resources available from the administrative budget for the fight against HIV/AIDS so as to comply with responsibilities assumed in the context of UNAIDS;
5. Continue to support and elaborate the cosponsoring of UNAIDS. HIV/AIDS activities of the World Bank should be tailored to the work of UNAIDS. The World Bank should participate more actively and extensively within relevant **theme groups**, established by UNAIDS.

Initiatives, like the IPAA (International Partnership Against HIV/AIDS in Africa) and the IAVI (International Aids Vaccine Initiative) look promising. Finding a vaccine will be the best solution for this problem, although, in the short term, resources are needed to manage the crisis at the country level. What we are looking for in this is an international partnership which starts to make a difference on the ground. We do not need endless discussions, fora and meetings in capitals on HIV/AIDS. We have to act and make a difference. Last year the ICPD+5 review clearly demonstrated the need for a comprehensive approach. Targets were set.

Trade, Development and Poverty Reduction

I welcome the Bank Fund paper on trade policy as well as the report on small states which covers some of the same issues. The Bank Fund papers are an improvement over the papers received by the D.C. last fall and come at a time when the multilateral trading system appears to be adrift in the aftermath of the failure to come up with agreement in Seattle on a Development Round.

There are a number of points the paper makes which I like:

- It presents a balanced view of actions needed by both developed and developing countries;

- It begins to lay the ground for much needed differentiation in the challenges, prospects, and solutions appropriate for different developing countries. The papers distinguish between "rapid" and "slow" integrators, greater or smaller "restrictiveness", and greater and less "vulnerability". All this points to the need to differentiate and take into account the specific problems of each individual country. However, the analysis is not yet carried far enough: I wonder for example how many of the "slow integrators" in the Bank index are developing countries with restrictive trade regimes; and which "vulnerable" states are well integrated in the international trading system;

- The paper also places trade policy in the proper context: poverty reduction on a sustainable basis; for poor countries this means the development of integrated approaches in the context of the PRSPs.

- The paper thus lays the foundation for proper integration of trade policy in the wider development agenda.

Unfortunately the paper misses an opportunity to move forward the trade agenda for developing countries. Ministers should have been asked to consider concrete proposals, for example for granting across the board quota free and bound duty free access for all products originating in LDCs and that such access be extended to HIPCs. Instead we are now invited to comment on innocuous generalities, devoid of specifics. The paper also fails to discuss effectively programs the Bank is actually implementing in transition economies, e.g. there is no mention of the regional transport and trade facilitation program the Bank has just started in six Balkan countries in the context of the Stability Pact.

Instead, we are offered the old estimates we saw already last summer that claim that over a quarter of the Bank's lending in the last five years is trade-related. However, these operations include all Bank lending for private sector development, which is only indirectly linked to trade capacity. I acknowledge the Bank has done some good trade related work in a few countries, including Uganda, but trade has not been "mainstreamed" in the CASs as promised last summer.

I urge the Bank to play a leading role for the international community in trade-related issues, as the WTO does not have a development mandate nor the resources to do so:

1. the Bank needs to provide definitive intellectual leadership in analyzing the complex link between openness for trade and poverty. The research program has not done that to date. The WDR on poverty will do some of this. However more long term systematic policy analysis and research is needed. This analysis should include how trade can foster pro-poor growth and how to minimize any negative impact of trade liberalization on the poor;

2. the Bank needs to strengthen its support for trade-related capacity building, starting with invigorating the Integrated Framework. This goes beyond technical assistance; the Bank needs to address trade related infrastructure, human and physical, as well as assistance to help poor developing countries to develop the costly institutions that would permit them to meet the new obligations they have assumed in the WTO. In this context it is a major omission that the trade paper is silent on the difficulties many developing countries are facing in implementing WTO provisions within the time periods provided in the Uruguay Round Agreement and their need for extension in the transition period. The report on the small states does highlight this need for extension. I believe this issue needs to be addressed not only for small states but also for all lower-income developing countries;

3. the Bank as the pre-eminent development institution needs to provide leadership on issues of coherence of international policies including trade. Much more is needed to develop a coherent international architecture for development:

    - in the area of the environment, the Bank needs to be active in analyzing the developmental implications of various initiatives, e.g. eco-labelling, as well as the links between trade-related aspects of environmental conventions and the WTO;
    - in the field of health the Bank needs to continue to work with the WHO in exploring the need to increase the availability of affordable drugs to deal with epidemics in the poor developing countries and how TRIPS impacts on this objective;

- the Bank needs to challenge the practice of tied aid as it is both corruption prone and incoherent; the SG of the OECD stated in Seattle "untying aid, by restoring choice to the impoverished recipient countries, at one swoop, increase the value of aid, remove a distortion to world commerce and enhance the dignity of the aid process that has been sullied by the mercantilist attitudes of some in the developed world".

Finally, turning to the issues for discussion, I wonder how anybody can be against the needs to press ahead for "appropriately sequenced trade policy reforms" or the need for unspecified "action to help integrate countries in the world economy".

The President of the World Bank and the Managing Director of the IMF, acting on their mandate to promote coherence, have put certain propositions before the international community at Seattle and at UNCTAD X, Bangkok, namely that:

- credit should be given in WTO multilateral negotiations for autonomous trade liberalization by developing countries - a proposal made by the Bank to this Committee 15 years ago;
- bound duty free and quota free market access for LDC's;
- similar access for the HIPC-countries;
- reducing agricultural protection and export subsidies by developed countries which the paper (para. 13) says in one of the greatest understatements "have not helped poor developing countries to become increasingly integrated in world trade during the last 20 years".

I support these proposals. If only these had been put up for discussion we could have advanced the international trade and development agenda.

Report of the Task Force on Small States

The added value of the report of the Task Force on Small States is the identification of shared problems of small states and their possible solutions. The main problem is the economic vulnerability of small states. New and existing initiatives to limit this vulnerability deserve our full attention.

Nevertheless, a standard solution does not do justice to the individual problems and uniqueness of small states nor does it recognize that the problems faced by 'small' states are also relevant - sometimes even more so - to other countries. Therefore we prefer the current tailor made approach which applies to all borrowing members to the creation of a separate country category for small states.

We furthermore note with some regret that according to the report of the Task Force the small states in my constituency are either slightly too rich or slightly too populous to be counted as small, and therefore deserving of special attention. It raises the question of how criteria for small states were arrived at.

Progress Report on Implementation of Poverty Reduction Strategy Papers

We strongly support the ongoing poverty reduction strategy process. This is an area of such significance that it plays a central role in the discussion of the Utstein Ministers (Norway, Germany, the UK and the Netherlands) and together that group wants to raise attention for the following issues and observations. First of all, the Utstein ministers are encouraged by the progress to date on the ground, especially in expanding participation in national policy making and consensus building. The PRSP process is particularly important in promoting openness and transparency, enhancing ownership and building public support for the campaign against poverty.

All four Utstein ministers want to see good Poverty Reduction Strategies Papers as the basis for pro-poor growth, and at the same time avoid delay in providing the HIPC relief to countries with good track records. Full Poverty Reduction Strategies must effectively address poverty in the country, and this should not be sacrificed by an over-hasty process in order to achieve an early HIPC Completion Point. Interim relief will of course be essential in the meantime. A good PRS has to be based on a country-specific analysis of the processes leading to and perpetuating poverty and analysis of how particular policies and spending will impact on poverty.

The Utstein ministers feel that donors, multilateral or bilateral, should make the Poverty Reduction Strategies the basis for their aid. I am reforming the Netherlands bilateral programme accordingly. In that spirit we seek further commitments from donors to achieve harmonisation of bilateral aid practices, in design, procurement, monitoring, audit, analytic work etc, so as to reduce pressure on national authorities. Donors should shift their focus from projects to program assistance, when and if governments have sound Poverty Reduction Strategies in place. At the same time, we encourage the World Bank and IMF to review their roles and habits as well. We welcome the shift from direct policy prescription to facilitating country ownership, but what is needed in response to the new work practice is to reconsider staff skills and organizational structure.

It is reassuring to see that the issues I have mentioned here are also addressed in the progress report on PRSPs for this IMFC and DC. I would like to caution however. The report is quite positive about achievements at the country level so far. Reports have reached me, nevertheless, that several problems crop up regularly: little room for consultations, due to time pressure and difficulties in integrating existing documents and strategies into an Interim PRSP. I would therefore like to urge the staff of the Bank and Fund to be open and realistic in their assessment of the progress of the PRSP process. Bank and Fund should also devote sufficient resources to empowering the process. Finally, I would like to urge staff to make very sure that the issue of gender is fully integrated and given its due importance in the PRSP-process and outcomes.

Progress Report on the HIPC Initiative

I don't have to emphasize any more that the Netherlands is a strong supporter of debt relief for the poorest countries. Since the end of the seventies we have been providing only grants to these countries in order to avoid contributing to their mounting debt. Over the last ten years alone, we have given at least 6 billion dollars in aid to the HIPC countries. About one billion dollars of this amount had to be used for debt relief.

Apparently it was very difficult for these countries to implement the necessary policy improvements which could provide a way for them to get out of the poverty trap. It is heart-warming to see that a considerable and still growing number of countries is succeeding in establishing better macro economic conditions for their societies and developing improved living conditions for their populations.

In order to reinforce this new positive trend we enhanced the HIPC framework. This framework should lead to a new genuine partnership between us and the developing countries, including their civil societies. Poverty reduction strategies, combined with generous debt reductions and new grant money, will have to make it possible to achieve the international development goals as defined within the United Nations.

The financing of the bilateral component of the enhanced HIPC initiative is well on track. Many countries, including the Netherlands, have already indicated that they will even go further than what is required by giving additional debt reductions of 100 percent on bilateral ODA loans. I hope that all countries will soon be able to participate in this. The Netherlands, as well as a considerable number of other nations, has also announced that it will provide 100 percent debt reduction on bilateral commercial credits which are treated by the Paris Club.

But the success of the enhanced HIPC initiative also depends on securing full financing for all participating multilateral institutions. The HIPC burden sharing mechanism requires all creditors to take part in order to protect the principle of equal treatment. Of course, low- and middle-income creditors should be eligible for additional assistance if they are unable to finance debt relief themselves.

We accepted the "pay as you go" approach as a financing tool for the IDA part of the debt reduction. For the financing of the IBRD-part of HIPC debt relief a solution still needs to be found, and in my view the key to the solution is donor funding. We all agreed that concessional windows such as IDA should not be compromised by HIPC. Therefore the required World Bank part of HIPC commitments cannot be at the detriment of IDA commitment authority, but will have to be added on top of that.

The Netherlands is willing to participate in an accelerated IDA encashment schedule if this would be required to safeguard IDA's original financing schemes.

The starting point of the relief effort was additionality. By accepting a possibly accelerated encashment schedule, we will safeguard additionality, World Bank fees will not have to be raised and the financial integrity of the IFIs will be protected.

Update on the IBRD's Financial Capacity

We highly value a healthy and strong financial position of the World Bank. We are very pleased that the risks of another financial crisis or major default in the near future seem to be reduced. Nevertheless, it is still critical to have the World Bank prepared for more unfortunate circumstances.

Several options are available to increase the financial capacity of the World Bank. The option to speculate on interest rate developments, thus increasing exposure to market risks, does not add to a healthy financial position of the World Bank. Neither would obtaining contingent capital add to a stronger financial position. We feel it is important that the burden will not be placed unduly at the expense of borrowers. Another option, a proposal for additional capital in support of a World Bank with a mandate for long term structural development and poverty alleviation, could therefore expect sympathetic consideration. Excessive lending volumes as seen in the recent past should on the other hand not be a point of reference.

Statement by Mr. JIN Liqun, Vice-Minister of Finance (People's Republic of China)

Intensifying Action Against HIV/AIDS

I appreciate that the topic has been included for discussions at the Development Committee meetings this time. I share the view that the epidemic poses a great threat not only to public health, but also to sustainable development itself. The destructive effect of HIV/AIDS is beyond national boundaries and no single nation can overcome this global epidemic alone. We support the World Bank's involvement in HIV/AIDS prevention and treatment related activities. We would like to call upon the international community, particularly developed countries and multilateral development institutions, to strengthen their coordination in fighting against the epidemic and to provide more financial resources and technical assistance to developing countries.

I am happy to see that the World Bank along with the international community is engaged in activities to promote HIV/AIDS vaccine and drug related research. I want to emphasize here that the development of HIV/AIDS vaccine and drugs is by no means a pure pharmaceutical matter. Instead, it is a global public good that will have tremendous impact on health as well as lives of millions and millions of people and we have to take it seriously as a matter of sustainable development. It is inadequate to rely solely on a few pharmaceutical firms to take care of this global public good. And in this regard, the World Bank should increase its support by providing more concessional resources and at the same time try to mobilize more financial and technical support from the international community to help developing countries to participate in the research and development of HIV/AIDS vaccine and drugs.

Taking this opportunity, I would like to point out that in helping developing countries against the epidemic, particular attention must be paid to their specific situations, such as racial, religious, cultural related issues, and more emphasis must be placed on the development of low-cost technologies and measures to prevent and cure the diseases.

The Chinese government is fully aware of the disastrous impact of the epidemic in social and economic terms. In his response letter to President Wolfenson, Mr. Jiang Zeming, the President of China, made it clear that the Chinese government is determined to do its best to bring the epidemic under control. The Chinese government also hopes to strengthen its cooperation with and obtain more support from the international community in this area. The Chinese government has formulated a "Medium and Long-Term Program on Prevention and

Control of HIV/AIDS in China", specifying the guidelines, objectives and action plans on prevention and control measures. It is our view that the government policies, multi-sector cooperation and public participation are the key to the successful implementation of preventive and control measures.

Trade and Development

In the course of the globalization of the world economy, the flawed international trade system has increasingly become an impediment to the economic growth of developing countries, in particular the poorest ones that depend on primary commodities for export. Hence, I think it necessary to include trade, development and poverty reduction issues for discussion at this meeting.

For quite a long time, developing countries have not been successfully integrated into the world trading system. The primary reason for this failure is that under the current system developing countries have not been in an equal position vis-a-vis their trade partners from developed countries. International development institutions should help developing countries explore how to get equal opportunities and benefits from trade liberalization.

Needless to say that developing countries should carry out their own reforms in order to enhance their economic and trade growth. However, distinction between rich and poor countries has to be recognized in terms of the means to compete in the international market. In the process of trade liberalization, it is not possible for the poor to stand at the same starting lines with the rich. There are now 3 billion poor people in this world who live on less than US$2 a day. They have extremely limited means to compete in the international markets and are facing deteriorating terms of trade. If rich countries do not open their markets to poor ones, it can hardly be expected that international trade would contribute to development and poverty reduction in poor countries. In this connection, I would like to quote the remarks made by President Wolfensohn at last year's WTO Seattle Meeting: "It makes no sense to urge poor countries to reform their economies, to urge them to compete and pay their way in the world, while denying them the means to compete." Therefore, in discussions of trade and development issues, we should focus ourselves not only on domestic reforms in developing countries, but more importantly on their access to developed countries' markets.

It is a generally accepted principle that the free trade system should be established on the basis of comparative advantages. The principle advocates a fair, balanced and mutual-beneficial trade system. Therefore, it is very unreasonable for the developed countries to apply "double standards" on market access. While urging developing countries to open those markets where developed countries enjoy dominating advantages, developed countries are protecting those of their own domestic industries where they have long lost comparative advantages, and the barriers against products of such industries from developing countries remain high. Such a double standard is harmful not only to developing countries, but also to the long-term interests of developed countries themselves. Each and every country has to undertake structural adjustment and open its domestic market based on its changing comparative advantages commensurate with different development stages. This is unavoidable in the process of economic globalization. Therefore, developed countries should not view opening markets where they are no longer competitive as a unilateral favor to developing countries. Rather, they should consider it as an evolutionary process of economic development.

We support the Bank's efforts in urging developed countries to open their markets. Undoubtedly, opening of markets will put economic and social costs and pressures on each and every country. However, it should be noted that developed countries have not yet taken serious and concrete steps in further opening their markets. While developing countries are by and large in the process of fulfilling their obligations in the agreements concluded in the Uruguay Round, developed countries have failed to fully implement their part specified in the Uruguay Round negotiations with regard to further opening their markets. Based on their economic strength and by adopting proper domestic policies, developed countries shall be in a better position to absorb the social costs associated with structural adjustment and market opening. We therefore urge developed countries to take concrete actions to resist domestic political pressure in order to further open their markets to developing countries.

We support further strengthening of the cooperation between the World Bank, the IMF and the WTO in reforming the global trading system; however, such cooperation should proceed under a clear division of responsibility. We welcome the Bank and the Fund to conduct research on the inter-relationship between trade and macroeconomic stabilization and development. The trade policy and institutional reform, particularly in terms of the pacing and sequencing of opening domestic markets, should be done within the WTO framework and through multilateral consultations. The trade reforms should not be made as conditionalities from the Bank and the Fund.

The World Bank should focus on how developing countries could better participate in international division of labor through fully tapping potentials of their comparative advantages along with their different economic development stages; how these countries could take the challenges and seize the opportunities brought about by the emerging "New Economy". While providing advisory service on policy reform and assistance on institutional capacity building, the World Bank should do more to help developing countries to strengthen their infrastructure for the need of the "New Economy". The Bank should also help them modernize their traditional sectors with advanced technologies and provide training for more employment opportunities as well as assist them to tap their comparative advantages and enhance their competitiveness so that they could better absorb the social costs associated with structural changes.

Poverty Reduction Strategy Paper (PRSP) and Heavily Indebted Poor Countries (HIPC).

Poverty reduction remains the overarching task of the Bank in the years to come. As poverty reduction is a daunting challenge and could thus not be achieved overnight, we believe that the Bank must have a long-term commitment. Stable and continued policies would be very important to the effectiveness and efficiency of poverty reduction.

Poverty Reduction Strategy Paper (PRSPs) in our view should be prepared to benefit low-income developing countries in better using resources available in implementation of poverty reduction programs over time. However, it is the responsibility of client countries to prepare the report and accordingly, to have full ownership. Furthermore, both the Bank and the Fund should listen more to views from the countries concerned so as to better understand and resolve the issues that are emerging from preparation of the PRSP. In addition, division of labor between the two Bretton Woods Institutions should be further clarified. Moreover, poverty reduction should not be limited to the social sector only, such as education and health. The most efficient way to reduce poverty has proven to be through promotion of economic growth and improvement of income distribution. The past experience has long proved that the Bank's comparative advantage still lies in its strength of providing financial resources and technical assistance to promote economic growth in developing countries, for the purpose of poverty reduction.

We support the enhanced HIPC Initiative and its ultimate goal of poverty reduction. We also welcome the political will expressed by developed countries for a deeper, faster and broader debt relief. However, the purpose to link debt relief with poverty reduction is not to set more conditionalities to HIPC countries but to ensure that debt reduction would serve to help their sustainable development as well as to create a favorable international economic environment for them. In this connection, in addition to the debt relief, developed countries should provide additional ODA to HIPC countries for poverty reduction, and take concrete measures to reverse the declining trend of international official assistance. Major developed countries should increase their official development assistance as soon as possible to reach 0.7 percent of GDP, a target set by the United Nations.

The Challenges of the Small States in the Global Economy

Due to geographic locations and historical reasons, many small states face peculiar difficulties in their economic development. More often, the international community has not paid adequate attention to their legitimate interests and reasonable requirements in the process of globalization. In this regard, we call for more official aid to those small states to help accelerate their development drive and improve their links to international markets. In assisting them, the international community should promote better coordination among donors in order to minimize the extra cost and burden the small states are forced to bear in meeting different requirements and procedures from different donors.

We welcome the joint study of the World Bank/Commonwealth Secretariat Task Force on the challenges facing small states in the global economy, and we support the application of a flexible IDA graduation policy on small states. It is very encouraging to see that the Bank has recommended to adopt the different development policies in the context of each country's different reality. Such a flexible and realistic approach will surely make the development assistance more pragmatic and effective.

IBRD's Financial Capacity

On the issue of enhancing Bank's financial capacity, I think that we need to follow two principles: (1) For the World Bank as a multilateral international cooperative organization, there must be a fair burden-sharing mechanism to ensure that the cost of doing so should be shared among all member countries. It is neither fair nor acceptable to put all financial burdens on developing countries; (2) A consensus on the Bank's future strategic direction should be first reached among all its member countries, and division of labor between the Bank and Fund needs to be further clarified. Only with those principles being set could we be in a position to make a sound judgement on Bank's current capital adequacy.

It is our belief that the Bank's core business is still to help member countries to alleviate poverty and promote economic growth. Therefore, it is necessary for the Bank to maintain a reasonable size of lending program for this purpose rather than for short-term liquidity support. It is the IMF's mandate to help member countries to address macro-economic stabilization and international balance of payments problems. The two institutions should have clearer and proper division of labor.

The World Bank is an international financial institution and it is the responsibility of all member countries to make joint efforts to ensure its sound operations. IBRD borrowers, including blend countries, have already made their contributions to the Bank's net income; we therefore oppose the option to further raise IBRD loan charges.

Most developing countries are facing budgetary and foreign exchange constraints to repurchase their paid-in capital. In this regard, we do not think that the Bank should pursue re-purchase of paid-in capital as mandatory to its member countries.

Given the uncertainties on the currently projected demand for the Bank's loans and the Bank's global economic forecast, the possible surging need for the Bank's resources in case of crises is only an assumption rather than a real demand. Furthermore, as member countries have not yet reached consensus on the next GCI, I think that the option of a contingent capital deserves further exploration.

Statement by Mr. Rod Kemp, Assistant Treasurer (Australia)[1]

Reducing poverty in the world's poorest countries will never be an easy task: it is indeed the greatest challenge confronting humanity today. The Bank is at the center of our global response. It deserves our support.

The involvement of the Bank and IMF in the Asia Pacific region over the last three years has been crucial for recovery in the region and in progressing reform needed for sustainable growth and poverty reduction. Most recently, the Bank has acted quickly and effectively in East Timor; its coordination of donors on this occasion has established a model for what should be done elsewhere. I welcome the Bank's re-engagement with the South Pacific, the work undertaken by the Small States Taskforce, and the Bank's renewed dialogue and cooperation with Papua New Guinea. The relocation of the Bank's PNG and Pacific country management unit to Sydney will enhance further the Bank's capacity to meet the needs of its member countries in the region.

Trade and Development

Trade is essential for economic development and further measures to reduce barriers to trade are an essential element in global poverty reduction.

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[1] 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 and Vanuatu.

Increasing trade may not be sufficient, by itself, to guarantee development. But when combined with good governance, strong institutions and sound infrastructure, it can play a key role in efforts to raise living standards and reduce poverty.

The Bank's advice to its developing member countries should aim to help them integrate trade liberalization into their poverty reduction strategies, so that adjustment impacts are appropriately taken into account and the benefits of growth contribute to social objectives. Experience in both developed and developing countries has shown that greater openness to trade contributes to the competitiveness and dynamism of the liberalizing economy and provides an incentive and focus for other necessary reforms.

At the same time, many developing countries, including many of the least developed, are significantly constrained by limitations placed by other countries on market access for their major exports. It should therefore come as no surprise that the joint IMF/World Bank paper prepared for our discussion concludes that further global trade liberalization would be of particular benefit to developing countries.

That conclusion is consistent with findings of a recent Australian study (Global Trade Reform: Maintaining Momentum, DFAT 1999) which identified substantial benefits from cutting global protection. This study estimated over US$400 billion in welfare gains from halving world trade barriers, with US$90 billion from agriculture, US$66 billion from manufactures and US$250 billion from services. Critical for the current debate, the study also showed that developing countries would gain most relative to their GDP.

Further agricultural trade liberalization is of particular importance for developing countries as many agricultural products still face very high barriers in developed countries through tariffs and other distortions due to subsidies, domestic support and restrictive quota regimes.

Trade Related Technical Assistance

Continued cooperation between the World Bank, the IMF and the WTO on trade-related technical assistance through the Integrated Framework must be a priority. It is important that the Bank and Fund give full support to the Framework and use all avenues to work constructively with other agencies involved as well as with the recipient countries. I welcome the forthcoming independent review of the Framework. This will prove useful in strengthening implementation.

The Bank's WTO 2000 program, which is designed to help developing countries participate more effectively in WTO negotiations, is a valuable one. However, while recognising the importance of capacity building in Africa and South Asia, the particular needs of small states in the Pacific and elsewhere must not be overlooked. The capacity constraints facing smaller states are particularly daunting and severely limit their efforts to participate meaningfully in the negotiations.

Small States Task Force

As the representative of seven small Pacific island states, with populations ranging from 20,000 to 400,000, I strongly endorse the joint World Bank/Commonwealth Secretariat Task Force report on the Challenges Facing Small States.

The adoption and implementation of sound domestic economic and social policies lie at the heart of the development of small states. Nevertheless, as the report states, most small states face problems inherent to their small size that make them particularly vulnerable. Small size, limited domestic markets and narrow resource bases require an extraordinarily high dependence on trade – the small states covered in the report have an average trade to GDP ratio well over 100 per cent – and limited scope for diversification. As a result, they are highly exposed to changes in their export markets and in their terms of trade, while financial markets view them as riskier than larger states for investment. These problems are compounded by remoteness and insularity (a particularly acute problem for the Pacific Island economies), which bring high transport and other costs, and limited institutional capacity in both the public and private sectors. The small size also constrains their capacity to respond to natural disasters, to which many of them are more than usually prone, while some small island states stand to suffer disproportionately from environmental and climate change shocks.

Enhanced trade liberalization will, when accompanied with appropriate domestic policies, benefit both small and large states. The report does highlight, though, the particular difficulties small states face in adjusting to changes in the global trading regime. These range from difficulties in finding alternative revenue sources through to a lack of capacity to effectively utilize dispute resolution processes.

It is, therefore, entirely appropriate that the special circumstances of small states be taken into account in the policies and programs of the multilateral trade, finance and development organizations. For the Bank, this should entail a continuation of a flexible approach to the graduation of small states from concessional financing. I also support the report's recommendation that the Bank undertake a substantive forward work program focussed on particular impediments to the development of small states.

The Bank does have a special and valuable contribution to make in the development of small states. This is illustrated well in its strategy for the Pacific. Given the roles being played by bilateral donors and other multilateral organizations, the Bank is not, nor will it seek to become, the major player in the region. But the Bank can engage governments on broader structural and sectoral reform dialogue which other donors are either unwilling or unable to undertake. This reform dialogue is likely to be most effective when supported by strategic lending operations and non-lending services. Further, in its engagement with the countries in the Pacific, the Bank can bring to bear its experience and knowledge of small states development from other parts of the world, particularly the Caribbean and Africa. I am therefore very supportive of the Bank's evolving strategy in the Pacific and see it as critical for the development of the small states in the region. In this context, I also welcome the decentralization of the Pacific country management unit to Sydney which should significantly improve its effectiveness.

Intensifying Action against HIV/AIDS

HIV/AIDS represents a huge threat to development in many developing countries. As well as causing immense personal suffering, it is seriously damaging some of the central elements of economic growth: the health of the prime age workforce, the capacity of the education system and the functioning of many organs of government. It is placing a huge burden on health care and welfare systems, on government budgets and on households and traditional support systems.

While attention has been focused on those countries where the prevalence of HIV/AIDS is already high, the epidemiology of HIV suggests that all countries, even those where it is not currently a significant health issue, should have an active strategy to combat it. Those that do not have a comprehensive strategy need to act now. Clearly, risk-reducing preventative interventions are the most effective and cost efficient. Actions to improve the education and employment opportunities of women can help reduce the spread of HIV/AIDS and mitigate its adverse impact on surviving families.

I welcome the efforts that the Bank is making to deal with these problems within its own programs. The Bank needs to continue to intensify its action in this area, while recognizing the central role of UNAIDS and the WHO. The Bank should ensure that HIV/AIDS strategies are mainstreamed into the development agenda and that the likely impact of HIV/AIDS is considered in all Country Assistance Strategies.

Heavily Indebted Poor Countries

Last September this Committee endorsed, subject to the availability of financing, the enhanced HIPC Initiative that called for deeper, broader and faster debt relief. The enhanced framework also strengthened the link between debt relief and poverty reduction. The development of country-led Poverty Reduction Strategies is an important instrument in achieving this goal. I am encouraged by the progress made to date. Every effort should be made to bring all eligible HIPCs to their decision points as quickly as possible consistent with effective programs to ensure that the benefits of debt relief flow to the poor.

In support of the enhanced initiative, Australia has contributed additional funds to the HIPC Trust Fund and New Zealand has also agreed to contribute. In both cases this is "new money" honoring the principle of additionality and not at the expense of existing ODA. However, full funding for the initiative is still not secured. The Bank must continue its efforts to mobilize funds internally and donors should quickly complete arrangements in order to make contributions they have pledged. Realization of donor commitments to the enhanced initiative will also help ensure that IDA resources are not compromised. The success of the initiative is also dependent on participation by all bilateral creditors in the provision of relief. I encourage all HIPC creditors to ensure that this truly is an international initiative.

Update on the IBRD's Financial Capacity

The improvement in the global financial outlook has reduced demand for Bank lending and lessened the immediate pressures on the Bank's balance sheet.

It is possible that the Bank will require additional capital at some point in the future. But assessment of IBRD's capital requirement must follow a more systematic and complete review of the Bank's appropriate role and mandate. The Bank needs to become more focussed on those areas where its development effectiveness and poverty reduction impact are the greatest vis-à-vis other development partners. There also needs to be a clear resolution by shareholders of how far the Bank should continue to lend in crisis situations to provide liquidity in support of IMF programs now that the Fund has its quota increase in place and access to the New Arrangements to Borrow.

In the interim, I support ongoing review of other means of strengthening our risk-bearing capacity, including serious analysis of the scope for further administrative savings or for changes in loan charges.

One means of better leveraging the IBRD's balance sheet that has been identified is for repurchase/release of that portion of shareholders' paid-in capital that is locally denominated. I understand that a paper setting out the options will be distributed to shareholders in the near future. Clearly each country will need carefully to assess the implications of any change in approach. Within this constituency, the New Zealand Government has recently agreed to convert its paid-in capital to US dollars through a repurchase, thus enabling unrestricted use of these resources, while Australia took similar action some years ago.

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

Trends in the Transfer of Resources

We can take note, with cautious optimism, of some positive developments in the area of transfer of resources to developing and transition countries. However, it is too early to speak about reaching the end of the tunnel.

Practically all countries hit by the financial crisis are now demonstrating a rather confident return to economic growth. The crisis revealed their macroeconomic and structural weaknesses, and thus forced them to speed up the reforms. After the necessary measures have been taken, albeit belatedly, investors' confidence is slowly restoring. Certainly, the lessons of the crisis ought to be learned – the countries should avoid overly risky borrowing strategies such as financing long-term domestic projects with short-term external debt. If one takes into account that pre-crisis level of portfolio investment and bank lending to the developing countries necessarily included purely speculative components, then we should not expect an early return to that level. Therefore, some inevitable reduction of total financing must be offset by serious improvement in its quality and developmental impact.

We can reiterate the observation made at our previous meetings that foreign direct investments continue to demonstrate their resilience. These investments are of a longer-term nature and, therefore, constitute the most reliable external resource for development. However, it should be noted that stability of this indicator, in fact, means that its growth has been arrested. Foreign direct investment could have been expected to replace bank loans to a greater degree, given the actual decrease of labor costs and real exchange rate in the affected countries. We believe in the potential of developing countries to attract more direct investment, particularly in the export-oriented sectors. This is exactly the area where the World Bank and its specialized arms, IFC and MIGA, should fully demonstrate their catalytic and consultative role.

As for bilateral official assistance, we welcome the apparent signs of its growth. At the same time, we should preserve the existing balance between bilateral and multilateral assistance. The former cannot substitute for the latter. The systemic and coordinating role of multilateral assistance in the area of development embodied in the CDF is too important to be downplayed. We disagree with those who call for a radical revision of the activities of the international financial institutions. These institutions need our full political support.

Intensifying Action Against HIV/AIDS

We welcome the World Bank's continued efforts to alert the international community of the HIV/AIDS epidemic and share the conclusion that HIV/AIDS is no more merely a health sector problem but a threat to economic development of a number of countries and even entire regions. In this regard we concur with the six priority areas for international action on HIV/AIDS as set forth in the Bank's paper.

At the same time we consider that despite the importance of increasing awareness of the general public, the major burden in this fight should be borne by the governments in the countries affected by the epidemic. It is at the government level that actions to introduce a multi-sectoral approach to HIV/AIDS and integrate the issue into the development agenda are actually taken. We therefore believe it essential to continue the series of most recent, and largely successful, conferences and meetings on HIV/AIDS with the aim of achieving greater understanding of the problem by the leaderships of these countries. This would also have a positive side effect in terms of larger mobilization of donor assistance.

Regarding the Bank's role in the overall process of fighting against HIV/AIDS, we would suggest that in addition to standard sectoral programs that embrace healthcare, education and social systems in developing countries, the Bank could assume leadership in the following area. The World Bank should attempt to design such a financial mechanism that would induce the pharmaceutical industry to develop affordable vaccines for developing countries. In our view, this could be best achieved through ensuring future market demand for such vaccines. This is a task of tremendous proportions which consequently requires innovative and bold efforts, as was the case with the establishment of the Carbon Fund. We believe that only bold measures may produce a major breakthrough in the fight against HIV/AIDS and we hope that the Bank would stand up to the task.

Trade and Development

We welcome analysis of trade issues in the context of social and economic development. The World Bank research convincingly proves that participation in global trade is one of the major factors of economic growth and poverty alleviation. We are of the opinion that trade issues are even more critical now when a number of developing and transition economies have started to overcome the great financial crisis of 1997-1999. Just as one could have expected, economic growth in these countries is driven primarily by large positive trade balances which lead to recovery of foreign reserves and increased employment. Under these circumstances any strengthening of trade barriers on the part of industrial countries would result in slowing down economic recovery and weakening the political consensus which supports structural reforms. On the other hand, measures aimed at trade facilitation may give further impetus to the positive trends of 1999.

Since our forum is not devoted to technical aspects of international trade which should be properly handled by the WTO, I would like to underscore the following general points:

- The World Bank should strongly support widening of global trade as a key instrument of development. It must be forcefully demonstrated that any facilitation of trade opens new opportunities to consumers in terms of higher quality and more affordable price. Therefore, expansion of trade is, in a sense, tantamount to technical progress and discovery of new natural resources.

- There are many reasons to believe that the poorest people gain relatively more from trade liberalization. These people tend to be concentrated either in semi-subsistence agriculture, or in small services, or in other sectors which are not threatened by import competition. They are buyers of cereals, fuel, basic processed goods. For them trade liberalization would mean, first of all, higher living standard due to lower price of these staples. Moreover, export-oriented development including that in agriculture would open new employment opportunities for them. I think these considerations should be taken into account in the PRSP process.

- On the other hand, trade liberalization would inevitably affect vested interests of some producers who would try to slow down or even reverse this process. That is why trade liberalization must be consistent with the entire macroeconomic and structural framework, and with the political economy of the country. Therefore, it is inadmissible if the Bank's conditionality evolves into dictating the exact timing and scope of trade reform.

- History demonstrates that strong export orientation, like that pursued in some Pacific and East Asian economies, may become a key vehicle of accelerated growth and poverty eradication, whereas liberalization of imports may follow only at a later stage. Thus, when trade issues are considered by the World Bank, it is the facilitation and diversification of exports which should be particularly underscored.

- We are in broad agreement that trade liberalization is beneficial both for industrial and developing countries. However, one cannot underestimate the special role of the former. While in many developing countries tariffs constitute an important source of fiscal income which cannot be fully offset by internal revenues due to many institutional factors, the fiscal component of tariffs in the industrial countries is practically negligible. Relatively minor changes in their trade regime may strongly affect even the most advanced sectors in developing and transition economies. Moreover, the trade policy of industrial countries quite often turns out to be an important factor in the domestic policy discussions in the developing ones. When we call for trade liberalization in the developing economies, it must be reinforced by similar actions on the part of their industrial trade partners, otherwise our efforts may be almost ruined.

- Political and ideological reasons for additional policy moves by the industrial countries can be particularly underscored against the experience of transition economies. Over the last decade these economies have dramatically changed their trade regimes from state monopoly to broad deregulation. The depth and speed of this reform has no precedence in modern history. However, we continue to bear the political costs of such a structural reform. It is not easy to explain these policies to the civil society when our producers are facing discriminatory trade barriers in the industrial countries. Our trade liberalization was an absolutely unilateral exercise. We believe that it is now the industrial countries that must walk their mile. We – and I mean not only Russia but all transition economies – have showed what it really means to pursue bold trade policies aimed at longer-term objectives.

- There is one important aspect of industrial countries' trade policies which needs to be discussed here, namely greater recourse to non-tariff barriers. While tariff protection is generally on decline, protectionist sentiments do not die easily. What is to be done in this regard?

Firstly, the World Bank as a knowledge institution and leader in the area of development thinking, should strongly underscore that the developing economies are disproportionately affected by the non-tariff barriers. When faced with tariffs these economies may resort to lowering of costs, real incomes and living standards of those employed in the export sectors, and still be able to maintain their export potential. On the other hand, non-tariff barriers may effectively prohibit their exports due to the insufficient institutional capacities of these countries.

Secondly, the World Bank should pay more attention to trade-oriented capacity building in the developing and transition economies. Appropriate technical assistance must be further augmented and focused on the areas identified as priority for trade development by the client countries themselves.

Small States: Meeting Challenges of Globalization

In the era of globalization, development problems peculiar to small states deserve special attention. In our view, the analysis and conclusions of the report are quite important and helpful. We support the combination of relevant actions set out in this document for both small states themselves and the international community. We are pleased to note that the recommendations of the report are consistent with the views expressed by the representatives of small states from all regions in the course of an extensive consultation process.

It should be recognized that many small states are extremely vulnerable due to the unfavorable combination of such factors as a small domestic market, relatively undiversified production and exports, a high dependence on distant foreign markets, susceptibility to natural disasters and environmental change, weaknesses in both public and private sector capacity, relatively higher poverty level and more uneven income distribution.

These issues should be carefully taken into account in determining special treatment of small states in the areas of trade liberalization, control of international financial flows and regulation of related financial services, development assistance and aid eligibility. At the same time, favorable treatment of small states must not be in conflict with the interests of larger developing and transitional countries. For instance, the provision of financial services by some small states is an area where the correct balance of interests needs to be found so that the prevention of international financial and tax crime is ensured.

The World Bank as a major partner of small states has a very important role to play in helping them meet challenges of globalization. On the one hand, most of the small developing countries are World Bank members and borrowers. On the other hand, the Bank has a number of comparative advantages of great value to small states. In view of this, we would like to encourage the World Bank's pursuit of small states agenda, including the promotion of better donor coordination, support for regional initiatives in the public and private sectors, lending for disaster-proof and disaster mitigation projects, and the buildup and dissemination of knowledge of special interest for small states.

HIPC Initiative

We are satisfied with progress in implementation of the decisions on an enhanced HIPC Initiative aimed at providing deeper, faster and broader debt relief. We would like to use this opportunity to express our support to HIPC countries which have been able to reach decision point, maintain macroeconomic stability, advance structural reforms and implement poverty alleviation programs. We are also grateful to the IBRD and the IMF that have been able to dramatically improve their cooperation in supporting these countries. We commend the beginning of a PRSP process that should strengthen ownership of the programs and improve donor coordination.

At the same time, we are still concerned about lack of a clearly defined framework to meet the sharply increased costs of the enhanced HIPC Initiative. Despite strong mobilization efforts by donor countries and the IFIs, the amounts and timing of HIPC Trust Fund contributions remain uncertain. In January 2000 the Board of Directors endorsed a decision that provides a temporary solution to the problem by allowing use of IDA resources to finance the debt relief between decision and completion points. These costs are to be reimbursed on a pay-as-you-go basis by the World Bank component of the Trust Fund subject to resources availability. IDA resources will also be used to provide debt relief on IBRD loans. These measures entail the risk of weakening IDA commitment authority as well as political risks associated with the budget process in some donor countries. Therefore, we believe that while this option may give us more time, in the absence of a balanced package it will unavoidably lead to an IDA financing gap and thus endanger the overall resource transfer mechanism to developing countries.

We are worried by the lack of decisions on covering the costs of MDB participation in the enhanced HIPC Initiative. As an IBRD shareholder and borrower we believe that the Bank's participation in the Initiative should be based on strict adherence to the previously agreed fundamental principles of the Initiative: preserving the additionality of debt relief, protecting the financial integrity of the institution and fair burden sharing. Taking into account the vulnerability in the economic and financial situation of borrowing countries as well as the Bank's limited risk bearing capacity, we believe that a further increase in the expenses associated with the Bank's participation in the Initiative will cause long-term damage to the institution and its borrowers.

We are satisfied that in answering requests of some member countries the Bank started to pay serious attention to issues associated with the implementation of the Initiative that so far have been put aside. Among those problems are the negative impact of the HIPC Initiative on other poor creditor countries, small regional development banks whose shareholders are poor developing countries, and the role of domestic debt. In this respect we also believe that the impact of the Initiative on HIPC countries relationships with private creditors should be subject to a separate analysis. This issue has been rather scarcely dealt with during previous discussions in terms of making "private creditors fully share the burden of participation in the Initiative" and "imposing strict limits to future commercial borrowing". On the other hand, if we believe that the private sector will be a major engine of economic growth in the long run, we cannot ignore the potential impact of the Initiative on the prospects of attracting external finance from this source. We also have to bear in mind that a viable economy cannot function without using external finance from commercial sources. In the case of HIPC countries where the role of the nascent private sector is still quite low and its international creditworthiness is not yet established, it would be unrealistic to expect that their economies can function without external commercial borrowing by some public entities.

New Financial Architecture

We support the active role that the World Bank Group plays in strengthening the international financial architecture. The lessons learned from the recent financial crisis confirm that enhancing the structural, social and institutional underpinnings of the market economy, especially strengthening internal resilience of the financial systems, is an important precondition to allow countries to fully benefit from globalization and international financial integration. In this respect we welcome the Bank's participation in financial sector diagnostics in developing countries and countries in transition as well as its direct involvement in operations aimed at banking and financial sector restructuring, increasing the effectiveness and reliability of national regulatory regimes. At the same time, we attach great importance to the Bank's participation in reforming the international financial mechanisms because the institution is especially well placed in terms of bringing the experience of developing countries and their real interests to the table.

The development and implementation of international standards and codes represents an important aspect of efforts aimed at improving financial architecture. The priority areas here include assuring transparency of countries' financial data, maintaining transparency in fiscal, monetary and financial policies, banking and financial markets supervision and regulation, proper management of foreign exchange reserves and public debt. In this regard we support the Bank and Fund's joint participation in Financial Sector Assessment Programs for member countries which should enable creation of reliable banking and financial sector stability indicators. The results of these studies should be also actively used in project preparation in order to assure a high quality of Bank operations in respective sectors.

At the same time we cannot support the schemes implying a strict application in the developing countries of standards and rules designed for developed countries, without taking into account their appropriateness and usefulness as well as associated costs. The recent financial crisis has highlighted the role of structural and social factors in strengthening the resilience of national economic systems under globalization. Under these circumstances the mechanical transfer of the standards specific to the developed countries will not be instrumental in achieving the ultimate goals. In our view, a more appropriate approach would be to implement major commonly agreed principles that have been proven internationally rather then apply pre-defined specific standards and rules. Establishing a right balance between countries' specific circumstances and the necessity to implement a required core set of major standards is a key to success.

We also need to avoid a mechanical approach in assessing countries' compliance to the standards and take into account their real efforts under specific circumstances. The design and application of appropriate incentives for countries to implement standards remains an open question. In this respect we should bear in mind that we cannot take for granted the right market reaction to the financial information disclosed by the countries. It is not fully clear how to treat countries that could not comply to standards due to some reasons: should they be fined by restricting their access to the IFI finance or is additional technical assistance more appropriate to correct the situation? The extent of disclosure versus quality of information also remains an issue. The resource requirements associated with designing standards and methodology of assessing countries' compliance to them, conducting those assessments and taking subsequent measures to assist the countries can also be very high and exceed the capacities of IFIs and member countries.

We attach great importance to joint Bank-Fund participation in activities aimed at enhancing countries' capacity to manage financial risks and strengthen financial systems. The ultimate goal of these activities should be creation of an effective "early warning system". Such a system can be extremely useful in identifying systemic and liquidity problems and preparing adequate policy measures. As recent experience shows, lack of such a system has precluded effective and timely actions from countries and IFIs that were not able to contain an uncontrollable crisis development. It is well known that national financial systems' stability is predicated not only on factors specific to the financial sector but also on behavioral patterns of real sector, corporate governance, and institutional underpinnings of the markets. Although improvements in these areas are necessary in order to achieve fundamental strengthening of financial systems, they may require a prolonged period of time to implement. Under these circumstances we expect that while taking into account the existing structural long-term problems, the Bank should be mindful of realities prevailing in member countries, especially factors related to their political economy. The conditions and respective country programs should be prioritized according to criteria of practical relevance and real ability to comply. In conducting the financial sector diagnostics the Bank should also take into account the specific market situation, and the possibility of markets' irrational overreaction to some country information. In this regard we have to be extremely cautious in disclosing information collected by such diagnostics.

An important element of the new financial architecture is creation of the mechanism that will facilitate private sector involvement into crisis prevention and resolution. The mixed countries' experience shows that the success of involving private creditors in crisis resolution depends on the country's specific situation, external debt structure, stability of the banking sector as well as investor sentiments vis-a-vis the country's medium-term development prospects. In the case of developing countries and countries in transition that have a marginal position in capital markets, it is very difficult to make a distinction between liquidity and solvency crisis. Application of strict rules with respect to private creditors' involvement in some cases can lead to market panic. On the other hand, lack of rules or their deliberate application can negatively affect the countries' access to capital markets. Nevertheless, we believe that the approach to involve of private creditors in crisis resolution should be based on a set of rules that are well know to all participants in advance although existing experience does not allow the formulation of rules that could match all possible situations. But while dealing with the problems on a case-by-case basis, preference should be given to the voluntary market-friendly solutions that are not likely to dramatically affect borrowing costs in the future and would not cause contagion. Conditions of support from official creditors should be worked out and announced before the country starts negotiations with private creditors because without such support it is very difficult to reach a closure with private creditors. Here we mean not only financial but also general support of efforts by the governments of major creditor countries and IFIs. Preference should also be given to the solutions entailing the resumption of lending and not a pure restructuring.

An important element of this mechanism is an adequate bankruptcy regime for private enterprises and banks in debtor countries. We welcome Bank Group's participation in related activities. At the same time, we believe that the Bank should protect the interests of developing countries. It should not advocate the "fire sales" of their assets to foreign creditors during the crisis, facilitate the survival of viable companies and banks, especially those, that have a systemic importance for a given sector or an economy as a whole, and minimize social costs of respective decisions.

We also believe that the Bank Group's most significant contribution to the new financial architecture related to building a consensus between public and private sectors would be providing a direct financial support to the affected countries. During the crisis this support is necessary to maintain the critical import and operations of vitally important enterprises in key sectors. In the post-crisis period we see the Bank's role in facilitating a renewed access to the capital markets. In this regard we highly appreciate the Bank's guarantee instruments that are one of the most effective and market-friendly vehicles to assist the countries affected by the crisis. We hope that these instruments will be used in a much more active and orderly manner in the future. Establishing a right pricing for these instruments is an important issue.

A special place in the new financial architecture belongs to the social safety nets that should protect the most vulnerable groups affected by the crisis. We support the active role that the Bank is ready to play in this area. But we also see this role not only in conducting studies and disseminating the best practices but rather in providing direct financial support aimed at strengthening the social support systems during and after a crisis. Despite the declarations of primordial importance of these activities the practical role of the Bank in the countries affected by the crisis was rather modest.

Options to Enhance IBRD Financial Capacity

We are grateful to the Bank's Management for its steady and diligent attention to the issue of the institution's risk bearing capacity. This capacity defines its future ability to be an active part of global development finance including its ability to participate in resolving financial crises. Although due to the abatement of recent crisis, this issue does not look as acute as some time ago, the economic situation of countries affected by crises remains fragile. It is premature to declare that those countries have been able to fully restore their access to capital markets. All this proves that potential demand for the Bank's lending is high. The claims for the Bank's net income as a financial source of different programs such as HIPC Initiative, post-conflict support, emergency rehabilitation support etc. are clearly increasing. The capital base of the Bank does not allow it to increase single borrower exposure ceilings despite the fact that this can be warranted by the borrowers' sound financial situation, high development impact and economic rate of return as well as positive contribution to the Bank's operational income.

There are some additional factors that can negatively influence the Bank's net income dynamics. For example, we can identify the trend toward gradual reduction in new lending volumes that affect adjustment as well as project lending. To a substantial extent this trend can be explained by a gradual recovery from the financial crisis of 1997-1999 that decreased the demand for balance of payments support. At the same time, we are worried by the declining trend in the absolute volume and percentage of investment lending in the Bank's loan portfolio. The shift in the Bank's operations toward "programmatic lending" that establishes a strict link between access to the Bank's finance and the depth and speed of structural changes can further decrease the demand for the Bank's lending. The main issue here is a substantial increase in costs of doing business with the Bank that can invalidate incentives associated with programmatic lending. In this area we have to strike the right balance between involvement into systemic transformation activities and strategic priorities, on the one hand, and the necessity to preserve the Bank's core business, on the other. We would also like to express our uneasiness with regard to an excessive increase in project preparation costs that eat up the administrative budget, put limits to the Bank's internal development potential, restrict the Bank's throughput and lending capacity and its relevance as a development partner.

As of today, the increase in borrowing charges of 1998 was the only feasible contribution to the strengthening of the Bank's risk bearing capacity that led to a substantial improvement in Bank's operational income. By this action the borrowing countries have in a concrete way contributed to enhancing the Bank's financial capacity. At the same time, the recommendations to create an adequate mechanism to finance the programs that represent a high priority for major shareholders without putting an excessive pressure on net income (such as a special trust fund) have not been implemented. Among the "most promising" additional options for enhancing IBRD's financial capacity the management names increased usability of paid-in capital by converting a portion of the Bank's capital paid in national currencies into freely convertible ones and releasing it for lending and/or covering the administrative expenses. We believe that this option will increase the asymmetry in the burden sharing among shareholders while only a combination of options based on fair burden sharing will correspond to the cooperative nature of the institution and preserve the consensus of major shareholders groups.

Recognizing the complexity of the problem, we continue to support a balanced approach to enhancing the Bank's financial capacity that should preserve the interests of all shareholders. In particular, among the standard options to be pursued we see some obvious benefits in obtaining contingent capital as a mechanism to protect the Bank against volatility in thecredit quality of the loan portfolio without imposing additional financial obligations to the shareholders; working with shareholders to reduce the cost of capital by equalizing the risks weighting of the Bank's bonds and those issued by the shareholders; and more proactive management of liquidity portfolio.

Statement by Mr. Haruhiko Kuroda, Vice-Minister of Finance for International Affairs (Japan)

Intensifying Action Against HIV/AIDS

It has been just 20 years since HIV/AIDS began to be recognized. HIV infection has spread all over the world -- to date about 50 million individuals have become infected, and 16 million have already perished worldwide. HIV infection is concentrated in developing countries, over 95 percent of all cases, where there is a vicious cycle that poverty and disparities of income place people at high risk for infection, and HIV infection, in turn, exacerbates poverty. The rapid changes in society that accompany economic growth as well as the gender issues are also factors contributing to the spread of HIV infection in developing countries.

HIV/AIDS has a serious social and economic influence. It damages households and macro economies from the reduction in life expectancy, affects the social systems by altering the demographic structure, and increases fiscal costs. HIV/AIDS is a global-scale issue, and it is an urgent issue for the international community to respond to the accelerating spread of the infection. Japan has identified HIV/AIDS as one of the priority areas in its mid-term ODA policy, announced the Global Issues Initiative on Population and AIDS (GII) in 1994, and has already provided a total of USD 88 million in ODA to combat AIDS, including over USD 23 million in contributions to UNAIDS since 1996.

In tackling the HIV/AIDS problem, in addition to the effort by developing countries themselves, coordinated action is important among civil society, multilateral and bilateral donors, and the private sector, according to their respective comparative advantage. We also need to recognize that HIV spreads extremely fast in Asia. Even to those countries where the rapid spread of HIV has been prevented and to those that are in the initial stages of the epidemic, sufficient consideration must be given and strategies responding to the condition in each country are required. Additionally, there are a number of serious infectious diseases aside from HIV/AIDS, such as tuberculosis and malaria, in developing countries, and we need to recognize them as important development challenges as well.

Trade, Development and Poverty Reduction

While economic transactions over national boundaries are flourishing, the gap is expanding between those countries taking advantage of globalization and increasing their efficiency and productivity and those lagging behind – many developing countries, in particular the least developed countries. Trade is playing a more and more critical role in achieving effective development, poverty reduction and sustainable economic growth. From this perspective, Japan expects that the developing countries will be active partners in the next round of comprehensive WTO negotiations, which aims to improve market access and strengthen trade rules for the new century, so that they can effectively use the international trading system to promote economic growth and reduce poverty.

At the same time, it is an important agenda to build capacity and institutions in developing countries in order to enable them to actively participate in the international trading system and to come to economic growth and poverty reduction. To these ends, trade needs to be integrated into the comprehensive poverty reduction strategies with an aim to implement trade reforms and to establish safety nets with due consideration to the situation of each developing country. It is important for the World Bank, based on its operational experiences, to support developing countries in cooperation with other international organizations, while clearly identifying its role in this field and avoiding duplication with the activities of other international organizations.

Progress of the Enhanced HIPC Initiative and PRSP

I welcome the progress achieved in the enhanced HIPC Initiative. To date, five countries - Uganda, Mauritania, Bolivia, Tanzania, and Mozambique - have reached their Decision Points under the enhanced framework.

Nevertheless, the international community -- bilateral and multilateral creditors as well as HIPCs -- is required to make further efforts to accelerate the implementation of the enhanced HIPC Initiative, in response to the strong expectations that as many countries as possible should reach their Decision Points by the end of 2000. Under the enhanced Initiative, Japan is to provide the greatest debt relief on bilateral ODA claims and also has supported multilateral institutions by contributing to the HIPC Trust Fund and the IMF PRGF-HIPC Trust Fund. In addition to these measures, Japan recently announced the following new contributions:

- Firstly, Japan will make a contribution to the HIPC Trust Fund up to USD 200 million in total, including USD 10 million which has already been paid in.
- Secondly, Japan will increase to 100 percent its debt relief on non-ODA claims under the framework of the Paris Club.
- Thirdly, Japan will continue to be committed to supporting HIPCs through various assistance measures including further provision of grant assistance.

More efforts including the following measures are needed for the speedy implementation of the enhanced Initiative.

- More bilateral contributions and maximization of utilization of the MDB’s internal resources in a timely manner in order to ensure the financing for the debt relief under the enhanced Initiative.
- Accelerating the work on PRSPs to be developed by HIPCs, with the cooperation of the World Bank and the IMF as well as with the participation of the civil society, donors, and other development partners in order to ensure the link between debt relief and poverty reduction.

Role of the World Bank

Reflecting the structural changes of the world economy in many aspects, the environment surrounding development assistance is also changing. It is important to put the World Bank under constant review. The World Bank is to continue to provide broad support to the poor countries including institutional and human capital building and economic/social infrastructure. For countries with access to private capital and with sufficient foreign exchange reserves, the Bank’s lending strategy should be more selective, focusing on extending loans in the environmental and social sectors and urging them to actively engage in economic/social reforms.

Since 1997, the World Bank has been decentralizing substantially its decision making authority and staff presence. While relations with borrowing countries have been improving under this process, there are growing concerns over the cost implication of decentralization, and over excessive decentralization which might damage the integration of the Bank as a global institution. It is now time to review the costs and benefits of decentralization for the Bank's future strategy.

IFC, the private sector arm of the World Bank Group, needs to focus more on development impact in its operation so as not to compete and supplant private capital. For its future private sector strategy, the adequacy of the present capital, organization, and staffing is to be subject to comprehensive review.

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

Intensifying Action Against HIV/AIDS

In some regions of the world HIV/AIDS has become a developmental issue going much beyond a health care problem. The international community has a responsibility in helping those countries to implement programs in this area. Obviously, the centrality of the HIV/AIDS problem for the development agenda varies according to local circumstances of individual countries. In some regions, the spread of HIV/AIDS has reached very large proportions of the adult working population, raising serious questions about the prospects for development in these countries. In some of these countries life expectancy has declined by 17 years due to the disease, eroding the progress of decades. There are countries where 15 percent of civil servants or 30 percent of all teachers are infected, or where HIV-infected patients occupy 50-80 percent of hospital beds, crowding out other patients. Per capita income has dropped as a consequence of the disease in some regions. Countries with a high HIV adult prevalence are expected to have their prevention and basic care rising from 2 to 6 percent of GDP by 2010. With these massive numbers the negative development impact of HIV/AIDS is clear. In all these cases, making HIV/AIDS a "standard of the core development and aid agenda" seems entirely appropriate.

The international community, in particular United Nations agencies and the World Bank, has a strong role to play by providing technical and financial support. There is also an important role for the Bank in financing research for the AIDS vaccine and in promoting other international public goods in this area. Past experiences such as eradication of river blindness in Africa set out a good precedent in this respect.

All countries should take up their responsibilities and design their own anti-HIV/AIDS programs requiring, as necessary, the help of the World Bank and other international institutions. It is important, however, that the international community does not transform advocacy, persuasion and readiness to assist into new layers of conditionality, as ownership and genuine commitment are the main drivers for development effectiveness.

While HIV/AIDS affects just 0.01 percent of the Brazilian population, Brazil was among the first countries to adopt a national program to address HIV/AIDS spread. Since 1993 the Brazilian government has stepped up its efforts with the help of two loans from the World Bank totaling US$ 325 million to implement a comprehensive program, including prevention, diagnosis, treatment, institutional development, epidemiological surveillance, evaluation and research. Total investments in the context of Bank supported programs added up to US$ 650 million. The Federal Government is working with the close involvement of sub-national governments and civil society in a number of these activities.

These efforts yielded very positive results. New cases have stabilized as from 1994 and the number of HIV/AIDS related deaths has been declining since 1995. The Brazilian program has been considered one of the most successful worldwide by the Joint United Nations Program on HIV/AIDS. Recently, Brazil has started a process of bilateral cooperation with some countries in Africa, namely South Africa, Namibia, Kenya and Zimbabwe.

Trade and Development

International trade constitutes a core issue in the development process and should be regarded as an integral part of the global efforts to reduce poverty. Over the last decade a number of developing countries liberalized their trade regime in an effort to stabilize and make their economies more competitive. Trade openness has brought benefits to many developing countries.

As the President of the Bank, James Wolfensohn, said in Seattle and again in Bangkok "…it makes no sense to exhort poor countries to compete and pay their way in the world while we simultaneously deny them the means to do so, by restricting their market access in areas such as agriculture where they have a comparative advantage. But this is precisely the effect of the current structure of developed country agricultural protection, including export and producer subsidies as well as import tariffs".

The question of high levels of subsidies to agriculture is particularly damaging to developing countries, as they not only create barriers to market access and distort prices in world markets when these products are exported below the cost of production. Farmers of developing countries cannot compete with the treasuries of wealthy nations.

In the area of agriculture alone, as the World Bank document points out, trade liberalization could yield over US$40 billion to developing countries, a level near that of net flows of official development assistance (ODA). ODA could be almost doubled by mere agriculture liberalization, entailing benefits both to developing countries and to consumers in developed countries. In fact the net gain to developed countries is expected to be even larger than those US$ 40 billion. Protectionism contributes to maintain poverty in developing countries and raises the cost of living in developed countries.

While average tariff protection of developed countries is relatively low at about 4 percent, this hides the fact that tariff protection is substantially skewed against developing countries' exports. The World Bank document brings some astonishing figures such as tariffs of 826 percent in the European Union for meat products, 781 percent for processed food products in Japan, 147 percent on fruit and processed food products in the US and 123 percent on footwear in Japan. The Uruguay Round commitment to remove textile quotas during the period 1995-2005 has been implemented in only 12 percent of the restricted products so far.

Also, renewed domestic protectionist pressures in other sectors seem to be gaining ground in many countries. In this respect, excessive recourse to anti-dumping measures is a serious concern.

A new round of trade negotiations in the World Trade Organization, which pays particular attention to the interests and needs of developing countries, is urgent.

The World Bank has an important role to play in the agenda of trade and development. It should provide investment and adjustment loans designed to improve trade performance of borrowing countries, such as trade-related infrastructure and private sector development. The Bank must also support capacity building in trade policy institutions, including the training negotiators in those countries with little experience in this area.

Last fall the Development Committee Communiqué called for the Bank to undertake research on barriers to exports of developing countries. The document informs us that there is activity under way in this area. It would be important to have periodical progress reports on this issue by the Committee.

Finally, in the trade area, we would like to support the development by the Bank of a framework for market based commodity risk management provided it is tailored to each particular country and addresses specific products in line with that country's development priorities. The objective here should be to have a scheme that focuses on improving capacity and developing liquid and deep markets in borrowing countries.

Small States

Small States are particularly vulnerable and deserve special attention by the international community. We support the recommendations contained in the Report "Small States: Meeting Challenges in the Global Economy" and urge the Bank to mainstream those findings in activities related to those countries, including in sector, thematic and policy work.

The HIPC Initiative

Let me first express our concern with the fact that financial resources to implement the Enhanced HIPC Initiative continue to be missing, despite some important new pledges made since the Annual Meeting of 1999. As many of us said on that occasion, launching such an ambitious program without securing finance first could raise expectations which were difficult to meet. Using IDA's flexibility through a pay-as-you-go mechanism may be suitable for a few initial cases but such procedure cannot go unchecked for very long, especially when we are told that by the end of this year some 20 new countries could qualify for debt relief.

We continue to stress the need to preserve the financial capacity of the regional institutions. In particular, we are concerned with those in Latin America and the Caribbean, such as IDB, CABEI, CAF and FONPLATA. The HIPC Trust Fund should have the flexibility and resources to cover the costs of these institutions when necessary. It would be counter-productive to have them contribute to HIPC today at the expense of their future lending capacity.

There is an urgent need for the establishment of fair burden sharing criteria for small developing countries that are creditors to HIPCs as the critical case of Trinidad and Tobago in our constituency clearly shows. This country has already provided debt relief worth some U.S.$350million, approximately 6 percent of its GDP, to Guyana.

IBRD's Financial Capacity

The improvement in the global environment has rendered the question of the Bank's financial capacity less urgent at present than it appeared last fall. While these risks are somewhat moderate and the Bank's financial situation has not materially changed since the last review in September 1999, IBRD's risk bearing capacity and its ability to respond to possible future shocks could become a constraint.

The World Bank must be prepared to respond to member countries' development needs, whether in response to adverse shocks in the international economy or in support of countries' preventive efforts to avoid crises. The role played by the World Bank and IMF during the international financial crisis of the 1990s contributed to avoiding a bigger negative effect that would make more people suffer.

The Bank needs to continue looking at long-term options to address its financial capacity. In doing so, we must adhere to the rule of a balanced approach in terms of burden sharing and recall that price increases for loans have already been adopted and should not be an option at this time.

Rather than considering how to "increase usability of paid-in capital", an option that places the burden exclusively on borrowers for a second time, serious consideration should be given to reduce pressures on the Bank's net income. Beyond the current allocations to IDA, HIPC, capacity building and very selected post-conflict countries, all remaining net income should go to reserves in order to build up usable capital over the medium term.

Statement by Mr. Kelebone Albert Maope, Deputy Prime Minister and Minister of Finance (Lesotho)

The Global Context

There are encouraging signs that the world economy is recovering after the severe turbulence of 1997. Investor confidence in emerging markets is gradually picking up, underpinned by serious reforms in the financial and corporate sectors, coupled with broad-based growth in the industrial countries. Much is still desired to bring the performance back to the pre-crisis level. Net long-term capital flows continue to follow a declining trend and are still far from the pre-crisis levels, while FDI flows have been resilient albeit growing at a slow rate and remain concentrated in about ten middle-income developing countries.

We are heartened and encouraged by what seems to be a reversal in the persistent ODA downward trend witnessed during the last decade. While it is early to judge by the slight increase in ODA/GDP ratio of OECD countries from 0.22 percent in 1997 to 0.23 percent in 1998, the fact that a number of OECD countries have made strong commitments to increase their ODA, sends a positive message that augurs well for future ODA flows.

In general, however, financial flows to Sub-Saharan Africa are still not commensurate with the tremendous reform efforts most of the countries in the region have made during the last decade or so. While the recent effort by the multilaterals to raise the concessional lending level is welcome, a lot remains to be done to bridge the wide gap between the available resources and the requirements for poverty reduction, the centerpiece of our development agendas. We appreciate the attention given to the region's debt under the HIPC Initiative. However, debt relief alone will not be sufficient unless it is supported by other sources of concessional aid, FDI flows and a free access of African products to world markets. We would urge the IFIs to play a proactive catalytic role in encouraging private flows, particularly FDI, to develop SMEs and speed up the privatization process in the continent.

Intensifying Action against HIV/AIDS

The explosion of the HIV/AIDS epidemic is cause for serious concern. It is now widely acknowledged that this scourge is not just a mere health hazard, but a serious threat to development. Our region, Sub-Saharan Africa, is the hardest hit with 85 percent of the global deaths resulting from AIDS and the highest number of infected people. The devastating effects of the disease compound Africa's plight with its more negative impact on the productive labor force. HIV/AIDS is also depleting accumulated wealth and capital stock, as many of those inflicted by it sell their assets to defray medical costs. Its adverse effects span all sectors, including agriculture, the private sector, education, health, and public administration. Women and girls are the most devastated group, while the poor are more adversely affected than the well to do, a matter that puts a continuously increasing burden on public resources and at the expense of other development purposes.

Time is of the essence in arresting the spread of HIV/AIDS. In the absence of a cure, most of our countries have embarked on strong prevention campaigns encompassing public education and information programs, enhancing awareness about the disease and the distribution of contraceptives. A strong commitment by governments is evident in many countries, although in some cases acknowledging the prevalence of the epidemic is still a taboo due to cultural reasons. The role of society in tandem with NGOs is crucial in this respect. HIV/AIDS interventions should be accorded highest priority in the governments' national development programs.

Combating HIV/AIDS is a costly endeavor that requires massive resources which the developing countries, particularly the poor among them, cannot raise by themselves alone. Given the high cost of preventative programs, research needed for finding a cure, building capacities and looking after the victims, concerted efforts by the international community are a crucial imperative. In this connection, we applaud the leadership role played by UNAIDS through its program, the International Partnership Against HIV/AIDS in Africa. We trust that other development partners will join these efforts, each focussing on its comparative advantage. We also welcome the close collaboration between the World Bank and UNAIDS. The setting up of the Multisectoral AIDS Campaign Team for Africa (ACTafrica) in the Africa Regional Vice Presidency is a laudable step. We are particularly pleased with the Bank's decision to mainstream HIV/AIDS in the development plans, HIPC, PRSPs and CASs, as well as in projects and sectoral programs. Its active role in the Global Alliance for Vaccines and Immunizations (GAVI) is also commendable.

Sub-Saharan African financial requirements for addressing the epidemic are estimated at $1.0 – 2.3 billion. Raising this amount entails well-coordinated and concerted efforts by all development partners and national governments. In this connection, we are happy to note the firm commitment of Mr. Wolfensohn, President of the World Bank, to spare no effort in providing all possible support to HIV/AIDS programs. The advances made by GAVI in the development of microbicides, a substance to kill sexually transmitted infections on contact, is also an important milestone in the international community's quest for HIV prevention. It is our hope that all concerted efforts will bear fruit soon.

Trade, Development and Poverty Reduction

Trade is the key element of development and poverty reduction and is critical for reducing reliance on foreign aid. Open economies that are integrated into the global economy grow faster than the inward-looking and closed ones. Poor countries constitute the majority in the latter group, even though a number of them continue to undertake trade reforms. This suggests that trade reforms alone are not the panacea for all development and poverty reduction problems. It should interplay with other complementing factors such as effective institutions, sound macroeconomic policies, effective human capacity, a vibrant private sector, an efficient financial sector, and an appropriate legal and regulatory framework. It is also important to note that like the tango, it takes two to trade, with both partners synchronizing their actions and moves. This is fundamental for a fair and equitable distribution of world welfare. It is to this end that the international community should gear its efforts, and it is in this context that we feel that the World Bank and the Fund, in close collaboration with the WTO, can play an important role in integrating the poor countries into the global markets.

The new concept of categorizing the world economy into three groups -- industrialized, middle-income, developing and least developed countries (instead of the two divisions of the past, rich and developing) -- is justified as it is becoming clearer that the developing countries comprise of two distinct groups: the have and the have-nots, the former having access to global markets and the latter lacking similar access. The growing institutional, structural and development gaps between these two groups also justify this differentiation, and entail a differentiated tackling of the trade problems of each group. This should include efforts to promote South-South trade with a view to increase cooperation between the have and have-nots in the developing countries.

Despite the recent trade liberalization efforts, trade barriers, both tariff and non-tariff, still remain major impediments to free trade. Effective protection, as distinct from tariff protection against developing countries' exports of manufactured goods, is extremely high in industrial countries. The examples portrayed in the footnote on page 4 of the paper on Trade and Development about the levels of effective protection some products of interest to the developing countries enjoy in the industrial countries, are illustrative of the prohibitive trade barriers that impede growth of industries, diversification of the economies and combating poverty in the developing countries. This should be a serious cause for concern to us all if we are to address the issue of poverty in a meaningful manner. Allowing free access of our primary products to the industrial countries' markets while denying them access in their processed form will not augur well in the fight to reduce poverty.

Agriculture, in particular, which is the mainstay of most of our countries, needs special attention. It is difficult to put in place a level playing field where the rules of free trade can be applied fairly when there is no serious move by the industrial countries to overhaul their agricultural policies and restructure the sector. Developing countries should be prepared to play their part by forging ahead with their reform and liberalization efforts.

This leads me to the issue of sequencing and appropriate timing of trade reforms. As mentioned earlier, a level playing field is yet to be established. Trade reforms cannot be effective unless they are integrated with other elements, the development of which takes time. Experience has shown that trade preferences, particularly those under the Generalized System of Preferences and the Lomé Convention, have not been effective in expanding the poor countries' exports to the industrial markets due to the exclusion of the "sensitive products" from the list of items that enjoy full access. Under the circumstances, it is imperative to weigh the cost and benefits of unilateral trade liberalization and its sequencing. As things stand now, it seems illogical to expect fair competition among unequals. Judging from the slow pace of progress since the WTO Marrakesh Trade Agreement, which was clearly manifested in the Seattle meetings, we believe that the poor countries will be the ultimate losers from the unilateral dismantling of trade barriers unless devices are put in place to fully compensate them for such losses. In addition, it is also important that they be offered a differentiated and meaningful market access treatment, at least until the "rules of the game" of world free trade are well grounded. Integrating into the global economy is evidently a more complex matter than initially thought. Left to themselves, poor countries do not have the capabilities to deal with the hazards of globalization. We, therefore, believe that all elements necessary for establishing worldwide free trade liberalization arrangements should take into full consideration the specific characteristics of each country. The CDF, PRSPs, CASs and PRGFs should give particular attention in their designs to these factors. While we note the laudable efforts by the Bank and the Fund in helping our countries in several key trade related areas, we would urge them to continue their active involvement and close collaboration with the WTO in each institution's area of comparative advantage. The cooperation agreements signed by the three institutions are a step in the right direction in this respect. Their role in providing technical assistance to strengthen institutional capacities, information and technology systems, and negotiation capabilities is worth noting. We would also like to see their active involvement in the Integrated Framework for Trade Related Assistance to Least Developed Countries.

Recent history has witnessed a proliferation of trade and economic blocs worldwide. In the absence of a full-fledged free trade regime, it is argued that such blocs are the second best alternatives, provided that their trade creation effects outweigh the trade diversion ones. The importance of intra-continent trade in Africa is now widely acknowledged by all our nations, although efforts to establish such blocs are still in their early stages. This is, therefore, an area where substantial external assistance becomes critical. Developing infrastructure, institutions, modern information and technology systems and telecommunications rank high in our priority list. We would welcome the strong support of the international community, including the Bank and the Fund, in this area.

With respect to commodity risk management, we understand that there are on-going coordinated efforts by a great number of international and regional bodies, led by the World Bank, to establish a mechanism for protecting the poor countries from the hazards of world market volatilities. We hope that these efforts will culminate in the setting up of a body that will not only manage the risks of commodity price fluctuations, but also be in a position to stabilize export earnings. To this end, appropriate export proceeds stabilization schemes should be developed to complement any price stabilization schemes. Such a comprehensive scheme should be built on the lessons learnt from the long experience in this area during the last fifty years. We would welcome the full support of the international community in this endeavor.

Implementation of Poverty Reduction Strategy Papers (PRSPs) and the HIPC Initiative

Poverty reduction is our overarching objective and hence was our strong endorsement to the framework for the PRSPs. We recognize the multidimensional nature of poverty and the need for a comprehensive approach for tackling it. We are also cognizant of the importance of keeping our governments in the driver's seat, and that the final PRSP should be a product of an extensive participatory process that involves all segments of society as well as development partners. It should be in line with the CDF and constitute an important part of country assistance strategies. It is also our long held belief that although a sound macroeconomic environment and growth are essential elements in the poverty reduction framework, they are not sufficient for eradicating poverty. To be effective, they should be combined with many other elements: social, institutional, environmental, political, legal and equitable distribution of wealth and income, to name a few.

Let me turn now to the practicalities of the preparation and implementation of the PRSPs. The complexity of the exercise and the importance of the quality of the final product necessitate that the preparation process should not be rushed unduly. However, while the Interim PRSPs make the task of reaching the decision point under the Enhanced HIPC Debt Initiative easier, the idea of making the completion point contingent on presenting a full PRSP is cause for serious concern to us. There is a high probability of the risk of delay in preparing the PRSP, as it is extremely difficult to predict any possible external shocks or reasons beyond the control of the respective HIPC. Although we appreciate the stress made on providing interim assistance between the decision and completion points, we believe that the presentation of the PRSP should not be the only criterion for the provision of debt relief. It is our considered opinion that a broader and more flexible set of criteria that take into full consideration the specific characteristics and the environment surrounding the respective HIPC country be adopted. The judgement on whether a country qualifies for the debt relief should be based on an assessment of the overall progress made by the country on different fronts: consistent adherence to macroeconomic stability, progress in providing social services, creating a conducive investment environment, etc. It is through such a device that we can avoid the delay in implementing the Enhanced HIPC Debt Initiative. For countries that have reached an advanced stage in preparing their PRSPs, we expect that the Bretton Woods institutions will assist them and focus only on a few key conditionalities. This will, no doubt, help in considerably shortening the period of 12-18 months estimated to complete preparations of a PRSP. It is also worth stressing the importance of capacity building and outreach campaigns for the preparation of such documents and the ownership of the process by our countries. We, therefore, call upon the Bretton Woods institutions to continue with their efforts in providing valued advice and expertise in this regard. Our Heads of State place a high priority on poverty reduction, as evidenced by the endorsement they made to the PRSP approach at their meeting in Gabon last January. We appreciate and welcome the assistance being provided to us by all our development partners.

This leads me to the progress achieved so far in the implementation of the Enhanced HIPC Debt Initiative. I believe that all of us are concerned with the slow progress in the implementation of this Initiative. The efforts so far made are basically confined to updating the decision points of a few retroactive HIPC countries under the Enhanced Initiative. Only five cases have so far been considered (with only one of them, Uganda, reaching the completion point). The other major concern relates to the problem of funding of the Initiative. The resources of the HIPC Trust Fund clearly fall short of meeting the amounts required to finance the HIPC cases envisaged at the time of the last Development and Interim Committee meetings and, hence, the liquidity constraint problem. While for practical purposes there is no viable alternative than reverting to IDA resources to fund debt relief on a temporary basis, we are concerned about compromising the principle of "additionality" which was stressed when the new Initiative was endorsed last September. We, therefore, would like to stress that any funds taken from IDA resources to finance debt relief under the HIPC Initiative should be fully reimbursed to IDA, including all interests that would have accrued to IDA if these amounts were invested.

As agreed before, it is also important that funding the HIPC Initiative should not be at the expense of IDA's developmental and poverty reduction activities, nor at the expense of other IDA non-HIPC borrowers. We trust that bilateral donors will take this into full consideration in funding the Trust Fund as well as in their contribution to future IDA replenishments. We hope that the matter will be given due attention at the forthcoming IDA Deputies' meeting next June.

It is also important that the concerns of the Multilateral Development Banks (MDBs) and those creditor developing countries, particularly the HIPCs among them that cannot keep their obligations under the Initiatives on the issue of equitable burden-sharing, should be given appropriate attention. What is needed here, in our view, is the flexible application of the principle of "comparable treatment" that all creditors should provide; a condition that has to be met by all HIPCs to qualify for assistance under the Initiative. The difficulties encountered in this respect with the non-Paris Club creditors should not be a deterrent for reaching the decision point. We expect to see some flexibility from the Paris Club in the application of this principle and the consideration of each case on its own merit. We hope to see a faster pace of implementation of the Initiative by the next Annual Meetings.

Report of the Task Force on Small States

We welcome the Joint Commonwealth Secretariat/World Bank report on this subject. It succinctly provides a candid analysis of the problems faced by small states, giving full consideration to the specific characteristics of each. This group of countries shares a number of common characteristics: they are prone to natural disasters; a great number of them are remote and isolated from major markets and are, therefore, less diversified; they have limited capacities, high incidence of poverty and limited access to international financial markets, among other things. Therefore, the recommendations of the International Task Force for addressing these difficulties are apt. The vulnerability of these states to external shocks should be taken fully into consideration in the design of multilateral and bilateral assistance. Given the lack of interest by foreign investors in these states, more reliance on concessional assistance seems inevitable. It is also important that the International Task Force on Commodity Price Risk Management gives special attention to the specific needs of these countries.

Donors, particularly multinationals, should also provide assistance that enables them to safeguard against environmental vulnerability, a phenomenon most of them often experience. The international community also has to help by removing all trade barriers that confront the exports of these countries into their markets, preferably through extensive special preferential treatment, and compensatory financing, particularly during the transitional period until they become fully integrated in the global trade regime. This should also be complimented by adequate technical assistance, particularly from the WTO, UNCTAD, EU, and the Bretton Woods institutions to develop their negotiating capacities. Financial services, both on-shore and off-shore, is an area where several small states have a comparative advantage and where external assistance is of crucial importance.

An important aspect of the proposed framework of assisting these countries is the clear delineation of the division of labor among the different development partners. While this is well spelled out in the last section of the report, we hope that the respective states will be the ones in the driver's seat when it comes to the coordination of donors' assistance.

Finally, putting the Task Force's agenda in action would entail the concerted efforts of all if the objective of integrating these states into the global economy is to be attained.

Update on the IBRD's Financial Capacity

We note that prospects for the IBRD's long-term financial capacity have not seen adverse changes since our discussion during the last Annual Meetings. However, the risk-bearing capacity of the Bank still remains a cause for concern, despite the recent improvement in the global economic outlook and the ability of countries that were in financial crisis to regain access to international private capital markets. Yet, many IBRD borrowers have remained vulnerable to world market volatilities. We, therefore, concur with the paper that increasing capital resources will be important for the Bank to realize its mission going forward. However, we continue to believe that this issue should be considered in the context of IBRD's evolving role. On the options put forward, we find increasing the usability of paid-in-capital as the most promising. Our only concern about this option is that since a preponderant portion of the paid-in-capital is non-interest bearing assets in the form of domestic currencies held by the member's central banks, this raises the issue of the effectiveness of this option. This is an issue that we need to look at more closely. We also would encourage the Bank Management to continue exploring all possible options for strengthening its risk-bearing capacity.

Statement by Mr. Paul Martin, Minister of Finance (Canada)[2]

Introduction

More rapidly than ever before, economic forces are affecting all aspects of global existence – while technology and trade have reduced the distance between nations, they have also inextricably interwoven economics into science, culture and politics. The new technologies of communication and the exploding sense of popular engagement are radically changing the style of decision making.

Looking back fifty years, it is clear that the Bretton Woods architects did not design their system for this new reality. At the same time, and partly as a result, the international spotlight is on the Bretton Woods institutions as never before. We must not miss this pivotal opportunity to take stock of our mission, review our achievements and to ensure that all our energies are focused on our fundamental goal. Indeed, as the World Bank mission statement clearly articulates: "Our dream is a world free of poverty." As never before, the services, expertise and commitment of the Bank are needed to address the staggering challenges posed by continuing poverty across the globe. The numbers are staggering – 1.2 billion men, women and children live on less than $1 per day; 2.8 billion people live on less than $2 per day.

In comparison to the enormity of the task we face, our resources are limited. It is vital that we exact the maximum possible return from our collective contributions and efforts. We

[2] Speaking on behalf of Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines

must be innovative and selective – though not of those in need, but in the manner in which we address these needs.

Remaining Focused on the Poor

At our last meeting, we agreed on the substantial enhancement of the Heavily Indebted Poor Countries Debt Initiative and on the need for stronger linkages between debt relief and sustained poverty reduction. We also looked to enrich the World Bank's central mandate to achieve sustained poverty reduction with a new consultative and country-driven process.

For its part, Canada honored its commitment by announcing in February 2000 an additional contribution of C$175 million to support the Heavily Indebted Poor Countries trust funds administered by the Bank and Fund (C$109 million to the Bank trust fund and C$66 million to the IMF trust fund). This brings total Canadian contributions to date to C$215 million. Canada will also provide 100-per-cent debt forgiveness to all countries qualifying for debt relief and making real efforts to reduce poverty and to improve governance. Ireland has committed 16 million Irish pounds to the Heavily Indebted Poor Countries trust funds and, although not an Official Development Assistance creditor, has also committed bilateral contributions of 10 million Irish pounds to Tanzania and Mozambique for debt relief.

It is encouraging that more countries are being considered for debt relief. However, we can understand that the Heavily Indebted Poor Countries themselves and many interested observers would like to see the pace intensified. Failure to move quickly on our commitment to faster, deeper and broader debt relief that we made here last fall has the potential to undermine all our efforts.

Building upon the partnership philosophy underpinning the Comprehensive Development Framework, we took the important step last autumn of linking multilateral and bilateral support for debt relief to the development and implementation of effective national poverty reduction strategies. The Bank and Fund must move quickly, responsively and flexibly with the implementation of poverty strategies. Strengthened linkages between debt relief and poverty reduction are crucial, but they must not delay our efforts, nor overburden already constrained capacity.

This is particularly true for those countries that have already gone through the debt relief process (the retroactive countries) and where countries have already developed effective participatory anti-poverty programs. Uganda is an instructive case in point. The Ugandan government had developed its own national long-term poverty reduction program (the Poverty Eradication Action Plan) well in advance of the introduction of the Poverty Reduction Strategy Paper. In fact, Uganda's program is one of the blueprints – Uganda's Poverty Eradication Action Plan, based on the government's strong commitment to reduce poverty through a widespread and participatory process, *is* a Poverty Reduction Strategy Paper. Indeed, the long-term success of the Poverty Reduction Strategy Papers depends on the extent to which they become homegrown and sustainable. Further, we had never intended to require retroactive countries to go through the whole process all over again, meeting a whole new set of conditionalities along the way.

While the enhancement of the Heavily Indebted Poor Countries Debt Initiative was an important step in our battle against poverty, debt relief by itself will not be sufficient to raise living standards for women, men and children in the world's poorest countries. We must continue to look to the Bank as a key instrument for the international community's broader attack on poverty.

The commitment to a renewed focus on poverty reduction extends far beyond debt relief. The Poverty Reduction Strategy Paper is transforming the content of International Monetary Fund lending under the new Poverty Reduction and Growth Facility; it will also come to guide the Country Assistance Strategies of International Development Association (IDA) countries. In fact, Poverty Reduction Strategy Papers will form the core of the Bank's approach, as they should for other multilateral and bilateral development agencies. Complementing and building on the Comprehensive Development Framework, the Poverty Reduction Strategy Papers should rebalance the equation, moving the country into the driver's seat. Our challenge, both at the multilateral and bilateral level, is to *assist* national governments in the development and implementation of *their* strategies for poverty reduction and sustainable growth.

The impact on these governments will be huge. At the same time, we cannot over-emphasize the fundamental nature of this change to the way that development agencies will operate – it requires an entirely new mindset. We need to open room such that countries can take the lead. We must be ready to learn as much as we have tended in the past to teach. The international development community will have to accept new and potentially controversial approaches to development, approaches that will be as different as the countries they support.

However, a half-century of development experience (including many false starts) has shown us that while there is no single development path, there are common elements:

- economic growth is key to long-term, sustained poverty reduction, and the private sector is a critical element in providing strong growth;
- sustainable growth requires strong institutional foundations and a commitment to good governance;
- growth is higher and more sustainable when economic benefits are distributed more equitably – this builds the social and political stability that is fundamental to longer-term prosperity;
- participation in the world economy furthers growth opportunities;
- strong government commitment to the social sector and social programs, with particular attention on the capacities and needs of women and children, is a critical part of the institutional basis for growth. A strong economy cannot be built or sustained without social safety nets in place and a commitment to social programs every bit as strong as those on the fiscal side; and
- "good" development requires the strong engagement of civil society.

A continued Role for the Bank in Middle-Income Countries

So far, we have focused on the development needs of low-income countries. Contrary to the views of some, however, we also see a continuing role for the Bank in middle-income countries. In fact, it would be damaging to hundreds of millions of poor were the activities of the Bank to be restricted to solely low-income countries. We do not need to be reminded that many of the poor are found outside the IDA countries, outside Sub-Saharan Africa and South Asia, but also in Latin America and the Caribbean and Eastern Europe. In short, the distribution of income, and not just the average level of income, matters and that means the Bank must retain the capacity to provide development assistance to middle-income emerging market economies. The fact is, there are hundreds of millions of poor in middle-income countries who need the same basic health, education and access to safe water as those in the poorest countries – services that will not be funded by monies raised in financial markets.

At the same time, the development needs of middle-income countries can often be very different from those of the world's low-income countries. While short-term private sector finance is frequently available and physical facilities in the social sector are often far more developed, many middle-income developing countries still face significant capacity and institutional constraints in both the public and private sectors. In the public sector in particular, state regulatory and supervisory bodies are often too weak to promote and enforce good governance, particularly in periods, like the present, of fundamental social, economic and technological change. The East Asian financial crisis has shown that economies cannot rest on weak institutional foundations or flawed safety nets. As the events of 1997-98 made clear, private financial flows to middle-income countries and to emerging markets in particular can be volatile, and those countries with weak institutions are under most threat of capital flight.

Bank lending in these countries needs to be focused in niches where the market has failed to deliver financing on reasonable terms, and should be designed to promote institutional change and development. In particular, in these countries the Bank Group must:

- be focused on the poor, both rural and urban;
- help mobilize, and not displace, financing from the private sector;
- work closely with government social sector agencies; the Bank must reinforce and not displace government social sector capacities and initiatives; and increase its focus on institutional capacity in the state regulatory and supervisory bodies as well as, through the International Finance Corporation, focus on strengthening the private sector.

Need for Increased Cooperation and Coordination

At the heart of the development transformation is a strong focus on partnerships. We need to move beyond multilateralism towards a broader unity in which we tap the synergy between all the development actors: the Bretton Woods institutions, the regional development banks, the United Nations system, bilaterals, the private sector and civil society actors. Ministers of Finance are increasingly sitting around the same tables with foreign ministers and development ministers. We are seeking a paradigm shift in our behavior towards meaningful harmonization and coordination, from the more insular styles of the past.

Resources at the disposal of developing country governments are usually scarce and capacity is limited. Too often donors have favored parallel rather than complementary programming. We read too often about the hundreds of missions that many countries face in a given year. The multiplicity of distinct reporting requirements imposed by both multilateral and bilateral development agencies has led to significant administrative burdens on already over-stretched government institutions.

Project monitoring is a critical element of ensuring that development objectives are being achieved and that resources are being used efficiently and effectively. However, burdensome reporting requirements risk negating some of the impact of development cooperation. In cases where bilateral development agencies are engaged in co-financing with one or more multilateral development banks, they might share common formats.

We – the Bank, the regional development banks, bilateral donors and others – need to do better. We cannot praise partnership without practicing it much better than we have to date. We need major efforts to harmonize programming and project management arrangements to lessen the burden on developing countries. The development banks must rationalize efforts – they need to coordinate, not duplicate, efforts. Scarce resources should not lead to competition among development players, but increased cooperation and coordination.

A key element in this new spirit of partnership has to be our belated recognition of the critical importance of global public goods. This can extend from our new determination to put knowledge at the center of the development effort to the new efforts to energize key multi-partner development initiatives. We need strong partnerships – not new monopolies – if we are to effectively harness the collective capabilities of the international community. There are some striking examples: the Global Alliance for Vaccines and Immunization, the Consultative Group on International Agricultural Research, and the Consultative Group to Assist the Poorest. In addition, the Bank, in partnership with United Nations agencies and bilateral donors, has shown strong leadership in the international effort to combat the spread of HIV/AIDS, which threatens the social and economic future of many of the world's poorest countries. This battle against HIV/AIDS is a high priority of Canada's own development cooperation activities and we are very pleased with the level of cooperation with the Bank and the United Nations agencies. Ireland shares this priority and is seeking to raise awareness in the international community generally of its implications for developing countries.

Need for Capacity Building-in Trade

As highlighted earlier, participation in the world economy significantly increases growth prospects, and if managed properly, can offer real opportunities to lift individuals out of poverty. But these key linkages can only be achieved if the benefits of globalization are shared by all. This requires increased participation of developing countries and small states in multilateral negotiations, increased market access for developing nations and, with the support of the international development community, explicit recognition and action by developing nations to build trade into their long-term development plans. We look to the Bank and Fund to play a major role in all areas. As such, we welcome the inclusion of this topic in the Development Committee agenda and hope that the trade dimension will receive a strong endorsement from members.

Without a doubt, the lack of domestic capacity, including limited infrastructure facilities, weak institutions, immature legal and governance structures, and scarcity of human capital, limits the ability of developing countries to maximize gains from the global trading system. Many of these countries still lack the institutional capacity to implement commitments arising from the Uruguay Round. Many countries also face formidable challenges in terms of strengthening legal structures, increasing efficiency of and transparency of customs administration, and establishing standards systems that arose during the Uruguay Round.

Capacity building for trade is an area that the Bank and the Fund are well placed to address. However, success will rely very much on the enhanced cooperation between the Bank, the Fund, the World Trade Organization and other organizations involved in multilateral trade issues. In this context, the Integrated Framework for trade-related technical assistance to least developed countries has the potential to be an effective tool to better coordinate and promote increased trade-related technical assistance. We would encourage all participating institutions to devote more attention and resources to improving the Integrated Framework process. At the end of the day, greater Bank involvement is needed to energize the Integrated Framework.

Canada and Ireland share the view that all major trading economies, both developed and developing, must work together to enhance access to their markets. Developing countries must have realistic opportunities to trade. Since 1983, Canada has accorded stable and unconditional duty-free access for most products originating from the least developed countries. Moreover, Canada's preferential market access program includes simple and transparent rules that allow an unencumbered flow of developing country products into Canada. But more is required. Accordingly, Canada is working together with its trading partners on a number of initiatives, including those that promote improved market access, put forward by the World Trade Organization to assist least developed countries. Ireland is working through its membership in the European Union to ensure wider access to developed markets for developing countries and is contributing to current efforts to ensure that developing countries are in a position to benefit from trade rounds.

The broader development context will also have to place a higher priority on trade. Both the Bank and Fund as institutions are well placed to address trade-related issues in the broader development context through the Poverty Reduction Strategy Paper process. We encourage both institutions to continue to intensify efforts to mainstream trade issues in their policy, programming and lending operations. We welcome the recognition of the need for tailored, country-specific, reform programs that are appropriately timed and sequenced, especially in the case of small states, so that the benefits of trade liberalization can be widely spread. For a good number of developing countries, the transition to an open, competitive trading regime needs to be seen in terms of a revolutionary transformation. Given their limited institutional capacity in the public sector, this represents an enormous undertaking.

The most important contribution from the Fund is to help countries put in place and maintain sustainable macroeconomic policies which are growth-oriented, which promote full integration into the world economy, and which are consistent with the overriding objective of reducing poverty. The Bank has a clear comparative advantage in helping countries design approaches/programs which mitigate the negative impact on the poor.

Ensuring economic and social opportunities for all is the major challenge of globalization. But the reality is that many nations have very legitimate concerns about the pace and scale and change that are taking place globally. In some cases, countries are being asked in only a few short years to reform their economies when many of us have had decades to adapt to global trade. Therefore, we need to understand that the issues of timing, pacing, sequencing and transition are imperative.

At the end of the day, all trade and development players need to pay more attention to coordinating their actions. Coordination among various elements of development is as important as coordination among various institutions. It is crucial to integrate capacity-building needs, trade policy reforms such as market access, and poverty reduction strategies into one broad development framework.

Small States

While trade issues will have to be addressed by all nations, developed or otherwise, we would like to highlight the special challenges facing the world's smallest developing states. Adjustment to the evolving global trading system for the small states, many of which are in the Caribbean, is proving very difficult. These countries face enormous capacity-building challenges and without support they risk being left behind in the increasingly global economy. Their scarce resource endowments, including limited human capital and stretched institutional capacity, underlie the challenges these countries face in trying to restructure their economies and diversify their production and export structures to benefit from the global trading system. We also need to appreciate the special difficulties they face as they seek to make the transition from a concessions-based to a rules-based global trading regime.

In this regard, I would like to quote the striking and eloquent words of the Governor from Barbados, Prime Minister Owen Arthur:

> "It is however important that the two crucial, qualitative aspects of the process of Caribbean reconstruction be constantly held up so that both the urgency and the scale of what now has to be undertaken in the next decade can be fully appreciated.
>
> The first is to properly appreciate the time dimension of the adjustment. The advanced, industrialized countries have over the course of the past fifty years, through an effort spread across 8 rounds of multilateral trade negotiations gradually but efficiently and effectively made the adjustments to their fiscal systems and their real economy to prepare themselves to participate fully in the present phase of globalization which is driven in such large measures by the liberalization of trade, financial and technological flows globally.…These economies face today's intensely competitive international environment having benefited from a gradual and carefully managed phased process of liberalization extending over half a century.
>
> The Caribbean will be expected to successfully carry out over a period of ten years a process of liberalization which has taken the advanced economies over fifty years to master. It will be expected to do so with a relatively weaker resource endowment, faced with fewer options, and hence confronting the specter of doing severe damage to its fiscal system, its real economy and indigenous business by compressing necessary change into too short a period of time."

The second qualitative aspect of the economic challenge which faces the region is the sheer magnitude and scope of what has now to be undertaken in a very short period with very limited resources to correct longstanding social and economic deficiencies to accommodate the competitive pressures arising from globalization.

The multilateral trading environment has been with the industrialized states for some time. Developed nations have indeed had the luxury of time to both build the system from the ground up, on our terms, and to facilitate adjustment in our economies. It is both unrealistic and short-sighted to assume that the small states can adjust to this new reality overnight.

In small states, the transition to an open, competitive trading regime will require the development of a level of production flexibility, innovation and marketing capacity that will be new for many of them, and this is likely to prove to be an enormously challenging process. The adjustment is likely to take some time, and will require strong domestic political commitment and domestic effort in addition to significant external support from both multilateral and bilateral partners.

I would like to take this opportunity to thank both the Bank and the Commonwealth Secretariat for their efforts over the last 18 months in producing the special study that focused on the challenges and vulnerabilities of small states. This is an important report. The drafting process was enormously instructive and informative. We not only deepened our understanding of the small states, but also learned more about how institutions and developed countries behave towards them. It is now time to move forward with an appropriate work program to further development and poverty reduction efforts in the small states.

We are grateful to the Commonwealth Secretariat and World Bank Task Force for their role in catalyzing a very valuable policy discussion among the small states. Indeed, this has set a process in motion that will better equip small states for their external discussions and negotiations as well as offer a valuable opportunity to strengthen the inter-regional network and dialogue. It has resulted in a heightened recognition within small states of the critical importance of implementing the right mix of policies and of staying the course through adverse circumstances, and of the pressing need for own-account action and self-reliance.

Most importantly, however, this process has incorporated a range of international institutions and external actors. We now look to the Bank and other international institutions to systematically review and amend where necessary their own approaches to the small states and to ensure that all general policy work addresses as appropriate the special circumstance of the small states, both at the analytical and policy prescription stages.

It is my hope that the work of the Task Force marks the launch of a strong and sustained multilateral effort to recognize, understand and respond to the circumstances and challenges facing the small states. It is critical that the momentum built so far is maintained and compels us all to act on the recommendations of the report.

It is also appropriate that I use this opportunity to recognize and express my appreciation for the contributions of Prime Minister Arthur and President Wolfensohn to the small states process. In particular, Prime Minister Arthur led the Commonwealth delegation that met with President Wolfensohn to establish the Task Force; he has nurtured the process through two international conferences and several working drafts; and has shown great leadership across the Caribbean, our constituency more broadly defined and within small states worldwide.

Looking Forward

For most of their first 50 years of existence, the Bretton Woods institutions operated in relative obscurity. However, the last few years have brought a degree of scrutiny to the institutions as never before. This intense interest reflects the impact that the institutions have on the well-being of individuals and families worldwide in a highly integrated global economy.

What we have to demonstrate is that international financial institution reform is part of the solution, not the problem. We must demonstrate that we understand that countries are made up of people and not economic indicators.

Up until recently, the activities of finance ministers, development ministers and central bank governors at these meetings have been of interest primarily only to the participants and a few curious onlookers. I suspect that with this weekend, this will change. Whether it will change for the better or for the worse is up to us.

Our challenge is to demonstrate that not only are global markets essential to improved standards of living, but that national governments acting multilaterally through the great international institutions are the guarantors of that well-being. Quite simply, global integration should represent the clearest and most direct path out of poverty for hundreds of millions of people. Our task is to make this happen. Our task is to see to it that the combination of new technologies and open markets translates into higher incomes, better opportunities and increased security for people in all parts of the world.

I'm not sure that everyone would agree, but if we succeed, their children will.

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

On behalf of the countries I represent, I wish first of all to congratulate Mr. Horst Koehler on his nomination as the new Managing Director of the International Monetary Fund and to wish him every success. I would also like to take this opportunity to express my respect and appreciation to his predecessor, Mr. Michel Camdessus, who strove admirably throughout his 13-year tenure at the helm of the Fund to enrich the deliberations of our Committee and facilitate the implementation of its initiatives.

Our Committee is holding its 61st meeting at a time when the world economy is experiencing strong growth and renewed stability, in the wake of uncertainties that prevailed barely six months ago.

This growth and stability may clearly be attributed to the efforts of the countries directly affected by the financial crises of 1997-1999 to put their economies on a sound footing. Credit also is due to the mobilization efforts of the international community, particularly the multilateral financial institutions, which contributed significantly to limiting the impact of the crises and facilitating the turnaround in the affected countries.

We earnestly welcome this international solidarity and wish to underscore the need to remain vigilant so that we are in a position to respond to events that destabilize markets and undermine global growth as a whole.

Although the international community has successfully met this challenge, there are additional equally important challenges that must be confronted with equal determination.

The first of these challenges is to ensure that the multilateral trading system functions as an instrument for integrating the developing countries into the world economy and as a mainstay for promoting the development of our countries. The stability and sustainability of global growth are at stake here.

The events at the Third Ministerial Conference of the World Trade Organization in Seattle should prompt our institutions to develop a more equitable multilateral trading system which takes the development dimension duly into account. Urgent measures include eliminating tariff barriers to exports from the poorest countries and launching new negotiations to liberalize trade in those sectors in which the developing countries enjoy a comparative advantage. Such measures will enable these countries to pursue their policy of openness and integration at the regional and international levels and attain their growth and poverty reduction objectives.

The World Bank and the International Monetary Fund have an important role to play in this regard, particularly with respect to strengthening the ability of the developing countries to analyze information and conduct negotiations.

The second challenge is to adopt a sustainable solution to the debt problem. In addition to feeling relegated to a marginal role in the multilateral trading system, the developing countries labor under a heavy debt burden which undermines the development efforts of both the least developed countries and some middle-income countries.

In this connection, we welcome the Enhanced Heavily-Indebted Poor Countries Initiative and its new focus on poverty reduction. We believe, however, that the Initiative should be applied with greater flexibility so as to better meet the needs of the least developed countries, which are hoping for a rapid and substantial reduction of their debt burden.

The international community has been most generous in this regard, a fact that is particularly welcome inasmuch as certain heavily-indebted developing countries have themselves joined the effort and made significant contributions to this spirit of solidarity.

The entire international community has been called upon to participate in this effort and to acknowledge the urgent necessity of alleviating the debt burden of the countries in question. However, I wish to emphasize that the cost of the Initiative must be shared equitably and should not place an undue burden on developing country creditors which are assisting heavily-indebted poor countries. Similarly, the Initiative should not undermine the viability of institutions such as the African Development Bank (AfDB) or the International Development Association (IDA).

If AfDB helps finance the HIPC Initiative without considerable outside support, this may risk compromising its future operations on behalf of Africa’s least developed countries.

In order to deal with the financial difficulties IDA will confront after 2005, consideration should be given at this stage to consolidating its resources and, possibly, to making additional concessional resources available to meet a portion of the contribution it has been called upon to make.

Although small States do not comprise a homogeneous category, and although the size of a country's population definitely does not predetermine its economic situation, most of these countries display certain vulnerabilities which should be taken into account.

The least developed small States are single-commodity exporters or their economies are not very diversified, and their institutional and human resource capacities are limited.

Accordingly, it behooves the international community to devote particular attention to these countries and to countries facing similar constraints by supporting their integration at the regional and international levels and promoting capacity building.

The international community as a whole must confront these challenges in a spirit of solidarity not purely as a matter of necessity, but as a moral obligation, for if it does not do so, many countries risk sliding into marginality and poverty.

Before I conclude my statement I wish to emphasize that in the light of these challenges, it is more important than ever for our multilateral institutions to be sound and viable.

With regard to IBRD in particular, we welcome the fact that its financial condition remains sound. However, the Bank continues to face potential risks because its portfolio is heavily concentrated on a number of heavy borrowers. It may therefore prove necessary to strengthen the financial capacity of the Bank.

The following steps should be taken in tandem with such strengthening:

- The Bank's mission should be redefined to focus more on economic development and poverty reduction;
- The burden should be shared equitably by borrowing countries and other member countries; and
- Bank management should be streamlined and the institution's interventions should be maximized.

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

Today's meeting takes place at a time when the developing world is recovering with increasing strength from the recent financial crisis. The countries which applied the recommendations of the Bretton Woods Institutions consistently also appear the first ones to have re-emerged from the crisis. Although these developments are encouraging, there is clearly no room for complacency.

- The middle-income countries need to continue with the sustained implementation of the wide-ranging institutional reforms on which they recently embarked, in order to further reduce their vulnerability against adverse market developments. I propose that, at our next meeting, we take stock of progress achieved so far with the implementation of reforms embodied in the new Financial Architecture and discuss the areas where the Bank should further strengthen its assistance.

- Apart from a few exceptions, the low-income countries are not sharing in the present expansion of the world economy. Those among them who qualify for the HIPC Initiative, should utilize forthcoming debt relief operations in support of comprehensive growth policies with a strong poverty reduction focus.

- Moreover, the International Financial Institutions have for some time now been subject to unprecedented criticisms and pressures for radical reform.

Such pressures for reform are not unhealthy, provided they give rise to an informed and unprejudicial debate. Today's rapidly globalizing-economy confronts the IFIs with new challenges and, as institutions with a global mandate, they are subject to new standards of transparency and accountability. The World Bank should make sure that the encouraging signs of improvement in the development effectiveness of its operations can be sustained and further strengthened over time. Its available resources should be invested where they can add the most value. Lending to middle-income countries should consistently meet the highest standards in terms of measurable impact on development performance. It should be geared to address the deep-rooted problems of social exclusion from which many of them still suffer. Work which had started some time ago on a better coordination between the development banks should be intensified with the aim to use effective coordination as an opportunity to eliminate, rather than increase duplication. Low-income countries with limited institutional capacity and especially countries emerging from conflict would be the first ones to benefit from such higher effectiveness. In this connection we look forward to the visible results to be achieved in conjunction with the Comprehensive Development Framework. In addition, I would also encourage the Bank to develop a coherent and sustainable framework for the increasing non-lending services which it is providing in support of global public goods. The budgetary underpinnings of such services may need to be reassessed at a time when they can no longer be considered as by-products of the Bank's normal lending operations.

All in all, we remain fully supportive of the Bank's efforts to adapt the nature of its business to new development challenges and evolving lessons on aid effectiveness. In many respects, the Institution had already anticipated requests for reform. We submit that the sustainability of new initiatives will be better protected if they rely on a financial framework ensuring their full funding and are supported by a strong sense of ownership from the shareholders. The insurance that the Bank has sufficient financial capacity to fulfill its core activities even under adverse conditions should remain the overarching concern. We encourage the Bank's Management to continue to work with the Executive Board and with the Development Committee towards appropriate balances among these objectives.

With these considerations in mind, let me make the following comments on specific agenda items.

Intensifying Action against HIV/AIDS

We support the comprehensive action plan which is proposed for the Development Committee's endorsement to combat the HIV/AIDS epidemic more systematically and effectively. Success with its implementation will depend on many factors, starting with a sustained commitment from the governments of affected countries to prioritize the fight against AIDS as a major threat to future development and with a focused and coordinated approach of the international development community. UNAIDS has shown its effectiveness as a partnership for coordination among the key players and I encourage all of them to continue to rely on this unique instrument for cooperation around future action plans.

While the World Bank has a role to play in several aspects of the HIV/AIDS development challenge, it has a distinct comparative advantage in assisting governments with the domestic policy choices required by a comprehensive HIV/AIDS strategy. These choices imply difficult trade-offs between different development priorities and, within national health budgets, between the priorities to be assigned to the fight against different types of communicable diseases. Let us not forget, indeed, that other widespread deadly diseases must still be tamed. Even if some of these trade-offs could be alleviated through the marketing of affordable drugs, adapted to the specific needs of the poorest countries, effective and timely delivery of these drugs would still require substantial reform of national health care systems in many cases. I encourage the Bank to pay sufficient attention to these elements of a comprehensive strategy and to keep the Executive Board regularly informed about the progress achieved with implementation.

Trade and Development

By including Trade in the agenda of this meeting, the Development Committee is obliged to make a genuine effort towards a cooperative climate in which agreement on a comprehensive agenda for the next trade negotiations becomes again a serious prospect. Failure to do so would validate the concerns of those who claim that the international community is not serious about the risks of social exclusion entailed by economic globalization. Based on the balanced paper prepared by the joint staffs of the Fund and the Bank, I would like to highlight the following three points.

First, empirical evidence confirms that countries' integration into the global markets has a positive impact on economic growth, thereby improving their opportunities for embarking on successful poverty reduction policies. While sustained economic growth based on integration into the world economy is not a sufficient condition for poverty reduction, it is almost surely a necessary one. Clearly, no-one would gain from a reversal of the progress with trade liberalization achieved so far and everyone should remain committed to pay due attention to the general development benefits to be obtained from future trade liberalization policies.

Second, evidence also confirms the worrisome notion that the least developed countries (LDCs) have so far not participated in the benefits of liberalization. Their share in global trade has declined dramatically in the past fifteen years, thereby indicating that there is a growing "Trade divide," which justifies special attention. Initiatives aimed at pro-poor trade liberalization, such as the European proposal to provide duty and quota free market access for essentially all products from the LDCs, should be given urgent consideration.

Third, stable integration in the world economy does not only depend on the abolition of trade barriers. It is increasingly conditioned by the availability of a sound development environment offering a dynamic work force and capable of attracting a sustained inflow of foreign direct investments. Within such an integrated framework, the World Bank seems well placed to contribute to the establishment of a generally accepted discussion platform in which legitimate preoccupations about the protection of core labor standards can be addressed on the basis of their long-term development merits. A genuine effort to resolve the marginalization risks resulting from globalization should not ignore this aspect.

Implementation of Poverty Reduction Strategy Papers and the HIPC Initiative

I welcome the progress which has been achieved since our last meeting with the implementation of the Enhanced HIPC Initiative and found it encouraging to learn that as many as twenty countries could start benefiting from substantial debt relief before the end of the year. This is no minor achievement in view of the time and effort it takes to prepare comprehensive Poverty Reduction Strategy Papers (PRSPs) in difficult country circumstances and under severe capacity constraints. I commend the staffs of the Bank and the Fund for their relentless efforts to assist eligible countries with this endeavor.

Concerns which have recently resurfaced about the slow pace of implementation of the HIPC Initiative do not seem entirely justified to me. The framework which we endorsed last September provides for substantial flexibility in order to accelerate the access to debt relief. During the initial phase, countries will be in a position to qualify on the basis of an interim-PRSP rather than a full-fledged strategy paper; they will already receive substantial debt service relief before the final reduction of their debt stocks; and the notion of floating completion point allows countries to reach this final stage faster, depending on their progress with key structural reforms.

I encourage the Bank and Fund management to continue to apply these provisions with sufficient flexibility without, however, compromising on the quality of the poverty reduction strategies which should underpin sustainable debt relief operations. Indeed, we would expose our Institutions to more valid criticisms if we were to rush them into irreversible debt relief operations for countries, which do not have a poverty reduction strategy in place which is strongly backed by their political leaders and broadly shared by their populations.

Let me finally add that the credibility of the enhanced HIPC Initiative would also be at stake if at some point the Bank had to curtail its normal lending operations to the low-income countries, because IDA debt relief operations are insufficiently funded from bilateral donor contributions. To alleviate such concerns it remains essential that the substantial contributions pledged by the European Union are soon matched by similar contributions from the other large creditor countries.

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

The global economy has certainly improved further since we last met and the prospects are better than previously anticipated. Many developing countries have achieved better growth rates, including countries with large poor populations, and future prospects seem to be brighter. As we are told in the documentation, however, there are still uncertainties in the global outlook and a large number of mostly low- income countries with 1 billion people will barely be able to achieve positive growth. Current long-term projections for developing countries also indicate that growth will be lower than that achieved in the 1990s before the financial crisis.

This uneven picture of developments has been with us for a long time and it is also reflected in the recent trends in transfer of resources, which is the main mandate of our Committee. Net long-term capital flows to developing countries have been falling sharply in the past three years and official flows recovered marginally last year, though remaining below the pre-crisis levels. The bright spot in the scene is certainly the continued growth of foreign direct investment that proved to be the more consistent form of capital flows over the past years. These flows, however, still remain concentrated in a limited number of developing countries and the magnitude is still quite low in a number of regions, including our region.

What all this tells us is that the achievement of a meaningful poverty reduction, our overarching objective, will be highly uncertain in the coming years. Indeed our discussions last evening have underscored that only a small reduction in the population living on $1 or less is expected if growth is slow and inequality rises. Under such circumstances the international development goal of cutting poverty incidence by half by the year 2015 will be a far-fetched dream, with unpredictable consequences for both rich and poor countries, especially in view of the projected large world population increase. We therefore underscore the need for strong political commitment by industrial countries for a global poverty fight and greater focus by the leadership of developing countries. This strategic vision should be reflected in concrete action on the major areas of the development agenda that we now face, many of which are urgently needed. Some of the urgent issues are on our agenda for today: the eradication of the HIV/AIDS epidemic and providing better opportunities for developing country trade.

The numbers we see on the HIV/AIDS epidemic are alarming and the negative impact is pervasive, affecting many poor countries, especially in Sub-Saharan Africa. The analysis we received in the documentation showed the complex character of the problem and the need for a broad array of measures to tackle it. We note in particular the small amount of resources allocated for this devastating problem and share the view that developing country governments cannot overcome the HIV/AIDS challenge alone. We also expect that this will be given a priority in the programs of donors, international development institutions and the most affected countries themselves.

The liberalization of trade has proved to be an effective instrument in promoting growth and we welcome the focus we now have on issues of trade and development that confront the poorer countries. The themes suggested for our discussions are highly relevant and we broadly share the view that trade issues need to be addressed in the broader development context; that trade reforms should be based on individual developing country conditions; and that poor countries need considerable help in order to integrate into the world economy. We also underscore the need for comprehensive and predictable duty-free and quota-free market access for the products of developing countries.

Developing countries have made considerable progress towards the difficult task of liberalizing of their trade regimes and certainly need to do more if they are to take full advantage of globalization. It has become evident, however, that developing countries, especially the poorer ones, cannot undertake this task without help in several areas. Foremost among these is assistance in improving their trade related infrastructure and their supply response, help in coping with the cost of liberalization that might be particularly onerous to the poor, and help in a number of areas that would improve capacity building and developing country ability to deal with global trade issues. The World Bank and the IMF have done a good deal in this respect and we hope our present meetings will encourage them to intensify their efforts, in cooperation with the WTO, and develop more effective and comprehensive approaches.

Turning to more specific issues, it is evident that the other area where substantial contribution to poverty reduction can be expected and where much more progress is still required is in the alleviation of the debt burden of a large number of poor countries. We have welcomed the commitment of the major donor countries for deeper, faster and broader debt relief and looked forward to more tangible contribution to achieve this objective. Considerable efforts have been made but progress so far on the HIPC Initiative has been slow. Only five countries have reached their decision points under the Enhanced HIPC and only one is being under consideration for the completion point. It is encouraging to know that twenty countries are expected to be considered during the course of this year, but much depends on how far they can go in undertaking the new process of preparing Poverty Reduction Strategy Papers (PRSPs). We certainly encourage in this respect reliance on the simpler form of this exercise, the Interim PRSPs, in order to avoid further slow-down in the implementation of HIPC.

Further progress in achieving tangible results in reducing the debt burden of HIPC countries is also still hampered by a host of financing issues that have not been resolved. The documentation submitted to us describes these issues that relate to both multilateral and bilateral creditors, including the issue of the contributions of non-Paris Club creditors. We do share the view that efforts should be made to secure a broad participation in the efforts to alleviate the debt burden of poorer countries, but we see no basis for applying comparable treatment to the Paris Club on developing county creditors. Many of these countries are now facing difficult financial situations and had no say in the commitment that has been made by the Paris Club countries.

It is also unfortunate to note the argument that the whole Enhanced HIPC Initiative will be at risk unless the non-Paris Club creditors extend comparable treatment. The share of non-Paris Club in the total debt of HIPC countries is very small and we see no reason to hold-up debt relief unless developing country creditors follow Paris Club modalities. Multilateral and bilateral institutions in our region, nevertheless, have been giving debt burden alleviation full attention, holding special meetings on the issue and considering modalities that can make a contribution to this effort while maintaining their financial integrity and ensuring continued operations in poorer countries. We look forward to discussing these issues with the Bank and the Fund, bearing in mind the principle of fair and equitable burden sharing that has been widely endorsed.

A more specific area that needs more attention by the international community is the special case of the small states that is on our agenda for today. Experience has shown that although small states have common problems with many other developing countries, they do have peculiar features that intensify their vulnerability and require particular attention by donors and international institutions. This is clearly shown in the analysis submitted to us and we commend the work of the Commonwealth Secretariat/World Bank Task Force for bringing this issue to the fore. We note that the small states are heterogeneous in several respects, including their resources and capacity to cope, but we also note that thirty of them are borrowing countries

We endorse the Task Force's conclusion that addressing the special challenges facing the small states requires a combination of actions involving domestic policy action and some new approaches by bilateral donors and international institutions. There is a large number of specific measures covered in the report of the Task Force and they should be considered in tackling the issues faced by individual small states.

Finally, we note that the update of the IBRD Financial Capacity has shown that the long-term financial capacity of the IBRD has not changed materially since we met last fall. We also share the view that it is premature to put a possible capital increase formally on the table, especially in view of lack of consensus at present. Any other options, including increasing the usability of paid-in capital, should be analyzed in light of its possible inequitable impact on many developing countries.

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

Introduction

Our meetings this Spring take place under the spotlight of the World's media. This provides an opportunity for a full debate on how best to meet our common challenge of improving life for the poorest people in the world. It is evident that the IMF and the World Bank are important actors in this endeavour, that they make an important contribution, but that the effectiveness of all our international development institutions needs strengthening.

The challenge of international development remains vital, with 1.2 billion people still living in extreme poverty. Natural disasters or the effect of HIV/AIDS can wipe out decades of progress. Armed conflict, political, humanitarian and economic disruptions remain constant threats to the fight against poverty. Our job is to maximise the effectiveness of our development effort, whatever the circumstances.

HIV/AIDS

Some parts of the developing world - particularly Africa - risk seeing no development in the coming years unless action against HIV/AIDS is intensified. The Bank must ensure that HIV/AIDS is kept at the center of its global, regional and country development dialogue. Governments need high quality, timely information to deepen their understanding of the linkages between HIV/AIDS and poverty, and to guide investment priorities through all stages of the epidemic. And in those countries where an HIV epidemic is still emerging, governments must be reminded that political leadership and sound public health interventions can combine to avert a national development crisis.

In other parts of the world, the disease is not as yet at epidemic proportions, but there are worrying signs. In parts of Asia, rates of HIV infection in high-risk groups are already at worrying levels, and there are signs that the disease is crossing over into the mainstream population. The precise incidence of the disease and the rate at which it will transfer are uncertain, but we cannot afford to be complacent. It is imperative that better data collection systems are put in place, so that the spread of the disease can be monitored and that action is taken within those groups already infected to reduce the rates of infection and transmission. Given the potential human suffering and economic costs of HIV/AIDS, no country can afford to ignore this potential threat, and there is virtually no country in which HIV/AIDS programs are yet sufficiently funded.

The UK strongly supports the priorities for international action set out in the paper prepared for consideration by this Committee. We are scaling up our own response to HIV supporting national and global initiatives. We believe that regional fora may also have a role in building political consensus on priorities for action. Cultural factors driving the epidemic do vary among regions.

While overall government and donor resources for HIV prevention and care need to increase sharply, targeting remains crucial. Local investment must continue to focus on the priority interventions that have proven to be effective - health information and empowerment, especially for young people; access to condoms, treatment of sexual infection and safe blood transfusion. Where HIV/AIDS is endemic in Africa, the UK will also be supporting strategies to prevent mother to child transmission of HIV and improve voluntary HIV counseling and testing. We are concerned that the education sector be better harnessed to address HIV, and better protected from the epidemic's full force. We must also ensure far greater community involvement in social support systems for those infected and affected by HIV.

In Asia, the UK is stepping up its support for strategies aimed at producing better data on the incidence of the disease and better methods for predicting the future path of the epidemic, plus providing direct assistance to strategies to reduce incidence in high risk groups. We place the highest importance on working with others in an international partnership to address these issues and to raise political awareness.

All sectors must to be engaged in the fight against HIV/AIDS; and coordinated action from and within governments in turn demand a concerted response from those supporting governments. We - co-sponsors and supporters alike - have not yet made the most of the UNAIDS' full potential in this. The International Partnership Against HIV/AIDS in Africa offers a new opportunity to bring all parties - including civil society - round a common table with African governments. The UK will be playing its full part in this.

More private resources are now flowing to combat HIV/AIDS in Africa. We appreciate the willingness of donors like the Gates Foundation in channelling their support through the growing UNAIDS' effort. Current efforts to integrate HIV/AIDS into debt forgiveness terms are also welcome.

The UK also shares the view that the international response to HIV/AIDS is incomplete without a long term global strategy to develop new international public goods, such as an HIV/AIDS vaccine and microbicide, and to improve access to existing essential drugs for people in poor countries.

Trade and Development

We deeply regret the failure of the WTO to launch a new round of trade negotiations at Seattle. As the engine of economic growth, effective trade policy - backed up by transparent non-discriminatory rules on investment and competition policy - can make a very substantial contribution to poverty reduction. Those countries which have chosen the path of openness have benefited immensely over the last three decades from the steady reduction of tariff and non-tariff barriers to trade which has occurred under the aegis of the GATT and now the WTO. We underline the essential role which the WTO is now playing and must continue to play in preserving the gains of past trade rounds, and in developing, through consensus, new rules and disciplines which further erode remaining barriers to trade.

In parallel, it is crucial that the World Bank, the International Monetary Fund, the World Trade Organisation and donors co-operate more closely to deliver effective trade-related assistance to developing countries. Such assistance can greatly enhance the capacity of developing countries to benefit from the world trading system. In particular, we must ensure that developing countries get the help they need:-

- to develop the appropriate national institutions, e.g. investment regimes, commercial law, customs authorities, competition authorities;
- to participate fully in further rounds of trade and investment liberalization; and
- to assimilate any transitional social and economic adjustments.

Assistance must be properly sequenced. For example, institutional reforms may be necessary before WTO rules can have the intended effect on a country's approach to policy and administration.

We welcome the Joint Statement delivered by the heads of the World Bank, IMF and WTO in Seattle, and look forward to closer co-operation between these three institutions and other parties to foster greater coherence in the capacity building work being undertaken with developing countries.

We also welcome the proposal to integrate these measures into overall development strategies through the Poverty Reduction Strategy and the Comprehensive Development Framework process. We call on the country based staff of the World Bank to draw up regular reports on steps to improve this co-operation taken along with other international organizations - particularly colleagues from the Fund and WTO - and donors. We also request that a future work programme on this agenda be presented to the Annual Meetings of the World Bank.

We urge all industrialised countries to extend quota and tariff-free market access to essentially all products from the Least Developed Countries, without delay, to help ensure that the world's poorest countries can benefit from the opportunity to build sustained economic growth through trade.

Report of the Task Force on Small States

We welcome the Report of the Task Force on Small States as a pragmatic outcome of a unique and extensive consultation process. The report sets out the range of special challenges facing small states which will need to be addressed by the states themselves, multilateral and bilateral donors. We encourage the multilateral donors to focus their assistance to small states in the areas identified in the report. We agree with the Task Force that the creation of a special category of small states is not required.

We urge stronger co-ordination between donors working in small states, to help streamline programs and procedures, thereby reducing the transaction costs of donor processes and the pressure placed on administrations of small states. We agree with the emphasis the report places on strengthening the capacity of small states. This is especially important in enhancing their participation in trade negotiations as mentioned above. In the Caribbean, for example, the UK Government is providing technical assistance to the Caribbean's Regional Negotiating Machinery, which represents the small states of the region at international trade negotiations.

HIPC

Last year, we agreed on a major revision to the Heavily Indebted Poor Countries (HIPC) Initiative. This transformed it from being a vehicle which did little more than cancel unpaid and unpayable debt into an instrument that offers countries which are serious about tackling poverty both a permanent exit from their debt problems and resources to fuel their poverty reduction plans. The revised HIPC Initiative recognizes that the concern of those involved in the debt campaign is centered on the effects of such high levels of indebtedness - the deprivation and poverty that characterizes the lives of the poor in these countries. Our aim is not to cancel debt for its own sake but to lift people out of poverty.

Six months on, we need to make further progress. Since last September, only five countries have had their enhanced debt relief agreed. There have been several reasons for this. In some cases, the circumstances of the country have changed, and it is right that the HIPC timetable respond to this. We need to ensure that the Initiative is implemented consistently and more speedily and to provide fresh impetus to poverty reduction programs we supported the establishment of a joint implementation committee. We are glad that this has now been established. Frequent regular reporting on progress will ensure that the institutions are accountable for the pace of implementation, explaining any deviation from the timetable. We urge the Fund and the Bank to go further, and to mirror these arrangements with a joint Board committee, to oversee the process. For many, delivery of HIPC relief is the acid test of whether the international development system can respond to the needs of the poorest countries.

We fully support the need to ensure that preparation of PRSPs should not delay countries from receiving debt relief. Hence, we agree that only interim PRSPs need to be produced for Decision Point. National ownership is central, and to develop a strategy fully, so that it commands broad based support, takes time. So it must be sufficient for interim PRSPs to set out current poverty plans and a road map for moving forward to a full PRSP. Then a high quality PRSP can be in operation at Completion Point, providing the essential link between HIPC and poverty reduction.

Equally, it is essential to ensure that World Bank and IMF programs in each country are consistent with the new emphasis on poverty reduction and national ownership. We must ensure a flexible approach is taken to the conditions for a country to proceed to Decision Point, especially as debt relief is not final until Completion Point.

Capacity constraints are very real in many HIPC countries and the international community must play its part here too. The UK stands ready to respond if there are further needs for technical assistance in helping countries respond to the challenge of developing PRSPs.

Financing is important to the success of the Initiative, and we must not allow it to hold up delivery of debt relief. We therefore welcome the very significant financial commitments that have been made by many governments - to the HIPC Trust Fund and also through additional bilateral arrangements. Further financing will need to be made to assure that the Initiative moves forward.

PRSPs

Through poverty reduction strategies, we can ensure that the extra resources made available by debt relief are directed to social sector spending. But they also provide an opportunity to do much more. They can enable countries to lead a process that would sharpen the poverty focus of its development strategies - by undertaking new analysis, integrating economic, structural, social and environmental policies and programs, and addressing key issues in tackling poverty, especially governance and corruption. We warmly welcome the introduction of poverty reduction strategies and continue to give them our full support. We also welcome the recognition that this approach is appropriate for all countries who access the most concessional loans from the Bank and Fund.

We have long recognised national ownership of the development process and strategies to tackle poverty as being essential. The PRSP approach reinforces this and provides a framework to make this into a reality.

PRSPs are important in expanding participation in national policy making and consensus building. Parliaments and other representative bodies, civil society, especially the poor themselves, and the international donor community all have roles to play. The process will promote lasting openness and transparency. Good-quality data will also be essential to the quality of debate and analysis and in assessing progress against measurable objectives set in the PRSP. Urgent efforts are required in many countries to improve their statistics and other data, and the analytical skills, that are needed to make the PRSP approach a success.

Since the Annual Meetings, many have applied their talents, knowledge and experience to the challenge of making this approach work in practice, and have done so with hard work and enthusiasm. There have been a variety of experiences in how governments and IFI staff have worked together on plans to develop a PRSP - some more successful than others. We must ensure that the strengths of the Bank and Fund, and other donors, in analysis and other areas do not overwhelm national capacity. And we must constantly reflect on the messages and issues arising from countries' experiences in taking forward PRSPs, celebrating and publicizing the successes. We need to accept that this is a new approach, and learn from weaknesses and mistakes, which will inevitably occur, resisting the temptation to fall back into old ways.

Donors have been slow to recognize - and fulfil - their responsibilities, especially in the area of donor coordination. The Fund and the Bank have given a strong lead, linking their assistance to PRSPs, and we welcome the IMF's new Poverty Reduction Growth Facility (PRGF). We believe that for bilateral donors also the PRSP should be the basis for their development programs. Far too great a burden is placed on developing countries in maintaining their relationships with each bilateral donor. Capacity used in this would be better targetted on poverty reduction efforts directly. Therefore, we must now pursue real collaboration and cooperation, through harmonising procedures, sharing reports, agreeing indicators and monitoring systems, and providing more resources through budgets in support of poverty reduction strategies.

There is much at stake. 2015 is a short term horizon in development terms. Good quality poverty reduction strategies, backed by early debt relief and increased development assistance, offer us the best, and perhaps the only, real prospect of meeting the international development targets in the poorest countries.

Social Policy Principles

At last year's Annual Meetings, we welcomed the very valuable work the World Bank had done on Principles and Good Practice in Social Policy. We think this is valuable work which needs to be shared and which can add value to the Poverty Reduction Strategy process described above.

We strongly welcome the Bank's recent decision to publish the two papers it produced in 1999 - *Principles and Good Practice in Social Policy* and *Managing the Social Dimensions of Crises: Good Practice in Social Policy*. Publication can only serve to help all those who have an interest in reducing poverty and enhancing development to understand more comprehensively how a framework of social policy principles can help to achieve these aims.

We are very concerned about the lack of progress in getting agreements to further work on the social policy principles and good practice in the UN. We hope that there will be a definitive move forward on this issue at the World Social Development Summit in Geneva in June 2000. We urge all countries to participate in this very important work.

Education for All and Security Sector Reform

We also want to highlight two other critical elements in sustainable development. These are not on the agenda for discussion at the Development Committee, but they must be part of the new comprehensive approach to sustainable development and poverty reduction being promoted by this Committee, particularly through the Poverty Reduction Strategies approach.

Firstly, education. We believe that the World Education Forum, which will take place in Dakar at the end of this month, presents a very real opportunity to promote a strong, collective commitment to action to achieve the internationally agreed goal of Education for All, including the attainment of the international development targets of Universal Primary Education by 2015 and gender equity in schooling by 2005. We will participate in the Forum, and we hope that other bilateral and multilateral agencies will also be represented at a high level.

Secondly, security sector reform. A secure environment enables the poor to work their way out of poverty and to realize their human rights. In many countries, this will mean working to reform the individual parts of security sectors including making improvements to the management of military budgets, and in particular defense expenditure. This is a message that came out clearly from a recent UK sponsored International Symposium on the subject.

The World Bank has a lot to offer to work in this area, particularly through its work on public expenditure issues. To really move the agenda forward, we need to promote greater transparency in security sector spending. This will mean working with countries to ensure that police and military expenditure are considered within broader public sector expenditure management processes.

IBRD's Financial Capacity

We note that the situation regarding IBRD's long-term financial capacity has not changed materially since the Annual 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, Bank management should explore options for better use of existing capital resources, and in particular increasing the usability of paid-in capital.

Conclusion

Life is not easy for so many of the world's citizens who live in poverty. We work from a privileged position and must not forget that, as we work together on these important issues.

Statement by Mr. Yashwant Sinha, Finance Minister (India)

I would like to join other speakers in thanking Jim Wolfensohn and Stanley Fischer for sharing with us their valuable insights on the recent trends in the world economy.

Fortunately, the worst of the global financial crisis from East Asia to Russia and Brazil is over, and world economic prospects look reasonably optimistic. However, there are several areas of concern for the developing countries. Though official development assistance has marginally improved, it is disturbing to note the declining trend in long-term capital flows to developing countries compared to the high level reached prior to the East Asian financial crisis. Developing countries' access to the international capital market still remains limited despite a number of steps taken to boost confidence in the market. These developments had an adverse impact on our fight against poverty. Today, 1.2 billion people are living on incomes below $1 a day. For the Bank whose dream is a "world free of poverty" this is the challenge of the 21st Century. Fighting poverty is a collective challenge to the entire international community. If we fail in this, future generations will not forgive us. Our discussion today should focus precisely on this task.

IBRD's Financial Capacity

We fully share the view that IBRD's financial capacity needs to be strengthened to meet the increased demands on its capital. We should also recognize that in view of the many initiatives being taken by the Bank to eradicate poverty, such as HIPC, CDF and the fight against HIV/AIDS, developing countries would increasingly turn to the World Bank necessitating changes in the pattern and structure of its lending. On the modality of achieving this, I would like to reiterate our previous position that a general capital increase is the most equitable option and it will send out a strong and clear message of shareholders' support to the IBRD. At the same time, we expect that with this increase in capital, the Bank would be able to take advantage of its leverage and reduce the cost of borrowings to member countries. We would also expect Management to fully exploit this opportunity for reviewing its administrative and other expenses as well as its non-interest income.

Trade Policy for Development and Poverty Reduction

The importance of trade in promoting growth and reducing poverty in the developing countries is too well known. However, over the years, new and sophisticated barriers are being raised to prevent access to goods and products of developing countries from competing in the markets of developed countries. While recognizing that this is not the forum, which would decide how to reduce and/or remove these barriers, it is our conviction that since the primary objective of the Development Committee is to focus on issues that promote growth and accelerate the pace of development, we must focus on these barriers so that substantial pressure can be created.

We also recognize that many of the countries in the developing world lack the capacity to prepare their trade policies and to articulate their interests in an effective manner. Multilateral organizations committed to development like the World Bank and UNCTAD must come forward to enable these nations to present a unified position in order to create a level playing field.

Is it not strange that in Seattle it was the developing countries who were pleading for freer trade, while some developed countries were taking protectionist positions? In fact, the developed world should move faster towards dismantling tariff and non-tariff barriers. Barriers to imports of textiles and leather goods, which do not really have any domestic industry angle, and excessive agricultural subsidies, hurt the taxpayers and consumers in these countries as much as they hurt us as producers. It has been estimated that if developed countries allow agricultural imports freely, there would be a net addition of US $42 billion in global trade.

It is our hope that we will be able to arrive at a consensus towards clearing the backlog of the agenda of Uruguay Round commitments in a fixed-time framework so that developing countries can take advantage of the global trading regime that is rule-bound, fair, transparent, promotes domestic economic growth and reduces poverty.

In the joint statement issued by Prime Minister Vajpayee and President Bill Clinton on March 21st this year in New Delhi, they observed "…Opening trade and resisting protectionism are the best means for meeting the challenges of poverty. We support an open, equitable and transparent rule based multilateral trading system. We agree that developed countries should embrace policies that offer developing countries the opportunity to grow because growth is the key to rising incomes and rising standards." This clearly sets the direction for the future.

Small States

I must congratulate the joint Task Force of the World Bank and the Commonwealth Secretariat for having studied the particular problems of small states. There are a number of important issues that face them, or which in their context assume much greater significance. These basically relate to the impact that natural disasters have on their economies and on their people. The world community would do well to work with these states to strengthen their preventive capacities and to help them in post-disaster situations.

Most of the small states have undiversified economies with a very narrow range of goods, products and services in their export basket. Legally it would not be possible to extend them Special and Differential treatment under WTO. We have been urging the developed countries to allow duty-free non-risk access to products of developing countries, particularly of the LDCs. A list of such products should be identified which could include products from small states as well.

We would also urge that the next round of IDA replenishments should take into account the special needs of these small states, including those which are not LDCs. Of course it is our hope and conviction that the donors will see that IDA is sufficiently replenished to meet the rising demand of LDCs.

Action against HIV/AIDS

The continuing problems of poverty, illiteracy, indebtedness and AIDS have shattered the social and economic fabric of many developing countries. Far from being over, the HIV epidemic has been expanding relentlessly and exponentially. We cannot allow any further reversal of human and social capital development of AIDS-affected nations. What is needed is a substantial and committed response to AIDS on an emergency basis from all the players-- from the Government, civil society, private sector, the media and international development agencies.

We agree with President Wolfensohn that it is a war-like situation. We also agree with the six priority areas outlined in the document for immediate action by the international community. Collaboration between various agencies at the local, national and international levels is essential in meeting this challenge. Above all, we need resources. International communities and donor agencies should contribute resources generously to fight this catastrophe in a meaningful way. The World Bank, whose total lending has unfortunately come down dramatically during the current year, should design programs based on their experience for all countries affected by AIDS.

While additional resources must be found for fighting AIDS, the current ongoing developmental programs should not be affected in any way. It should not be at the cost of programs meant for basic education and primary healthcare.

HIPC Initiative and Poverty Reduction Strategy Papers

We are very much disappointed to note the slow progress in delivering debt relief to the HIPC countries under the enhanced mechanism. In the last meeting, we arrived at a consensus that financing of debt relief should not compromise the financing made available through concessional windows such as IDA. Using IDA funds for debt relief will only undermine the very purpose of poverty reduction. We would like to emphasize that burden sharing should be wholly and proportionately distributed among all the developed countries and should not cast a burden on developing countries, which are meeting their debt service obligations despite many difficulties. It should be equitable and fair. Similarly, we should recognize that non-Paris Club official bilateral creditors are facing unique problems in providing debt relief to HIPC countries. They should not be forced to provide relief beyond their means. It should be dealt with on a case by case basis. Accordingly, HIPC countries should be encouraged to sort out the matter bilaterally at the earliest. However, we agree that the process should not delay the relief to be given by other multilateral creditors.

Poverty Reduction Strategy Papers

The preparation of Poverty Reduction Strategy Papers (PRSPs) with emphasis on country ownership is a positive step towards eradication of poverty. We welcome this as it would put the poverty removal task at the center of development programs. Though we have very few PRSPs on hand, they do not fully meet the cost involved in implementing strategies and programs contained therein. Absence of full provisioning of resources required for implementing these strategies will result in non-fulfillment of the goals set, causing widespread frustration amongst the people in developing countries. Hence PRSPs need to be integrated with country assistance strategies fully backed by budgetary resources.

Statement by Mr. Bambang Sudibyo,[3] Minister of Finance (Indonesia)

On behalf of my Constituency I wish to accord my warmest welcome to all distinguished members attending this sixty-first session of the Development Committee, the first of the new millennium. The economic recovery in our region, although not evenly spread, continues to gain momentum with notable increases in employment, consumption, and investment. However, we must always be aware of adverse trends such as rising interest rates, volatility of oil and commodity prices and fluctuations in stock markets. We must continue to sustain the momentum of structural reforms to help cushion our economies from future external shocks and to facilitate a more balanced growth.

On the same note, we would like to reiterate the need to continue our joint efforts in reaching a consensus to speed up reforms in the international financial architecture required to meet the challenges of global economic realities. In this regard, we are pleased to express our support for the Bank and Fund’s efforts in establishing an effective collaboration mechanism with member countries and relevant international institutions.

Let me now turn to the first issue for discussion in the agenda, which is on HIV/AIDS, an issue that increasingly demands attention at the highest level, both domestically and internationally.

Intensifying Action against HIV/AIDS

[3] Member for Brunei Darussalam, Fiji, Indonesia, Lao PDR, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Vietnam

We fully support the proposition that the HIV/AIDS epidemic requires quick concerted actions orchestrated coherently at domestic, regional, and international levels. The overall economic and social impacts of the epidemic that currently grip sub-Saharan Africa are alarming. It has become the leading cause of death that has reduced life expectancy by as much as 17 years and increased adult mortality by 50-100 percent in the hardest-hit countries.

HIV/AIDS is no longer just a health issue but increasingly becoming a threat to economic growth and stability of the affected countries. As an epidemic that overwhelmingly hits the poor and perpetuates poverty, the CDF approach initiated by the Bank could provide an effective mechanism for concerted and holistic HIV/AIDS interventions in the context of poverty reduction. We, therefore, support the view that at the national level, actions should be built on the pillars of commitment, building the capacity required for an effective response, and the provision of adequate resources. Amongst these pillars, individual countries' commitment is clearly the most critical.

Strengthening community access to preventive services; promotion of moral and healthy lifestyles; free flow and sharing of information and experiences; and closer partnerships between government and the media in influencing behavior of high risk groups, are critical in the efforts to stop the spread of this deadly disease. Development of a cost-effective HIV/AIDS vaccine is another challenge that requires international cooperation in which the Bank could play an important catalytic role. Preventive measures must be vigorously pursued in potential HIV/AIDS hotspots such as South and South East Asia, which are more densely populated and have a high likelihood of reaching epidemic proportions. However, we support the priority given to the efforts to fight the HIV/AIDS problem in Africa in view of the unbearable cost it has already imposed on the region.

Finally, the international community must have a clear division of labor based on their comparative advantage. This would facilitate effective partnerships in building a substantive HIV/AIDS agenda as a common platform for action. In this regard, we urge the Bank and the Fund to mainstream HIV/AIDS in the implementation of poverty reduction strategies and the HIPC initiative.

Trade Policy for Development and Poverty Reduction

As we stand at this crucial juncture of global trade developments, it is imperative that the Bank determines its proper role on trade in the context of its mission and mandate. Fair trade will no doubt contribute a lot to development, a necessary condition for reducing poverty. The Bank is in a unique position, given its experience and wealth of knowledge, to elucidate the impact of trade on growth and its distribution effects particularly for developing countries. Therefore, the Bank should provide the necessary assistance to developing countries in the formulation of their trade liberalization requirements, including policy sequencing and implementation.

Evidence has shown that substantial gains could accrue to both developed and developing countries from enhanced trade liberalization. In this respect, it would be essential to have free flow of trade-related information between all parties concerned so that the relationships between trade, growth, and poverty-reduction could be established. On the part of developing countries, there is a need to develop mechanisms and co-operation amongst themselves to deal with the challenges of trade liberalization and globalization.

We urge the Bank to exploit the full potential of its lending instruments and technical assistance to strengthen developing countries' capacity to manage trade policy reforms and participate actively in global trade negotiations. The Bank's CDF approach could also help identify solutions tailored to individual countries' conditions and economic structures.

Needless to say, trade liberalization efforts in developing countries should keep pace with the degree of market access for their products which is still restricted by developed countries' reluctance to fully open their markets to developing countries' exports. It would be counterproductive to encourage developing countries to enhance their trade potential but deny them market access. Furthermore, free and fair access to developed countries' markets by developing countries' exports would help demonstrate the immediate and positive impacts of trade on employment, income and growth. This would help mobilize the political support needed to push trade reforms domestically. Finally, we strongly support calls for the extension of comprehensive and predictable duty- and quota-free market access for products originating in poor countries.

Small States: Meeting Challenges in the Global Economy

This report represents the resolve of small states, through their affiliation with the World Bank and Commmonwealth Secretariat, to put forward their special development problems on the international development agenda. It should not stop there but we should move forward with a firm commitment to explore and implement policies and strategies that effectively address these problems. In partnership with regional development banks, the Bank's presence would considerably heighten the policy credibility of small states and help reduce risks perceived by capital markets and foreign investors vis-à-vis small states. In our view, the Bank could play a critical role in carrying this agenda forward.

An action plan to implement the proposed framework should be laid out as part of our continuing agenda. Part of the agenda is to address the issue of 'smallness,' an inherent economic characteristic of small states, and to assess how far domestic policies and external support can effectively overcome the problems of diseconomies of scale and competitiveness. We believe these issues would remain principal constraints to small states' development as they face the challenges of globalization.

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

We wish to accord our appreciation to the international community for their support to enhance the HIPC initiative endorsed in our last meeting. We would also like to reiterate the call made at that meeting that financing of debt relief should not undermine the availability of financing for concessional windows such as IDA. Provision of financial resources for the HIPC Initiative should be an addition to the ongoing development assistance.

In our view, there is a need to strengthen the link between poverty reduction and debt relief. In this regard, we urge the Bank and the Fund to increase their support in enhancing the capacity of low-income countries to prepare Poverty Reduction Strategy Papers (PRSPs). Country ownership in carrying domestic dialogue and donor coordination would help reduce the perceived dominance of the Bank and the Fund in the PRSP process. Finally, we encourage HIPC countries to continue their co-operation with the Bank, Fund and other partners, to ensure quick delivery of debt relief and other poverty reduction strategies to enable them to move forward quickly.

Update on IBRD's Financial Capacity

The principal factor determining the financial capacity and hence the capital requirements of the Bank should be the scope and direction of its poverty reduction mission. This scope and direction should be aligned to the needs of the borrowing member countries necessitated by the changing national and international global economic environment.

Although improvements in the outlook of the global economy may provide some flexibility in terms of timing, the need for a capital increase still remains. Despite the fact that the Bank's finances are sound, recent worrying trends in the financial and commodity markets can heighten risk perception, undermine confidence in emerging markets and inhibit private capital access flows. Whilst keeping all options open, we urge shareholders to reach a consensus as soon as possible on the timing for discussion on the best option that will strengthen the Bank's risk-bearing capacity without compromising its financial integrity. In this respect, we welcome the ongoing discussion on this fundamental issue and commend the management and the Board for keeping this subject under close review.

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

We welcome the improved prospects for global growth, the most potent weapon for combating poverty ever invented. Supported by sound economic policies, including budget discipline, the United States' economy continues to grow, with strong investment and higher productivity. More dynamic growth is also underway in Europe, and a robust economic recovery continues in the emerging market economies. Global growth this year is expected to return to the pre-crisis rates of the mid-1990s at 4.2 percent.

At the same time, we all recognize that durable and sustainable growth is not inevitable, and will depend crucially on proactive policy. The dramatic impact of innovation and information technology and the spread of market-oriented policies and economic openness provide unprecedented opportunities for economies and peoples. We must all seize these opportunities to establish an environment for strong and sustained growth across all our economies.

A more balanced pattern of growth in the global economy is also in our mutual interests. Additional structural reform will be necessary for European economies to better realize their potential, and similar structural challenges -- along with the need for continued supportive macroeconomic policies -- are presented on a larger scale in Japan. There must also be no let up in the resolute efforts of emerging market economies to address their severe structural problems, including corporate and financial restructuring.

It is also important to concentrate our collaborative attention and energy on ways to more effectively address the development challenges faced by the world's poorest countries. International development has had major successes – with the incidence of poverty falling in many countries and enormous improvements in human welfare in the successful emerging market economies.

We know that when policies are good, aid can and does have a significant and positive impact. In part for this reason, we also understand better why some assistance works and some doesn't. However, there is no denying that the overall benefits of aid have been disappointing, particularly in the poorest countries, relative to the efforts and financing expended over the last fifty years. At a time when 1.3 billion people still live on less than a dollar a day, the world is rightly and increasingly demanding that assistance be more effective in raising human development.

This has to be a crucial priority for the MDBs today. In recent years, the World Bank and its regional counterparts have enacted a wide range of policies to improve project design and the ultimate development impact of their operations. This is to be welcomed. Yet it is also too often the case that there remains a gap between the banks' policies and development aspirations and actual results on the ground. Cases, such as last year's Western China Poverty Reduction Project, serve only to erode credibility and engender public skepticism. And they shortchange development effectiveness.

We can and must build a better record of success and results. The facts overwhelmingly demonstrate the central reality that how fast you grow is by far the most important determinant of how successful you are in raising incomes and reducing poverty and inequality. It is also essential that macroeconomic policies, sound economic management, social development and environmental policies, and poverty reduction be mutually reinforcing. This will lay a secure basis for sustainable growth.

There are other truths that now command broad consensus that should frame our approach to development finance over the years ahead:

- Countries, through their commitment to sound policies, shape their own destiny;
- Market-oriented policies and economic openness work best to combat poverty;
- Public investment in people (basic education and health) and a sustainable environment is crucial to growth;
- Good governance -- transparency, accountability, the rule of law, and inclusion -- matters enormously; and
- Development assistance must be conditioned to be effective.

These basic truths must increasingly guide the activities of the MDBs.

The MDB Agenda in the Poorest Countries

The work of the World Bank Group and the regional development banks has never been more important -- nor more skeptically regarded. The resources and development expertise of these vital institutions are at the heart of our cooperative efforts to build and maintain growth and poverty reduction frameworks based on sound development principles. Their leadership role, exercised in close concert with the IMF and the broader development community, in promoting development in the poorest countries is without doubt their most morally urgent and important work.

However, to say the MDBs are indispensable is not to say that we can be satisfied with them as they are. We strongly support the transformed approach now underway in the Bank and Fund to elevate poverty reduction as an overarching objective of their programs in IDA/PRGF countries. As I stated at our last meeting, this approach must be applied consistently. It must be sustained. And it must be implemented vigorously.

The challenge of re-energizing development efforts to combat global poverty is difficult and complex, and it is far easier to prescribe positive poverty outcomes than to achieve them. Inevitably, conditions will differ and policy will need to balance conflicting considerations and demands.

However, we believe that expanded investment in improving access to and quality of primary and secondary education, including stronger emphasis on girls' education, is the single most important area for securing the highest development returns over the longer term. Learning is the core catalyst for unleashing individual enterprise and productivity, and it yields enormous economic and social returns. Educating girls provides particularly huge benefits in terms of health improvement and poverty reduction for women, their families and their nations. I urge IDA, and the other MDBs, to significantly increase the level of their support for primary and secondary education systems to tap this vast potential of learning.

Greater development progress will also require a shift in the emphasis of the MDBs in three related areas:

A more human-centered approach and new division of labor between the IMF and the World Bank. We need to work to ensure that growth policies have the greatest possible impact on poverty. By focusing on sound national poverty reduction strategies, both institutions should be better able to articulate and support core reforms and other measures required to reduce poverty. The result must be clearer and tighter linkages between operational programs and performance indicators. Over time we expect this to become the primary responsibility of the World Bank given its expertise and mandate in global poverty reduction. For its part, the IMF needs to have a continuing role in macro-economic evaluation, because no development plan is viable in the absence of a financing framework that is sustainable.

Increased selectivity. We recognize the tension between helping countries most in need and helping those who will use resources well. But as the World Bank has recognized in implementing IDA-12, we need to continue shifting the balance in favor of providing support to countries and sectors where there is confidence that assistance will be well used.

Better procedures for the interaction between countries and the IFIs. A key shortage in the poorest countries is institutional capacity, and far too much of what is available is absorbed dealing with the international financial institutions and other development partners. This often leads to multiple unrealistic goals and sub-optimal use of resources. It suggests a need for a smaller number of clear and measurable performance targets, set more realistically and then more vigorously implemented, disbursing in stages against performance indicators, and with more frequent formal reviews. The impressive work of the World Bank's Operations Evaluation Department (OED) gives us valuable guidance here, and should be reinforced and replicated elsewhere. There also needs to be a stronger bias for publication of all relevant loan documents and transparency in the relevant operations at the national level so that the domestic population, outside investors, and other development partners can readily track progress.

The Heavily Indebted Poor Countries Initiative (HIPC).

The enhanced HIPC Initiative is a special effort aimed at promoting a number of mutually reinforcing objectives -- poverty reduction, sustainable development, and good governance -- while strengthening the incentives for reform and growth in the poorest countries. It provides a unique window of opportunity for countries where one in three children is malnourished and where one in ten children dies before his first birthday.

We very much appreciate the leadership President Wolfensohn has played in supporting the World Bank's participation in the HIPC Initiative. We welcome the successful start of the Initiative, and are pleased to note that five countries have already qualified for enhanced HIPC debt relief. We look forward to many more countries qualifying over the coming year. The Administration remains strongly committed to obtaining the funding necessary for the United States to play our part.

It bears emphasis that HIPC debt relief is not an end in itself, but an integral part of the broader development agenda. The United States strongly supports early enhanced debt relief for qualified countries. We also recognize that the HIPC framework can only work in the context of appropriate national policies with the right institutions and practices; and that it takes time to build the quality frameworks on which so much depends. To preserve the integrity of the HIPC Initiative and ensure its ability to deliver sustainable results, beneficiaries need to establish and implement more targeted and effective poverty reduction strategies. Only when combined with the right economic and social policies, can debt relief provide the needed catalyst for accelerated growth and poverty reduction. One must strike the right balance between speed and quality.

The PRSP process we endorsed at last year's Annual Meetings is integral to a successful HIPC program. The potential of the PRSPs -- in terms of delivering sustainable development results and in improving the effectiveness of donor coordination -- is enormous. In Bolivia, for example, the PRSP is viewed as the basis for institutionalizing a long-term (25 year) participatory process for poverty reduction with regular evaluation and updating.

PRSP preparation should be accorded high priority. But the desire for speed cannot trump the need to ensure lasting results.

Specifically: to fulfill their potential, all PRSPs should identify areas where further action is needed -- e.g, in pricing policies, marketing arrangements, trade liberalization, infrastructure, and supporting institutions -- in order to generate economic growth. Without such pro-growth policies, increased emphasis on social sector development will be welcome but incomplete, with results that fall short of potential.

While the overall content of PRSP documents (which are also relevant for non-HIPC IDA/PRGF borrowers) will vary case-by-case and evolve over time, we believe strongly that detailed coverage of selected core issues must be standard for all PRSP and interim documents:

- description of the main aspects of the participatory process, along with efforts being taken to ensure more transparent policy making and budget procedures;
- the strategy for achieving increased and broad-based economic growth, including identification of specific areas (e.g., a policy environment that promotes private enterprise and increased trade and investment) where growth-oriented policy changes should be made;
- efforts to ensure good governance and anti-corruption measures;
- clearly identified poverty reduction priorities with a cost-based plan of action;
- clearly defined monitorable targets required for completion point;
- transparent presentation of key fiscal issues, specifically an expenditure program showing how resources freed from debt relief will be directed to additional productive poverty-focused investments;
- identification of, and plans to address, the necessary institutional changes needed for more effective basic education and health service delivery; and
- a process or mechanism to monitor and evaluate the poverty reduction program.

With regard to interim PRSPs, we believe it is crucial that they contain:

- a detailed plan to work more closely and openly with civil society groups, that includes timeline and a description of what sectors of society are to be involved.;
- details on the plans for finalizing the PRSPs;
- fiscal plans showing how resources freed up by <u>interim relief</u> will be used; and
- a plan for implementing the macroeconomic, structural, and legal reforms that will support economic growth and a rising standard of living for all including the most vulnerable.

The MDB Agenda in the Emerging Market Economies

It needs to be recognized that emerging market and many transition economies have a certain borrowing capacity and that, in order to avoid crowding out private sector finance, the role of MDB lending should be confined to areas where they can increase total financing capacity.

We categorically reject proposals that the IBRD phase out its activities in Latin America and Asia, and that emerging market economies should not be able to obtain the additional assistance that access to MDB programs can provide. These are still the countries in which the majority of the world's poorest live and where properly targeted work can make an important difference. There are also broad variations in the degree and sustainability of their access to alternative financing.

However, in a world in which private capital will be the overwhelming source of financing for growth, we equally recognize that the work of the MDBs and their private sector lending arms in such economies needs to be more tightly focused on adding value that private markets cannot. This suggests an emphasis on three types of circumstances:

- Where the MDBs have the ability to ensure conditions that promote key public investments -- particularly basic health and education and other core social spending that invest in people and on policies that promote economic inclusion -- that other public and private resources cannot fully provide;
- Where the involvement of the MDBs can attract genuinely additional private flows; and
- Where the MDBs can improve capacity for emergency response that will help to counteract temporary disruptions or limitations in a country's access to private capital.

It is essential for the World Bank and others to design their lending strategies to enhance rather than reduce a country's capacity to grow out of a need for official funds. Accordingly, there should be a strong presumption that the MDBs have no business lending in such countries for sectors in which private sector financing is available on appropriate terms. It is also logical that the share of MDB lending to emerging market countries should decline in volume over time and be more closely linked to the end-goal of graduation. In this context, we welcome the Korean Government's decision that it no longer needs IBRD financing and that it will limit its cooperation with the Bank to analytical, advisory, and knowledge-sharing activities.

A Review of Non-Concessional Loan Pricing

The increased availability and reach of private sector finance also suggests that the time is right for a careful review of MDB pricing policies for non-concessional loans. Loan charges should more accurately reflect the access that beneficiaries have to a range of financing options, as well as encourage reduced reliance on public sector finance wherever possible. It is also important to ensure that the MDBs are in as strong a financial position as possible to make resources available for concessional development programs and the promotion of global public goods.

We therefore propose that the World Bank initiate a serious review of current pricing policies, their relationship to both the Bank's administrative costs and its net income, and the options for change. The study should specifically examine:

- how strong a case can be made for increasing loan charges;
- whether there is merit in differentiating pricing on the basis of the investment to be financed (e.g., more favorable terms for human resource development such as health and basic education), with higher terms for traditional infrastructure investments, or by a borrower's relative access to alternative private financing;
- the extent to which increasing charges to generate higher net income would bolster the Bank's risk-bearing capacity; and
- the potential role increased charges could play in giving the Bank the financial capacity to meet aspirations for a more active role in promoting global public goods.

We propose that the Bank complete this study by the end of the year, with a substantive progress report submitted to Governors at this fall's Annual Meetings.

IBRD Financial Capacity

The members of the Bank have a shared responsibility to safeguard the Bank's financial soundness and risk-bearing capacity. Maintaining the Bank's financial integrity in international capital markets is fundamental to its ability to respond quickly and effectively to the evolving development needs of our borrowing members. It is our considered judgment that the Bank continues to operate on a firm financial basis.

In a world where the operations of the IBRD and other non-concessional loan windows are enhancing the capacities of emerging market economies to rely on private finance, we do not believe it is realistic to expect new capital increases. We urge the MDBs and their Boards of Executive Directors to incorporate this reality in their development and management of new lending programs. A more selective, performance- based lending program is the single most important element of an adequate cushion against downside risk scenarios.

The IBRD appears particularly well-placed to take advantage of the substantial recent improvements in global financial capacity to maintain its lending programs at levels that also provide a large and flexible contingent financial capacity to respond effectively to future deterioration in investor confidence in its borrowing countries.

The Role of the MDBs in Promoting the Provision of Global Public Goods

We believe the World Bank and the regional development banks have a substantial contribution to make in promoting global public goods that address a broad class of problems that cross borders and defy solution by individual governments and markets.

Two areas where we believe that the MDBs should be looking hard for new kinds of responses are:

collective efforts to promote the creation and dissemination of medical knowledge, and
collective efforts to promote global environmental security.

Combating Infectious Diseases

We welcome the excellent World Bank paper on intensifying action on HIV/AIDS and President Wolfenson's personal leadership in the efforts to combat this and other infectious diseases. The picture is an alarming one of economic and social devastation, and the grim prospect is for far worse to come not just in Africa but around the world, in the absence of a serious dedicated response.

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We believe the proposed approach, with actions from national governments, the international community and the World Bank, is a good start. We've been giving a lot of thought on how best to respond to the under-financing of global public goods like health and the environment, and believe the time for specific and credible commitments to address AIDS and other infectious diseases is long overdue.

In this area, President Clinton proposed four mutually reinforcing steps:

First, increased resources for basic healthcare and the infrastructure for addressing health problems in developing countries. The President has called on the World Bank and the other MDBs to devote a substantial additional amount of concessional resources -- on the order of some $400 million to $900 million each year -- to basic health care, on top of the roughly $1.3 billion base already devoted to basic health care.

We hope that others will join this call. We also recognize the need to mobilize additional bilateral resources to help the poorest countries deal with AIDS and other infectious diseases, and we are seeking congressional approval of a substantial increase in our bilateral funding for this purpose.

Second, an increased focus on official assistance to address the scourge of disease. We believe that the enhanced HIPC debt reduction initiative has an important role to play in directing resources toward basic health care, including AIDS prevention, since this is an important way that countries combat poverty. We expect HIPC countries to give the issues of basic health care and HIV/AIDS very high priority in the preparation of their PRSPs.

Third, increased resources for basic research. It will be crucial to harness the world's best scientific and technological skills to accelerate the discovery and development of vaccines for AIDS and other diseases, through both direct public funding of research and incentives for private sector research. The United States is proposing to increase further the already large amount of public research and development spending on deadly infectious diseases at the National Institutes of Health.

Fourth, improved incentives for the private sector to develop these vaccines in ways that do not detract from current assistance. We have proposed a creative new tax credit for the sales of vaccines against malaria, tuberculosis, HIV/AIDS, or any other major infectious diseases. This credit could potentially be as high as $1 billion over 10 years. We encourage other countries to explore the possibilities for similar approaches within their own budget systems. Admittedly, there are times when the sheer magnitude and complexity of infectious diseases has a tendency to make us pessimistic on the short- to medium-term prospects for stabilizing and then reversing current trends. However, examples of success, such as the anti-AIDS programs in Uganda, Thailand and Senegal, and the successful eradication of smallpox, give reason for hope.

Environmental Sustainability

Environmental sustainability is a key pillar of poverty reduction and human development. It is the poor who suffer most from environmental degradation. This is illustrated by recent reports showing the overall burden of disease in developing countries -- especially respiratory and diarrheal infections that can be significantly reduced by environmental infrastructure investments that provide clean water, sanitation, and energy.

The World Bank continues contributing to important progress in this vital area, for example:

- it is consulting with a broader array of stakeholders, especially people affected by its projects and civil society at large, in the ongoing process of revising environment and social policies and strategies;
- its pilot activities to value the externalities of pollution have set important precedents; it has promoted important forest/watershed management programs, such as those in China, Papua New Guinea, and Brazil;

- it has begun to evaluate and address the severe illegal logging problem in Indonesia, Cambodia and Cameroon; and
- it has successfully pushed for major environmental improvements in the Bolivia-Brazil gas pipeline and the Chad-Cameroon oil project, although views may differ as to whether this is enough.

The World Bank has also developed an impressive array of environmental and social polices that we support strongly.

This said, there is also clearly much more to be done. For example, we await the results of the Bank's effort to develop methods for environmental and social impact assessment of policy-based lending and the implications this will have for adjustment programs.

We also encourage the World Bank and the regional banks to reinforce the emphasis on promoting cleaner energy development, through policy and legal reforms to remove barriers to investments in renewable energy and energy efficiency, and by significant increases in MDB lending for this purpose. Integral to this work should be greater efforts to quantify the environmental costs of alternative energy investment choices as part of the project development process. Such investments have the potential for simultaneously bringing economic, social and environmental benefits to rural and urban poor alike.

More fundamentally, full implementation of Bank policies that have already been agreed is essential. In this connection, an adequate budget for the policy networks is warranted to ensure consistent application of environmental and social policies across regions in the context of decentralization.

Broadly, we believe there is ample scope and a clear need for more systematic focus by the Bank on natural resource pricing issues. It is imperative for both economic and environmental viability that the prices of water, energy, and other resources reflect the underlying costs of their extraction and use. This is clearly an area where the Bank has much to offer, and where it is well-positioned to engage.

Close attention will have to be paid to the revision of the Bank's Safeguard Forestry Policy that is now underway, to ensure that its bio-diversity conservation goals are reinforced rather than weakened. The existing prohibition on logging in primary tropical forests is particularly important.

It has been amply demonstrated that public participation in loan design and implementation improves performance, by broadening sectoral planning perspectives, preventing mistakes, and enhancing ownership. This underscores the importance of having consistent information disclosure policies applicable to, and fully implemented by, all components of the World Bank Group.

Other Priorities

I would now like to comment briefly on some other important development issues, including World Bank-specific matters.

Internal Procedures

The World Bank, like most other international institutions, needs to strengthen its accountability to shareholders and to those affected by its actions. This means greater public access to information, more consistent application of Bank policies across regions, systematic use of specific monitorable indicators, incorporation of the lessons learned through the OED's invaluable analysis into subsequent work, and a meaningful inspection function to review the concerns of affected parties. The Bank has made progress in all these areas. But we believe more needs to be done, and will be pressing this agenda in the Board.

Among these key institutional issues, I want to stress the importance of maintaining quality control in the implementation of Bank policies as the Bank becomes a more decentralized institution. This issue could be addressed effectively by clarifying responsibility for environmental, social, fiduciary and other policy work as between country directors and policy network heads, by requiring network assignment of experts to work on projects, network approval of projects in their areas of expertise, and by ensuring adequate budgets for the policy networks. I urge Management and the Board to consider these and other options for ensuring Bank operations comply fully with existing policies.

Ensuring effective use of MDB resources also requires attention on fiduciary control systems early in the project cycle. This means increased internal, up-front investments in project-specific control systems in procurement, financial management, and audit. And it requires more up-front reviews prior to contract award. Project financial audits must be closely scrutinized by independent auditors using international accounting standards, with sanctions enforced for audits that are late or qualified. Use of outside specialists should be considered where circumstances warrant, as already allowed for under Bank policies.

We understand that the working group of MDB Chiefs of Procurement has made progress in moving the World Bank and regional development banks toward uniform MDB procurement rules and documents of the highest standard. Adoption of the necessary changes across the MDB system will result in increased transparency and efficiency gains for borrowers, bidders, and for MDB shareholders. We therefore urge all of the institutions to conclude this long-running process quickly and to move ahead with the concrete modifications that are needed.

Good Governance

We very much appreciate the leadership role that President Wolfensohn has played in bringing corruption to the forefront of the development agenda. It is one of the most serious impediments to development and poverty reduction, and is something we must all take very seriously.

But corruption is only one element of the larger, and enormously important, issue of good governance. A key element of good governance is fair revenue collection and government accountability for the use of public funds. This requires: (1) revenue collection that is equitable and based on rule of law; (2) transparent and accountable budgeting; (3) sound public sector management procedures for accounting, financial controls, public reporting, and auditing; (4) appropriate fiscal choices; and (5) purchasing procedures that are transparent and encourage competition. Institutional reforms in these areas should be an operational priority.

In particular, we urge the Bank to integrate the results of its Public Expenditure Reviews, Country Procurement Assessment Reports (CPARs) and Country Financial Accountability Assessments (CFAAs) systematically into all Country Assistance Strategies. Progress in addressing weaknesses in these areas should be a condition for adjustment lending.

The Bank and the Fund have important roles in helping countries establish functioning audit systems to review, verify, and reconcile budgetary expenditures, including full accounting for extra-budgetary and off-budget accounts. As specified in the IDA-12 replenishment agreement, Public Expenditure Reviews should routinely include military expenditures and subsidies and should assess how reallocation of non-productive expenditures such as these could enhance the development impact of public spending. We urge member governments, with the support of the Bank and the Fund, to pursue vigorously optimal transparency in their military budgets. Governments should ensure that all budgetary expenditures, including military spending, are routinely audited, verified, reconciled and reported to the legislature, or another civilian authority. We continue to believe it is incumbent on the IFIs to be fully knowledgeable of the audit and accountability systems in place for military expenditures -- like all expenditures -- prior to extending financial support.

We also believe the time is right for the international financial institutions to step up further their efforts to help combat money laundering. The increased engagement of the World Bank and the IMF on financial sector issues and assessments provides a good opportunity to expand the operational and analytical scope of their efforts against money laundering. And as a general matter, we urge the international financial institutions to explore mechanisms to encourage and support country efforts to incorporate anti-money laundering measures in their financial sector reform programs.

In the broad scope of anti-corruption efforts, we also strongly support the work of the OECD Bribery Working Group to strengthen and enforce the provisions of the OECD Anti-Bribery Convention. It is essential that the signatories to this "supply-side agreement" against corruption expedite ratification and effective implementation of the Convention. The world's leading exporters and foreign investors must lead by example and take the necessary steps to criminalize bribery of foreign officials by their nationals and companies. And those OECD countries that have not effectively eliminated the tax deductibility of bribes of foreign public officials should do so immediately. To assist in the implementation of the OECD Convention, we also call on non-OECD members to improve the transparency of their procurement of goods and services from abroad and, as appropriate and possible, to share information they may obtain on instances of foreign suppliers and investors offering bribes to secure contracts or licenses.

Trade and Development

Another important challenge is to rebuild the momentum for further trade liberalization. Open and competitive markets promote growth, stability, and efficiency, and are essential for our future efforts to promote sustainable development and poverty reduction. In this vein, we welcome the initiation of WTO negotiations in agriculture and services earlier this year and strongly support efforts to build a consensus for the launch of a new round of multilateral trade negotiations.

We urge the World Bank to work with the IMF, WTO, and other relevant institutions as a priority to improve the effectiveness of the Integrated Framework for Trade-Related Technical Assistance for Least Developed Countries. The development of trade-related infrastructure and institutional foundations, as well as assistance in implementing commitments under international agreements, can be critical for a flourishing trade regime. We understand that a review of the Integrated Framework is now underway, and hope that it will lead us to clear recommendations for improvements.

It is also important for the World Bank and IMF to more fully incorporate policies promoting trade integration and trade capacity building in Bank operations and Fund programs. This includes efforts to integrate trade considerations into the Poverty Reduction Strategy Papers process and, on the World Bank side, into country assistance strategies and the Comprehensive Development Framework. Trade liberalization has in the past been an important part of many IMF and Bank structural reform programs as an essential contribution to economic growth and efficiency, and we believe these efforts should continue.

International Task Force on Commodity Risk Management

The work of the International Task Force on Commodity Risk Management needs to be discussed in much greater detail. We believe that there are many substantive issues that have yet to be addressed and have serious reservations about proposals emerging from the Task Force. We believe greater effort should be made to explore ways to support an enabling environment that would allow developing countries to better access existing commercial risk management instruments that do not introduce potential market distortions. Consideration should also be given to ways developing countries could better manage their macroeconomic and fiscal stability through market-based forms of price risk management or ways to support in-country risk-management mechanisms. The Task Force could also explore alternative, market-based mechanisms, including guarantees for existing risk-management instruments.

Labor

We welcome the various initiatives underway to enhance cooperation and collaboration between the World Bank and the International Labor Organization (ILO). We urge both institutions to invest the necessary resources into expanding and operationalizing this cooperation and making the maximum use of the comparative advantage brought to the table by the two organizations.

At the same time, I must express disappointment with the slow pace of implementing the commitments on labor issues agreed to in the IDA-12 replenishment. We urge Management to conduct an effective analysis of core labor standards in its Country Assistance Strategies (CASs), with input, as appropriate, from the ILO, as called for in the agreement. The CAS process provides a good opportunity for the Bank to implement at the country level the improved cooperation with the ILO that has been agreed to at the headquarters level.

While the Bank has moved forward in addressing forced labor, discrimination in employment, and child labor, we would also encourage members to adopt a firm position in support of workers' rights of association and collective bargaining. The exercise of these rights is essential for the effective functioning of democracy and good governance, and can have a positive impact on economic growth and development when implemented together with good industrial relations and pro-growth economic policies.

Conclusion

Global engagement opens unprecedented opportunities for all of us. Securing the benefits of these opportunities also entails major challenges, particularly for the poorest countries. Many of the problems the Committee is discussing today arise not because more countries have integrated themselves with the global economy. It is because so many countries have not.

I believe the challenges of global engagement can be overcome -- if we work together and if countries make the sound policies choices available to them -- and that greater economic integration, supported by innovative use of advances in technology and communications, can open vast possibilities for improving the human welfare of poor people around the world. It offers the prospect of improvements in health, literacy, and living standards that were unthinkable even two decades ago.

The stakes are high, the risks great, and the outcome uncertain. However, the improved prospects for global growth we are now experiencing provide a firm foundation for deepening the cooperation among all our member countries in support of sound policies and for increasing the effectiveness of domestic and external resources invested for growth and poverty reduction. There is no alternative if the benefits of global integration are to be secured and sustained for the common good.

Statement by Ms. Anne Kristin Sydnes,[4] Minister of International Development (Norway)

The Implementation of Poverty Reduction Strategy Papers and the HIPC Initiative

The Nordic and Baltic countries welcome the introduction of the Poverty Reduction Strategy Papers (PRSPs), and wish to emphasize the following:

Increased Ownership and Partnerships

The concept of PRSPs must be one of genuine ownership and partnerships, and should be an operationalisation of the fundamental principles of the Comprehensive Development Framework (CDF). This is underscored by the government’s responsibility for drawing up its own strategy and the donors’ commitment to act upon it. The key concept of ownership signifies a genuine political process, involving governments and elected parliaments. The Nordic and Baltic countries firmly believe that long-term sustainable development cannot be achieved without national ownership of poverty-oriented development strategies.

The principles for broad domestic participation and consultative processes with other relevant stakeholders in the development of national poverty reduction strategies, laid out in the proposal by the Bretton Woods institutions, is central to create real ownership.

[4] On Behalf of the Nordic and Baltic Countries.

A genuine PRSP process must be the baseline for lending both for the World Bank and the IMF. The national Poverty Reduction Strategy should be the starting point for all donors and creditors, bilateral and multilateral alike, and they should commit themselves to provide their support within the framework of the national Poverty Reduction Strategies. This is not least valid for the Regional Development Banks. The Bretton Woods institutions have a central role in supporting the partner countries' efforts in creating development partnerships.

Holistic Approach

The PRSPs integrate macro-economic, structural and social policies in one package. This holistic approach together with the principles of national ownership and partnership is what makes the PRSPs a powerful tool to help developing countries in their efforts to reduce poverty and promote growth.

The PRSPs have an obvious bearing on the countries that qualify for debt relief under the HIPC Initiative. Through the PRSPs it will be easier to ensure that resources freed through debt relief are aimed at poverty reduction and other development measures.

At its present stage the concept of the Poverty Reduction Strategy Paper has, however, given rise to some concerns in the Nordic and Baltic countries:

The Link between PRSP and HIPC

The introduction of the PRSPs should not unduly delay the enhanced HIPC initiative, which aims at ensuring broader, deeper and – not least – faster debt relief. Achieving nationally owned poverty reduction strategies that are compatible with medium to long term economic frameworks requires flexibility in the way the PRSPs are linked with HIPC. The political and participatory process must be given time to allow true ownership to be developed. Concerning the question of whether an annual progress report on PRSP implementation should constitute a condition for the completion point, we are pleased to note that this element – following the recent agreement in the World Bank Board – will be applied flexibly and revisited later this year. The Nordic and Baltic countries are prepared to decide on HIPC debt relief based on an interim PRSP as long as the country in question has indicated clearly a commitment to develop a fully fledged PRSP.

National ownership

The Nordic and Baltic countries firmly believe that it is necessary to build on existing strategies for development and poverty reduction in the countries themselves – if appropriate strategies exist, for example the PEAP in Uganda or the TAS in Tanzania – to achieve national ownership. We know that without ownership, even the best strategies are not implemented. Over the years we have learnt that blueprints imposed from the outside do not favor ownership and real partnership. The Nordic and Baltic countries fear that the PRSP-process runs the risk of being jeopardized if we do not put an even stronger focus on the issue of ownership.

It is important to be aware that the strategies themselves are not subject to formal approval by the Boards of the IMF and the World Bank. Rather, the Nordic and Baltic countries find it necessary to maintain a distinction between national poverty reduction strategies and the Bretton Woods institutions' assessments of these strategies. The assessments of the strategies and the national processes should be endorsed by the Boards and subsequently provide the basis for the operations of the Bretton Woods institutions in a given country. Other actors, multilaterals and bilaterals alike, should clarify their procedures on how to translate the PRSP into their development cooperation efforts.

The Bretton Woods Institutions should develop broad and transparent guidelines on how to assess a country's PRSP.

Additionally, the Nordic and Baltic countries find a need to strengthen partner capability in poverty and socially related statistics, and in analysing the impact of policies and institutional reform. Such capacity building is central to the achievement of a sustainable and effective implementation of the PRSPs. The Bretton Woods institutions should be prepared to contribute to capacity building if called upon to do so by the government concerned. It must be clear that, when preparing PRSPs, governments should be free to request assistance from any partner – be it the Bretton Woods institutions, regional development banks, the UN or bilateral donors.

To conclude: the development and implementation of the PRSPs require close and frequent interaction between the World Bank and the IMF at all levels. Such co-operation and co-ordination shall ensure coherent treatment of the various borrowing countries based on the specific mandates of the two institutions.

The Nordic and Baltic countries are prepared to contribute actively at all levels in the fulfilment of the PRSP exercise. We encourage all other actors – whether recipients or donors– to do the same.

Intensifying Action against HIV/AIDS

The Nordic and Baltic countries welcome the increased efforts of the World Bank in addressing the increasing problem of HIV/AIDS. The pandemic should not only be viewed as health issue, it goes to the core of economic development. The inclusion of this item on the agenda of the Security Council in January, and now on the DC-agenda is very timely to promote the necessary strong political commitment and a recognition of the tragic effects that the accelerating HIV/AIDS pandemic is having on human, social and economic development in many parts of the world.

The seriousness of the situation calls for broad, concerted action, both in its social developmental dimension and its medical dimension. At the international level we must increase our efforts to develop and make available affordable drugs for prevention and treatment. Political will and commitment, as well as more resources, are needed to confront the issues. As one of seven co-sponsors of UNAIDS it is essential that the Bank acts in partnership with the other co-sponsors, with the African Development Bank and with national governments. The Partnership Against HIV/AIDS in Africa is an important step in this direction.

To intensify the action against HIV/AIDS, the World Bank must integrate such action into its regular work. In countries that are seriously affected by the pandemic efforts to limit the spread of HIV/AIDS must be an integrated part of the Country Assistance Strategies and PRSPs.

The link between poverty and HIV/AIDS needs to be more emphasised. Efforts to combat the pandemic should also be reflected in a country's poverty reduction strategy.

Building on lessons and best practices, the World Bank and its partners should work to spread knowledge of how HIV is transmitted and information on ways to prevent it. This requires a willingness to discuss issues such as sexuality and death in an open and frank manner. A gender perspective must be brought into the analysis of the problem, talking not only of affects on women, but also of male behaviour and the responsibilities of both sexes. Social and cultural dimensions have a bearing on the spread of the disease and must be taken into account. It is therefore essential that efforts to combat HIV/AIDS are nationally owned.

The whole society needs to be involved to effectively limit the spread of HIV/AIDS. Education is a key tool in this respect. The private sector and trade unions need to be involved, through spreading information to and providing protection of their employees and members, and through support to community programs.

The World Bank should also work to ensure that people with HIV/AIDS receive appropriate care and that their human rights are fully respected. People living with HIV/AIDS can be an important resource in the fight against the pandemic, not least in terms of mobilising community support for preventive measures.

Financing the Enhanced HIPC Initiative

Full financing of the enhanced HIPC initiative remains an unsolved problem. This calls for immediate attention.

While working to ensure full financing of the enhanced HIPC, the Nordic and Baltic countries would like to underline the importance of the additionality of debt relief, the maintenance of the financial integrity of multilateral financial institutions, and the importance of a reasonable burden-sharing.

Last September this committee agreed that "financing of debt relief should not compromise the financing made available through concessional windows such as IDA." (Development Committee Communiqué, September 27, 1999, para. 7). To this effect, the World Bank was asked to "work actively and closely with the whole group of donors and other MDBs to ensure that financing is mobilised to fully fund HIPC debt relief over the long term." (Development Committee Communiqué, September 27, 1999, para. 8). To this date, appropriate modalities to achieve this have not been identified.

In view of worsening poverty trends and declined ODA transfer, the Nordic and Baltic countries see a real danger in integrating negotiations on HIPC financing into replenishment processes of concessional development funds. The Nordic and Baltic countries therefore see a need for a formal and transparent negotiation process – clearly distinguished from future replenishment negotiations in IDA and other similar development funds – with the whole group of donors to ensure full financing of multilateral debt relief under the HIPC mechanism.

The Nordic and Baltic countries are prepared to discuss this urgent matter further, starting at the IDA 12 midterm review meeting in Lisbon in June.

Even stronger leadership on this issue from the World Bank is welcomed. In this regard the Nordic and Baltic countries would like to have clear figures on the financing needs of the enhanced HIPC, when such financing is needed, and how the negotiation process for HIPC financing will be laid out.

Report of the Task Force on Small States

The problems faced by small states can differ in nature from those faced by other developing countries, and donors and creditors should help these countries to participate on equal terms with other developing countries in the global community. This underlines the need for a flexible approach by the World Bank in order to meet the special needs of each and every borrowing country.

The work of the World Bank to help small states should build on the efforts and experience of the UN with Small Island Development States and Landlocked Countries. Any further efforts in this field need to be closely co-ordinated with the UN and the WTO, and with the regional development banks.

The availability of modern technology has a large potential impact on the economic development of small states. The World Bank should encourage efforts to adapt information technology in small states.

The IBRD's Financial Capacity

The Nordic and Baltic countries find that the Bank at present has the financial capacity to fulfil its core mission: to reduce poverty and improve living standards through sustainable growth and investment in people, in developing and transition countries, all over the world.

The Nordic and Baltic countries do not see merit in a General Capital Increase at this stage. It should be noted that the Bank can expect large reflows from the emergency loans given in the aftermath of the financial crises. Put to good use, these reflows can help to strengthen the financial capacity of the Bank.

To strengthen its position the World Bank should make certain that its products and services continue to be of such a quality that they meet the needs of the borrowers. Performance based lending helps strengthen the Bank, and the quality of the loan portfolio requires relentless attention.

In the long run, a number of issues might give merit to revisit the capital adequacy of the Bank, for instance the role of the Bank in the international financial system - not only in relation to the IMF, but also in relation to the increasing private sector flows.

The Role of the World Bank in International Financial Architecture

The Nordic and Baltic countries strongly believe that the Bretton Woods Institutions should remain true global institutions. The two institutions are central to the international financial system. The World Bank should remain lending-based.

The pillars of a stable international financial architecture are sound economies run by accountable and socially responsive governments. The Bank's role as a long term external partner and lender in support of essential reforms in the macro-economic, structural and social domains is indispensable.

The Nordic and Baltic countries have advocated that the international financial system has to integrate all relevant interrelated macroeconomic, social, financial and structural issues in order to efficiently enhance crisis prevention and management. There is a need to create better modalities for cooperation and sharing of responsibilities between the World Bank and the IMF, optimising on the comparative advantage of each institution.

The Nordic and Baltic countries find it important to strengthen the cooperation between the two institutions. Efforts to do so have recently been made and the joint Financial Sector Assessment Programs are welcome, albeit not sufficient steps in the right direction.

Economic development and poverty reduction in countries in transition and developing countries depend, among other things, on the existence of adequate national and global financial market structures and financial policies. The World Bank has an important role to play in assisting in the establishment of financial, institutional and judicial structures in borrowing countries. The IMF should remain the leading institution for maintaining macroeconomic stability and managing financial crises.

The World Bank should take an active part in strengthening social security in developing countries. This is needed to enable the poor to make more rational choices to overcome poverty as well as to protect the most vulnerable groups. It is also needed to enhance stability and make countries more resilient in the face of economic shocks.

Good governance is central to the creation of stable financial environments. The World Bank Group should continue to address the issue of governance in its operations. It should also facilitate the development of strong corporate governance in emerging economies.

Trade Policy for Development and Poverty Reduction

The Nordic and Baltic countries attach great importance to trade as an engine for development. Empirical evidence indicates that trade encourages growth and facilitates development and poverty reduction. It leads to more competition, which reduces prices, weakens the power of vested interests and provides more opportunity for more people.

The least developed countries – which have not benefited sufficiently from the increase in private flows to developing countries – are becoming increasingly marginalized in world trade. This is due both to failed domestic policies in developing countries and to protectionist measures in developed countries and other developing countries. Developing countries have often lacked the human resources, administrative capacity and institutional frameworks needed to take advantage of existing trade opportunities. There is ample scope for further liberalisation, in both developing and developed countries. The Nordic and Baltic countries are firm supporters of bound duty-free and quota-free market access for products originating in Least Developed Countries.

The Nordic and Baltic countries firmly believe that lower barriers to trade are in the interest of all countries, and that enforceable and stable multilateral trade rules are of particular importance to the smaller trade nations. We thus deeply regret that the participants at the WTOs Ministerial Conference in Seattle were not able to agree on a mandate for the launching of a comprehensive round of trade negotiations.

A new, comprehensive round of trade negotiations should be launched as soon as feasible. The new round should put special emphasis on the interests and needs of the developing countries, and especially the LDCs. Developed countries should do their part to ensure that developing countries participate actively and forcefully in the next round of negotiations. The Nordic and Baltic countries would also like to underscore the importance of full implementation – within agreed time frames – of the Uruguay round commitments in favor of developing countries. We are however, willing to consider extended implementation periods for developing countries, and in particular LDCs.

The World Bank, for its part, should facilitate the structural and institutional reforms that must accompany trade policy measures. This will in turn help to enable the private sector in the developing countries to respond to the new opportunities. Trade needs to be more mainstreamed in the operations of the World Bank, for instance in the country assistance strategies.

It is of paramount importance that the international donor community and relevant international organizations (especially the World Bank, IMF, UNDP, WTO, UNCTAD and ITC) achieve a more efficient co-ordination of their programs for technical assistance to developing countries. The Nordic and Baltic countries, in this respect, welcome the Integrated Framework as a first step toward creating a more coherent and comprehensive approach when extending aid to the least developed countries in the trade area. We believe that the CDF and PRSP processes could serve as instruments for improved coherence among the main actors in the development field. The World Bank could offer advice on commodity risk management.

While trade has clearly a long-term welfare increasing effect, the possible negative short and medium term social consequences of trade reforms must not be ignored. The potential social impact must be taken into account when planning and implementing trade strategies. Where possible policies should be formed to offset negative effects on vulnerable social groups. Issues such as poverty reduction, environmental concerns, gender and labour rights issues should be considered further when formulating overall trade policy recommendations.

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

While our meetings are taking place, people in Mozambique are still battling with floods; relief and reconstruction needs will absorb much of the capacity originally intended to support poverty reduction and development.

The social and economic fragility of poor countries, their sensitivity to natural or man-made crises, again underlines the continued need for a concerted international approach to fight poverty and demonstrate global solidarity. The international community, developing and developed countries alike, have responded to the said crisis in a spirited manner. But the devastating crisis in southern Africa highlights once more the need to push ahead a civil “rapid reaction group” – and an early warning system for man-made crises - as I have proposed for the EU in order to enable the international community to react in time and as effectively as possible.

International Financial Architecture and Reform of the International Financial Institutions

Increasing globalization and deepening international interdependencies are posing new challenges to the International Financial Institutions, at the same time underlining their indispensable role for the international community.

On the occasion of last year's Annual Meetings a number of key measures have been agreed to ensure a more resilient international financial architecture; we welcome the progress achieved so far and the constructive role played by the World Bank, the IMF and other international institutions in this regard. However, there is no time for complacency. Ongoing efforts to strengthen the international financial architecture need to be complemented by corresponding efforts to make development policies work more effectively. It is obvious that issues related to the international financial architecture and those related to poverty and development can not be separated.

Therefore, continued reform of the IFIs should aim at strengthening the institutions and increasing their effectiveness on the basis of an effective division of labour and efficient co-operation reflecting the interdependencies between poverty on the one hand, and financial stability at the national and global level on the other. Furthermore, with the implementation of the enhanced HIPC Initiative now gaining momentum, country owned PRSPs will provide a truly common framework for development cooperation activities, in particular comprising World Bank support and the poverty focused IMF facility for the poorest countries (PRGF). Effective coordination among all donors thus does emerge as a concrete policy option reducing recipient countries’ administrative burdens and enhancing the impact of scarce resources.

Germany is strongly interested to enhance public and parliamentary awareness for the work and objectives of the multilateral institutions. In a globalizing world, the need for sound global policies and regulations is overwhelming. Therefore our taxpayers rightly expect us to make effective use of these institutions’ unique comparative advantage.

Critical reflection and constant evaluation of progress and impact in a transparent manner is therefore indispensable. On the other hand, civil society and the public at large should be able to take advantage of the huge expertise of the institutions in terms of development and poverty reduction. In the information age, the IFIs’ role in collecting, providing and exchanging information will become much more important than in the past.

Since neither development nor financial stability are products readily available on the market, but rather the results of sound policies in an enabling national and international framework, we should safeguard the integrity of the international financial institutions through continued gradual reforms, instead of threatening their very existence. Market forces alone will not suffice to meet the challenges of globalization. They have to be complemented by strengthened multilateral institutions.

Intensifying Action against AIDS

The HIV/AIDS situation constitutes not only a grave health and social problem. In many countries it has turned into a substantial development crisis and even a threat to peace and security. All fields of social and economic development are adversely affected. In those countries that are most seriously hit, the disease is in danger of destabilising social order. As a consequence, all areas of cooperation must address the HIV/AIDS issue. It is of crucial importance for the international community to succeed, in addition to mobilising the required resources, in making HIV/AIDS a mainstream issue in development cooperation.

One key element in our strategy will therefore be to bring about changes in attitudes. To this end, the governments of the countries affected, as well as all relevant organizations and institutions, must show unqualified commitment. This is why I welcome the initiative for an "International Partnership Against AIDS in Africa," which emanated from a group of African countries and is supported by a broad international coalition. What is vital now is that the existing capacity and measures be harmonised so as to obtain maximum effectiveness. Germany will support the initiative. We intend to strengthen our co-operation with our partner countries in their fight against AIDS. Special attention must be devoted to the situation of women and children, who are most severely affected by the epidemic.

In view of the current situation in many countries, the international community should also address the issue of how HIV/AIDS can be dealt with in crisis affected regions. These external circumstances not only impede interventions against the disease but also contribute, in turn, to accelerating its spread. Fighting HIV/AIDS and pursuing an effective policy of crisis management must therefore go hand in hand.

Trade and Development

There was a consensus among DC members, and it was our central message last year, that there is a need for trade reforms to contribute to growth and poverty reduction and a need for supporting developing countries' reforms and implementation of WTO commitments through technical assistance.

This implies the integration of trade reforms into a comprehensive development strategy, as pointed out in this meeting's DC document. I support this approach explicitly. It ensures that complementary measures required for trade liberalisation are taken into account from the outset in trade reform, and that the different reforms are coherent and well sequenced. In addition, a realistic time schedule is envisaged for their implementation.

I encourage the World Bank and the IMF to promote this approach on the country level, to identify conflicting goals as well as best practices, and to support co-ordination efforts for trade-related technical assistance. The World Bank and the IMF should review this process and elaborate a progress report in due course.

Beyond the reform areas highlighted in the document, such as the improvement of market access for developing countries and the liberalisation of developing countries' import policies, the future trade agenda should also focus on the following items:

- *The issue of intellectual property protection*. The developing countries have much to gain and much to lose in this field where regulatory work is becoming ever more urgent. I am thinking here, for example, of the protection of genetic resources or the protection of varieties.
- *The issue of special treatment of the developing countries within the WTO system*. This subject comprises not only technical assistance and preferential market access issues. It also includes waivers for developing countries regarding WTO commitments. Just one example: the suggestion to operationalize Article XVIII of GATT and to adjust it to the changes which have taken place in the developing countries since the beginning of the 1950s.
- *Finally, the issue of how WTO rules can contribute to enhancing the social situation in the developing countries*. How can it be ensured that access to essential medicaments does not deteriorate, despite the strict WTO rules on patent protection? Do we need special rules for developing countries in order to ensure food security?

With regard to market access, I would like to reiterate the commitment of Germany and the entire EU to grant duty free and quota free access to essentially all exports of the Least Developed Countries. Other countries are encouraged to follow this example.

IBRD's Financial Capacity

As requested by the Committee at its last meeting, the Bank has presented an update of last year's comprehensive analysis of the Bank's financial capacity. It is gratifying that the report confirms that the Bank's financial capacity remains sound. In light of the favorable developments in the global economy referred to in the report, it is to be expected that the demand for IBRD lending will decline during the current fiscal year, allowing lending levels to stabilize again at a lower level. Given the projections of the report, we assume that the Bank will be able to stabilize the risk-bearing capacity needed to maintain lending levels, retain the AAA rating and also ensure income transfers for the poorest countries through contributions to IDA and HIPC in the future. It should be reiterated that any assessment of the different options presented for further consolidating and strengthening the risk-bearing capacity and the financial flexibility of the Bank in the long run has to be based on the principal objective of Bank lending, which is to contribute effectively to the reduction of poverty in the world and the achievement of the International Development Targets. Projections have to take into account different views on the future role of the Bank in financial crisis. We believe that offering short-term crisis lending is not the mission of the Bank, but long-term development financing. Projections that take account of changing global conditions have to assess risks for the Bank caused by increased capital volatility but also stabilizing effects resulting from ongoing efforts to strengthen the international financial architecture.

Small States

Small states, as highlighted in the Task Force's Report, do face special problems, mainly due to the limited size of their economies, their low capacity to diversify risk at the national level, their physical location and, in the case of Small Island Developing States (SIDS), their susceptibility to natural disaster. Many problems reflect global processes and increased interactions between states and regions at several levels, such as the change of the global climate and the changing structure of global trade regimes.

The design of global structures for the benefit of world-wide development has special relevance for many small states. Germany supports all endeavours that lead to better consideration of the special interests and needs of developing countries in the WTO. We are committed to continuing our support to the Global Environment Facility as well as to the implementation of the Rio Conventions.

We endorse the Task Force's call for enhanced regional integration and collaboration as well as capacity building to support the small states' development and transition strategies in order to enable them to profit from globalisation. Furthermore, efforts should be increased to improve donor coordination and enhance the effectiveness and efficiency of support efforts by the Bretton Woods Institutions, the Regional Banks, the United Nations and the EC.

HIPC/Poverty Reduction Strategy

Our support to the Enhanced HIPC Initiative and the Poverty Reduction Strategy philosophy reflects the need to focus attention and resources on the very key obstacles causing and sustaining poverty.

We strongly support the Poverty Reduction Strategy approach, facilitating ownership and expanding participation and consensus building in national policy making. Poverty Reduction Strategy Papers are intended to be effective and efficient tools in the hands of governments, ensuring that local and external resources are spent effectively on the very key obstacles to growth and poverty reduction. In this framework, participation of the people should ensure that policies adopted are based on a broad consensus and objectives and priorities set are relevant to the needs, problems and requirements of the poor.

Good governance is key for lasting success of poverty reduction efforts. Public and parliamentary support of the Initiative in developed as well as developing countries will critically depend upon the degree of credible change resulting from the Initiative, in particular in the area of good governance. Whenever disputes or conflicts arise while we are further implementing the Initiative, this principle should always be upheld.

Bilateral and multilateral donors should make Poverty Reduction Strategies the basis of their assistance; to facilitate this mainstreaming exercise, further efforts should be made to harmonise bilateral aid practices so as to reduce administrative pressure on national authorities. In this regard we also welcome the shift in the role of the World Bank and the IMF away from heavy-handed policy prescription towards facilitating country ownership. This requires a great deal of training of staff, as well as reconsidering the skills and organizational structure required.

Poverty Reduction Strategies will provide the framework for sustained efforts to address poverty. Achieving good quality Poverty Reduction Strategies and, at the same time, avoiding delays in the provision of HIPC relief to countries with a good track record, poses one of the most prominent and urgent challenges to all of us. With a view to mitigating this counterproductive trade-off, the application of interim measures, reducing debt service already after reaching the decision point, should be increased to the extent possible.

Concerning the issue of financing the Enhanced HIPC Initiative, substantial progress has been made since the Annual Meetings. The EU is committed to contributing more than one billion Euro, more than two thirds of which will be transferred to the HIPC Trust Fund. In addition, many EU member countries, including Germany, are making bilateral contributions to the HIPC Trust Fund, totalling more than US$ 650 million. I welcome the recent announcement of a major contribution by Japan and I would like to encourage all countries that have not done so to finalise internal budgetary legislation necessary for the timely provision of their contribution. Nevertheless, there is some way to go before we can declare that overall funding is securely in place for all HIPCs due to reach their Decision Points within the next 18 months. In particular, I would urge the regional and sub-regional Development Banks and bilateral creditors outside the Paris Club to do their utmost to mobilise available reserves for the financing of their share in the Enhanced HIPC Initiative.

In order to strengthen debt sustainability beyond the effect of the measures under the Enhanced HIPC Initiative, the German government has decided to cancel 100 percent of pre-cut-off-date debt owed to it by eligible HIPCs. This will increase debt cancellation by the German government under the Cologne Initiative to about DM 10 billion.

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

Building Capacity for Trade: The Role of Development Co-Operation

Developing countries as partners in the global trading system:
a priority objective for the donor community.

OECD Ministers have in recent years given prominence to:

Better elaborating the links between trade, investment and development, promoting more coherent policy making towards developing countries, and enhancing the role of the OECD in helping to integrate developing countries in the global trading system.

In the context of the Development Assistance Committee (DAC), Development Ministers have expressed the more specific objective to better understand the opportunities and constraints faced by developing countries as they strive to become more prominent players in the world trading system, and to work actively to help them do so through the instruments of development co-operation.

Efforts must be stepped up, particularly in light of Seattle, to identify effective instruments and approaches for building capacity for trade with a view to:

- implementing WTO agreements, and
- ensuring effective developing country participation in trade negotiations.

The purpose of this note is to describe development co-operation work in relation to these topics, bearing in mind that the focus on capacity development for trade is one element among a broader set of activities related to trade and development issues in the OECD.

Trade Reform and Poverty Reduction: Connecting Trade and Development to Comprehensive Partnership Frameworks

The Issues Paper on Trade, Development and Poverty Reduction prepared by the World Bank and IMF staffs shows clearly that attaining the International Development Goals for 2015 depends upon a breakthrough in the speed at which less advanced developing countries are able to integrate successfully in the world economy. Since the publication of the DAC's 1996 Report on "Shaping the 21st Century: The Role of Development Co-operation" these goals, drawn from UN Conference outcomes, have been widely adopted throughout the international development system[1]. For less advanced developing countries, integrating in the global economy and benefiting from the global trading system implies a comprehensive agenda, including: creating the conditions for private sector-driven development, liberalizing trade and investment regimes, building supply-side capacities and enhancing the competitiveness of the private sector. Substantial progress with political and economic reforms is necessary, but not sufficient, to generate strong supply side capacities. Requests from developing countries for support to strengthen their basic capacities in the trade area have therefore increased significantly.

Benefiting from the global economy depends fundamentally on institutional and human capacities. This is clearly a development challenge rather than a trade challenge. The suggestion in the Issues Paper for the Development Committee that the trade capacity-building agenda needs to be part of comprehensive approaches to development is therefore of central importance.

What do we mean by Capacity Development for Trade?

Trade liberalization and market access are critical elements of a strategy for trade expansion. However, market access is only one of several challenges to address. Successful trade development must consist of a concerted, multi-dimensional approach that engages numerous actors, institutions and processes at the same time in an integrated and comprehensive manner.

The Integrated Framework for Trade-Related Technical Assistance for Least Developed Countries which was endorsed at the WTO High Level Meeting in November 1997 is one concrete response to the growing and trade-related needs of LDCs. The emphasis given in the Integrated Framework to demand-led and locally owned approaches is fully in line with the orientations reflected in the DAC's Development Partnership Strategy. The follow-up process to the Integrated Framework has demonstrated, however, just how difficult it is to operationalize partnership approaches, perhaps especially in the area of trade capacity.

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[1] See Box 1. Development Goals for 2015, in the Development Committee issues paper on "Trade, Development and Poverty Reduction" (DC/2000-05, March 31, 2000).

The DAC has been working to understand the particular challenges in this area, to identify the appropriate scope of the trade capacity building agenda, and ways to ensure effective field level implementation. There is still a great deal more to be learned in this emerging area. However, there is fairly broad agreement that capacity development for trade should concentrate on strengthening human and institutional capacity building at the level of the public sector and its interface with the private sector:

Trade policy formulation and implementation: Build the capacity to understand, monitor and formulate trade policies; participate effectively in trade negotiations; and implement multilateral, regional and bilateral trade rules and systems requirements (which can be technically demanding and expensive in areas such as customs valuation and standards etc.).

Enterprise competitiveness: Establish an effective interface between the Government and private sector actors to put in place a trade-friendly policy environment at home; and to collaborate on trade reform and trade strategy; improve capacities to access information and adjust to international trade requirements and rules; foster appropriate legal, commercial and physical infrastructure to promote trade expansion and diversification; strengthen the capacity of trade services institutions to support private sector efforts; and bring entrepreneurs into regional and global markets through forward-looking regional co-operation and integration, clusters, etc.

The DAC can make a particular contribution in these areas by seeking to identify good practices in designing and implementing effective development co-operation efforts; promoting consultations between the public and private sectors and with donors; improving the division of labour, effectiveness and co-ordination among bilateral and multilateral donors; and enhancing local ownership, in-country implementation and monitoring capacity.

Towards Good Practices for Donors in Capacity Development for Trade

Given the importance of trade and development linkages, many bilateral donors are now striving to be more effective in their efforts to support the less advanced developing countries in strengthening their capacity to trade. The DAC has organised two workshops on capacity development for trade and made a contribution to the WTO High Level Meeting in 1997 on the activities of bilateral donors in this area. Bilateral donors are also trying to work more closely with the core multilateral agencies to make the Integrated Framework a fully effective tool in developing countries.

Against this background, the DAC is now working to formulate a set of good practices for donors in this area. Four country case studies have been carried out for El Salvador, Ghana, Senegal and Vietnam with a view to:

- gaining insights into factors for success or failure in the trade capacity-related activities of donors; and
- providing relevant and practical guidance for donors who wish to expand or improve their trade capacity-related development activities and strengthen coordination and implementation in the field.

These case studies help to bring out the concrete challenges and opportunities which arise in specific contexts as well as the strengths and weaknesses of various strategies and instruments. They also underline the need to build South-South co-operation into the approach and to look at the connections between foreign direct investment and trade diversification. Finally, the case studies provide important indications of how social and environmental dimensions of trade can be treated.

On the 29-30 of May, the DAC will host a workshop in Paris at which the findings of the case studies will be tested with representatives from both donor and partner countries. This will provide a key component towards the preparation of good practices. The guidance for donors will include:

1. Identification of the needs and constraints to capacity development for trade;
2. A roadmap for effective donor policies and instruments to overcome those constraints in policy formulation and implementation, and in the interface with the private sector;
3. Recommendations for improving delivery and implementation of donor activities in the field;
4. Preliminary guidance on impact evaluation indicators for trade capacity building programs.

It is anticipated that a set of good practices for donors will be submitted to the DAC's Senior Level Meeting in December 2000, following wide consultation with the relevant multilateral agencies and soundly-based on concrete experience in developing countries.

Statement by Mr. Ousmane Seck, Vice-President for Operations, Islamic Development Bank

The Development Committee has always been an epic development forum for development planners and practitioners around the globe. The meetings of the Committee provide opportunities to interact on issues related to the direction of the world economy and the efforts needed at different levels to overcome the challenges of development.

The Sixty-First Meeting of the Development Committee is taking place against the backdrop of change in leadership of the International Monetary Fund. Mr. Michel Camdessus is leaving behind a rich legacy of assisting member countries in their periods of economic crisis. Indeed, the crowning achievement of Mr. Michel Camdessus' tenure at the Fund was leading efforts to a rapid economic turnaround of East Asian countries affected by financial and economic crisis in 1997. The IsDB extends felicitation to Mr. Horst Kohler to lead the Fund at the dawn of the new millennium and profound exclusionary implications of globalization on many developing countries. Mr. Kohler brings a very rich and diverse experience to steer the work of the Fund towards integrating sustainable macroeconomic policies with the desirable goal of alleviating pervasive poverty in many developing countries. The leadership of both the World Bank and IMF are engaged in spearheading efforts to reform and strengthen global financial and economic architecture. We at the Islamic Development Bank wish to indicate our willingness to support such initiatives.

This Meeting is being held at a time when the world economy is in the process of recovering its growth momentum which slowed down due to sharp fluctuations in the financial and capital markets in different parts of the world in the late 1990s, the emerging markets are continuing to learn how to deal with the destabilizing effects of globalization, and major producers of commodities and other natural resource-based exports are exploring ways and means to preserve the value of their exports and maintain market stability for sustaining positive trends in the global economy. While most industrial economies in North America and Europe have shown rapid growth in the recent past, in several major economies and emerging markets further growth trends remain uncertain. This is particularly because the pattern of growth among industrial countries has been unbalanced and there are concerns about the eventual slow-down in the US economy which has grown rapidly over the past few years and played a major role in moderating the global slow-down. This is also the time when the major international trade negotiations are going through a period of implementation and further refinement for the purpose of realizing the true potentials of global trade.

From the point of view of most developing economies, however, what is of crucial significance is the impact of global developmental efforts on poverty, hunger, malnutrition and the overall level of human development. Lack of any major breakthrough on any of these issues in the least developed countries and reversal in earlier gains in some of the emerging economies call, once again, for having a fresh look at the global development framework, in particular the trade and investment relationships, as well as the efforts made at the national and multinational levels to overcome those challenges.

The performance of member countries of the Islamic Development Bank (IsDB) has shown improvement over the past one year in particular. As a result, the average GDP growth rate of the IsDB member countries went-up significantly from 0.2 percent in 1998 to 2.0 percent in 1999. This is expected to increase further to reach 3.7 percent in 2000. This positive recovery has taken place because of recovery in the economies of Malaysia and Indonesia from the after-effect of the Asian financial crisis and improved growth in some of the major natural resource-based exports of a number of the IsDB member countries. The healthy growth experienced by most least developed member countries of the IsDB due to better macroeconomic management over the past few years has also contributed in the growth performance of its member countries as a whole. Despite these positive developments, several IsDB member countries have continued to be gripped by stagnating growth and high inflation and persistent balance of payments and debt problems. Slow growth of such member countries is obviously a source of concern to the IsDB. But of greater concern to the IsDB are the poverty in its member countries in general, and in the least developed member countries, and those affected by indebtedness, and erosion of resource on account of adverse trade and financial conditions to sustain their development efforts in particular. Of equal concern to the IsDB are the issues related to trade and development as a number of its member countries depend heavily on trade for their economic progress.

As regards the flow of financial resources to the developing countries, it has been noted that the net long term flows to these countries decreased from US$344 billion in 1997 to US$319 billion in 1998 and to US$291 billion in 1999 (DC/2000-03). The private flows that are the most important component of resource flows also declined from US$304 billion in 1997 to US$268 billion in 1998. However, net foreign direct investment increased from US$171 billion in 1998 to US$192 billion in 1999.

Of equal concern however is the low level of the net concessional flows which are critically important to IsDB member countries, especially the least developed among them although total net official development finance (ODF), including official development assistance (ODA), registered a modest increase from US$50 billion in 1998 to US$52.0 billion in 1999. Total net ODA flows have also improved during the last two years but they have yet to reach the level that could adequately address the growing needs for such resources. The low level of ODA flows and the limited prospects of major reversal in the 1997 and 1998 resource flow trends is probably due to budgetary difficulties as well as aid fatigue in most donor countries. This downward trend indeed may almost nullify the commendable structural adjustment efforts already being undertaken by an increasing number of low-income developing countries.

In the face of this situation, the IsDB fully endorses the efforts of the Ministers of the Group of Twenty-Four (G-24) and the Development Committee of the World Bank and IMF to ensure continuity of IDA lending. For its part, the IsDB has endeavored to further increase the level and effectiveness of its assistance to its member countries and is looking for ways and means of increasing its concessional flows to the Least Developed Member Countries (LDMCs).

Against this backdrop, the agenda of the Sixty-First meeting of the Development Committee is of great significance to the IsDB and its member countries. It covers highly relevant and wide-ranging issues both perennial and current in nature such as the progress Report on Implementation of Poverty Reduction Strategy papers and Highly Indebted Poor Countries (HIPCs) Initiative, Trade and Development, Task Force on Small States and Intensifying Action Against HIV/AIDS.

Let me share with you the views of the IsDB on the agenda of our meeting. I would like to start with poverty reduction strategies, as a number of IsDB member countries are among those most seriously affected by perennial and complex problem of poverty.

Poverty Reduction and HIPC Initiative

To begin with, the IsDB joins its member countries in welcoming the approach of making poverty reduction a more central and explicit goal in lending programs to poorer members, as adopted by the Development Committee on 27 September 1999. In this context, the recently announced poverty reduction and growth facility (PRGF) of the International Monetary Fund (IMF) is a welcome development in support of poverty alleviation efforts of member countries.

Poverty alleviation is one of the most important priority areas of the IsDB strategic focus. Most recently the Bank has financed the preparation of a detailed occasional paper on this subject with a view to developing more meaningful poverty alleviation strategies and programs for its member countries[6]. I wish to acknowledge the cooperation of the IMF and the World Bank in providing the most recent information on poverty in IsDB member countries. Among the major findings of the paper, it is observed that similar to other regions of the world, the magnitude and behavior of poverty in IsDB member countries vary. Poverty has decreased in IsDB member countries from Asia and a few countries in the Middle East. However, some recent figures show a sharp reversal in some of the Asian countries after the financial crisis. This

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[6] Salih, Siddiq Abd Elmajeed, "The Challenge of Poverty Alleviation in IsDB Member Countries", Islamic Development Bank Occasional Paper No.3, Jeddah, Saudi Arabia, October 1999

reversal coupled with the wide spread, deep and severe poverty in member countries from Africa and some Arab countries has led to a rapid increase in the absolute number of the poor in IsDB member countries. In many countries, rural poverty incidence is more deep and severe than urban poverty. This high degree of deprivation among the rural poor is reflected in low incomes, low access to safe water and sanitation, low enrolment rates in primary education and lowest literacy rates, particularly among women. In these circumstances, meeting the International Development Goal of reducing poverty by half by the year 2015 may prove difficult to reach. In fact, according to our estimation, it may take these countries a decade longer than desired to reach that goal, with assistance from their development partners.

In its approach to alleviate poverty in member countries, the Islamic Development Bank has emphasized investment in education and health, capacity building efforts and promotion of greater access to better quality of basic health services. To these ends, the share of financing to the social sectors relative to the overall Bank's financing activities have more than doubled over the past two and a half decades, surpassing 23percent at present.

In addition, the IsDB is considering participation in poverty-targeted operations in the form of pilot projects in the Social Fund for Development with member countries such as Yemen and Egypt. If deemed suitable, such demand-driven activities might provide an operational basis for future alliance with sister development institutions in member countries, in the pattern of the existing arrangement for joint CAS' missions of the IDB and the World Bank. The operational issues in the preparation of the CAS include information on strategies, policies and economic and social issues to be considered for CASs.

To operationalize and further deepen its intervention in this very important area, the IsDB has undertaken two major initiatives. It has established a special facility called *Waqf fund (formerly Special Account)*, with the objectives, among others, of providing relief to member countries afflicted by natural disasters and refugee problems, and targeted financial assistance with global out-reach. The second initiative was undertaken in 1992 by establishing the Special Account for the Least Developed Member Countries (LDMCs). The primary objective of this Account is to finance projects on highly concessional terms, including long repayment periods of 30 years including a 10-year grace period and a very nominal service fee. This facility covers project financing in education, health, water supply, agriculture and transport. The objective of this program is to help these member countries meet urgent and basic needs of the people, specially those of the poor by: (i) increasing their productivity, income, and opportunities for employment; (ii) providing outlets, specially for the rural poor, to enable them to market their products and secure access to inputs and consumer goods; and (iii) improve their quality of life through access to education and health facilities. Last year, the Account was replenished by an additional tranche of US$150 million.

Regarding the HIPC Initiative, the Islamic Development Bank has supported it from its outset and is committed to its broad objective. We believe that the international financial community has embarked on a commendable task to assist the heavily indebted poor countries in achieving debt sustainability and, more importantly, strengthening the linkage between the debt relief mechanisms and poverty alleviation.

The modifications being considered to enhance the effectiveness of the HIPC Initiative are very challenging and far-reaching. This will give a greater impetus to the commitment of these countries in raising the standard of living of the population as a whole. The Initiative is of course an integral part of the reform programs aiming at reducing the poverty levels in the concerned countries. In terms of faster, deeper and broader relief, the Enhanced Initiative is a reconfirmation of the firm commitment of the international financial institutions towards the efforts being undertaken by the countries in an attempt to redirect their scarce financial resources to those sectors of the economy which would impact directly on the lives of their people.

We believe that the Enhanced Initiative should avoid excessive conditionality and allow for greater flexibility particularly for post-conflict countries. It should also avoid lack of ownership. The eligible countries may be allowed to reach their decision and completion points with a macroeconomic program that is broadly on track and is part of the country's overall development program.

The financial implications of an enhanced Initiative will have to be seriously considered and quantified. This will call for an equitable debt burden sharing amongst the various multilateral creditors and a feasible financial framework to be developed and implemented alongside the enhanced mechanisms of the Initiative. Alternative financing options will have to be addressed in order to enable the Multilateral Development Institutions to meet the new challenges and the additional demands on resources available to them whilst maintaining the financial integrity of their institutions. The IsDB is also supportive of mechanisms that will remove obstacles faced by HIPCs that have demonstrated a strong commitment to structural reforms.

The results of the Initiative will have to be regularly measured and performance indicators will have to be monitored to ensure that the relief granted is used efficiently and has the expected desired social outcomes.

Trade and Development

On trade and development, the IsDB broadly endorses the issues raised in the joint paper of the Bank and the Fund entitled "Trade, Development and Poverty Reduction" (DC/2000-05; March 31, 2000). We welcome the change in emphasis, reflected in the joint paper, on the issue of design of trade liberalization. However, it is essential that the international community takes into account the needs and level of development of the low-income and least-developed countries. The adverse effect of liberalization of the international trade regime on these countries needs to be carefully examined and mitigated as part of an overall reform package.

As far as the IsDB is concerned, the issue of promoting trade and realizing its beneficial impact on economic development in member countries has always received a high priority in its financing and other activities. Since the inception of the Bank, the cumulative trade financing operations constituted about SDR11.3 billion or over 68 percent of total approved financing. The IsDB therefore very keenly follows and seeks to address emerging issues related to trade and economic development. The level of intra-trade among the IsDB member countries amounted to about US$37.6 billion in 1997 or about 10 percent of their total exports. To further enhance such trade which falls very much within the overall framework of South-South trade, the IsDB is engaged in the implementation of a multi-faceted 3-year trade promotion program designed to achieve an increase in intra-trade by 3 percentage points.

At the global level, thirty-three of IsDB's fifty-three member countries are members of the WTO while nine member countries are at different stages of the WTO accession process. In this regard, we believe that while IsDB member countries could expect to benefit from the new multilateral trading system, many of them have found themselves poorly equipped institutionally and in terms of human and financial resources to be able to more fully integrate themselves into the new system. Recognizing this fact, the IsDB embarked upon an extensive program to upgrade institutional and manpower resources of its member countries to enable them to effectively participate in the multilateral trading system.

The WTO-related technical assistance program of the Bank covers two sets of activities: (i) those related to preparing member countries for coordinating their positions on major issues in the context of WTO Ministerial Conferences as well as the related multilateral trade negotiations; and (ii) other technical assistance activities aimed primarily at capacity building. In the former category, the IsDB has organized consultative meetings of member countries at Jeddah as well as in Singapore, Geneva, and Seattle in conjunction with the first, second and the third WTO Ministerial Conference. These consultative meetings greatly helped in crystalizing the issues relating to the Ministerial Meetings and forging common positions among member countries on matters of mutual commercial interest. The second category includes holding of workshops / seminars on WTO Agreements, conducting trade policy courses for the trade officials of member countries and undertaking country specific projects. During the last one year, 12 such activities including those in which several member countries participated, were undertaken. A number of other similar activities, including some sectoral studies on topics such as on electronic commerce and intellectual property rights for the benefit of the IsDB member countries, have also been planned. The IsDB also financed the preparations of studies on agriculture, services and investment in collaboration with UNCTAD and distributed to all IsDB member countries. These studies were meant to provide the necessary technical back-up to the IsDB member countries in effectively participating in the WTO Ministerial Conference and the mandated multilateral trade negotiations on agriculture and services. The purpose of these efforts in general is to upgrade the manpower and institutional capacity of member countries to meet the challenges of the world trading system in terms of full implementation of WTO Agreements as well has to reap the benefits of the trade liberalization following the conclusion of the Uruguay Round.

In order to limit the vulnerability of least developed and developing countries to commodity price shocks and also to improve their terms of trade, the IsDB supports the call in the Bank and the Fund joint paper to consider further facilitating access of manufactured goods from member countries in the international market. In this regard, the IsDB's trade financing operations, have endeavored to increase trade in manufactured goods of its member countries. The IsDB has sought to achieve this objective by designing its trade promotion activities, and structuring the terms and conditions of its trade financing operations with a view to enhancing trade in manufactured goods. However, in addressing the broader issue of raising the share of manufactured goods in trade, the IsDB would particularly wish to draw the attention of the development community to the implications of the recent spate of mergers and formation of still larger companies that could potentially extend their global reach over finance, technology and knowledge, and drive firms from developing countries out of the market. In this regard, we support the call of the UNCTAD X, held recently in Bangkok, to formulate international competition policy and on the need to curb oligopolistic trends in order to increase market efficiency and to improve the prospects of market access of relatively small producers of manufactured goods in international trade.

Actions Related to Small States

The IsDB welcomes the Report of the Commonwealth Secretariat / World Bank Joint Task Force on Small States (DC/2000-04) . In our view, findings and recommendations of the Report are going to benefit particularly four of the IsDB member countries, namely Comoros, Djibouti, Maldives, and Suriname. The IsDB has already recognized the special needs of Small States among its member countries and provided financial assistance on highly concessional terms. Accordingly, of the total financing extended to the said member countries amounting to US$87.4 million till April 1999, around 60 percent was either loans carrying a nominal administrative fee or outright grants.

In terms of further steps in this area, the IsDB is of the view that because of the smallness of the states, an action plan for them could be made as comprehensive as possible. The areas of assistance could be selected from sectors such as health services, education, sanitation, water supply, and nutrition. Here, the direct improvement in the living standard of the people could be used as one of the measurements for the success of the operations of a multilateral development institution.

In addition, for developing the operational plan for any small state, intensive study and first hand inquiry of the pressing problems facing the majority of the population would be highly useful. The inquiry should include as broad development participants as possible from government, non-government organizations, and others. Regular evaluation of the impact of the projects on the level of development in the small states would also be required.

Finally, in the small states, the private sectors usually are also small; some of them can even be considered as micro-enterprises. In most cases, small private sectors cannot even have an access to existing financial sectors. Thus, the MDBs could further extend their role in this area through the facility of micro financing. At the same time, they could possibly also pave the way, through partnership with the related authorities for the creation of business friendly environment in these states. The IsDB has designed a scheme for micro financing which will start this year. A special unit has been created to define the operational policy in this regard and help on identifying sectors, areas, and prospects of using the network of selected NGOs.

Intensifying Action Against HIV / AIDS

The IsDB fully recognizes the devastating effect of the spread of HIV/AIDs in different parts of the world. It also endorses the need for greater efforts to curb the problem both at the national and multilateral levels. To this end, the IsDB response has been to strengthen the capacity of member countries in the health sector in general as most of its member countries are deficient in health infrastructure to deal with various kind of diseases and health problems. Accordingly, in the health sector, IsDB attempts to support health programs that will benefit the rural poor as well as urban groups in member countries. In providing basic cost-effective health services to the poor rural areas and urban slums, IsDB’s focus has been on financing primary health care centers in its member countries.

Other areas within the health sector which have received the special attention of the Bank include vocational training centers to train paramedics, nurses and similar health support services primarily for the rural poor, and provision of clean drinking water and sanitation.

The health sector has particularly been a priority sector under the LDMC Program of the IsDB. The major areas focused under this Program are: (i) rehabilitating and upgrading clinics and health centers as well as veterinary centers in rural areas and poor neighborhoods in urban centers and the construction of new facilities in areas which presently lack them; (ii) assisting health establishments to acquire vital and basic equipment and supplies, notably, medicines, advance medical equipment for diagnosis and treatment hospital beds, modern laboratories, etc.

During the past 26 years, the IsDB has financed 80 operations in the health sector. Up to the end of March 2000, the total financing approved by the Bank for these operations stood at US$533.6 million.

Strengthening International Financial Architecture

The IsDB fully supports the need for reforming and strengthening the present international financial architecture particularly after the Asian financial crisis which seriously affected some of the largest and rapidly growing economies of its member countries in the region. We also feel that multilateral institutions with global level financial and developmental involvement have greater roles to play in this area. In this regard, the IsDB broadly agrees with the areas of reforms identified in the World Bank document (DC/2000-06, March 30, 2000). These include corporate governance, accounting and auditing, insolvency regimes, social protection and financial and corporate restructuring. In our view, however, it is equally important for strengthening the international financial system that there is greater discipline in the flow of financial resources at the international level. The Bank noted that the growth of the financial sector in most East Asian economies was detached from the growth in the real sector and there was an excessive and unregulated speculation affecting the international portfolio investment which contributed to sharp fluctuations in the financial and capital markets in these economies. Therefore, for ensuring stable financial growth and capital movements, some mechanism and understanding at the international level needs to be developed to streamline speculative transactions and financial flows. On this occasion, it may be worthwhile to mention that the modes of financing by the IsDB such as leasing, installment sale, equity financing etc. are designed to finance actual transactions and have little room for any speculative behavior. Therefore, while reforming the international financial architecture it may be worthwhile to see how some of the IsDB modes of financing could contribute in this process.

These are some of the thoughts that I wanted to share with you on the agenda of our meeting. I am sure that, as in the past, the outcome of this meeting will further strengthen international cooperation for achieving sustainable economic development and social progress in our member countries.

Statement by Mr. Poul Nielson, Comissioner for Development and Humanitarian Aid, European Commission

Trade, Development and Poverty Reduction

The link between trade, development and poverty reduction is high on all international agendas. The UNCTAD X in Bangkok, the Havana G-77 and the next G8 of industrialized countries are all grappling with the challenge of achieving a positive synergy between trade, development and poverty reduction. The objective is: globalization with a human face. Such a perspective is also the key to re-launching the WTO negotiations.

How does globalization relate to trade and poverty reduction? First, there is strong evidence of a positive relationship between trade and growth. Secondly, growth is a vital, but far from the only factor in poverty reduction. Thirdly, we observe that increased growth and increased trade sadly co-exist with widespread poverty. The new economy is on the front-page every day. The Nasdaq seems to be the new paradigm. But when I travel in Sub-Saharan countries, it is obvious that the benefits of technological progress and open trade are unevenly distributed. It must also be recognized that what is good for one country on the international marketplace might be detrimental for another, if the necessary prerequisites are not in place. So while there is no alternative to a free and open world economy, it is not a panacea and not an end in itself.

The challenge is to make sure that globalization improves the life of fellow human beings. This requires political action.

First of all we need a higher quality of social and economic policies. Trade and investment liberalization are important engines for growth. They stimulate investment in human and physical capital, and ensure better overall allocation of resources. However, markets, competition and openness are necessary, but not sufficient conditions for economic development.

The domestic policy environment of the developing countries themselves and their ability to create a climate conducive to economic growth, social development and environmental protection is essential if they are to reap the benefits of globalization and of an international poverty reduction strategy. We should therefore agree on the need for efficient and accountable domestic institutions and policies, good governance and the expansion of human freedoms. This lies at the heart of any poverty reduction strategy.

But the international strategy is equally important.

The World Bank - under the able leadership of Mr. Wolfensohn - has introduced the Comprehensive Development Framework. The Bank and the Fund are now working together in their poverty reduction efforts under the framework of Poverty Reduction Strategy Papers. The European Union is fully supportive of this approach.

Our own Country Strategy Papers are being prepared on the same basis. They seek to promote ownership and an integrated approach to poverty reduction and stimulate the integration of developing countries into the world economy.

This demonstrates the benefit of a common approach among the Bretton Woods institutions, the WTO, the various United Nations agencies which set norms and standards, and bilateral donors including the European Union.

This coherence is crucial: to remain vigorous and steady, economic growth must be embedded in a global framework of sustainable development. In this framework, social policy and the respect of multilateral norms on core labor standards, environment and consumer protection are powerful instruments to fight poverty.

For weaker states it is sometimes difficult to comprehend fully the requirements of the global economy. Domestic disciplines have to be introduced. Laws have to be reviewed and implemented in order to compete with other nations on an equal footing. While harnessing the raw forces operating on the international market, such disciplines also attract Foreign Direct Investment.

Regional groupings can help in this respect. They can give participating countries more leverage in multilateral fora to make their specific concerns heard. Open regionalism, which stresses the complementarity between regional and multilateral liberalization, can be a stepping stone towards better integration into the world economy.

The European Union, through its Member States and institutions has been at the forefront of regional economic integration. The Lomé Convention and its successor conventions are such pioneering enterprises. We have just concluded the new ACP-EU partnership agreement. The trade and development axis has been considerably reinforced. We are shifting from market access based trade relations to a more comprehensive trade relationship. The Regional Economic Partnership Agreements, the so-called REPAs, will nurture the regional integration between ACP countries and will help to make economic reforms mutually supportive and irreversible.

These WTO compatible REPAs will serve the integration of ACP countries into the world economy as well as poverty eradication. However, they will not come about from one day to the other. A pragmatic approach has been chosen. First, the preparatory period between now and 2008 will strengthen regional economic integration and lead to negotiated agreements with the EU. Second, the implementation period running up to 2020 will maximize the welfare effects while minimizing the adjustment costs on the basis of asymmetry, differentiation and flexibility in trade arrangements.

What is done at bilateral EU/ACP level should be matched also at the multilateral level. The EU and its member states are collectively the world's biggest donor. They are also decisive contributors to the HIPC initiative in support of debt alleviation and sustained economic development. And the EU put forward a strong agenda to WTO members in Seattle focussed on both trade and sustainable development.

This Agenda will be maintained and reinforced in the future. It is my hope that the lessons learnt from the post-Lomé negotiations might help to build a consensus for the launching of a new round of multilateral trade negotiations with a broad agenda.

A new round of multilateral trade negotiations should fully reflect developing countries' concerns. It should ensure their full participation and ownership of the negotiations and it should ensure that their benefits are real. This means better implementation of concessions by developed countries.

The Uruguay Round did offer better market access but we, the industrialized countries, have still a long way to go to make market opening more effective and more consistent with developing countries' specific competitive advantages. Industrialized countries have also to make important progress to strengthen coherence between domestic policies, such as agriculture and trade, and their development policy. What is given by one hand should not be taken away by the other. The Millennium Round will reinforce this objective.

In order to improve the climate and set the basis for the launching of a new comprehensive trade round at the earliest possible opportunity, we should pursue six priority areas:

- Enhance market access for developing countries in order to promote diversification and higher value added exports. The European Union has made a commitment to grant duty-free and quota-free access to essentially all exports from LDCs. This is meant to be an up-front offer. We have started implementing this commitment and will continue to improve it. The EU is also looking at ways to enhance transparency of the market access scheme. This is necessary to make it easier for LDCs to make full use of the opportunities offered for trade expansion.
- Significantly improve, and if necessary adjust, the special and differential treatment (S&D) facilities available under the different agreements. This includes making such provisions more operational to meet developing countries' needs.
- Address implementation concerns of developing countries to help efforts at implementing the Uruguay Round agreements. Specifically, as regards technical assistance and, when appropriate, flexible deadlines.
- Ensure that negotiations in new areas do contribute substantially to the development process, including improving economic governance, essential for development. The development and equity dimensions should be at the center of negotiations in the new areas. In the EU, our sustainability impact assessment is part of the package.
- Develop a new approach to technical assistance for capacity building which is demand-driven and based on complementarity, co-ordination and closer co-operation between the WTO, the other international organizations and donors, for enhanced efficiencies. We need to address capacity building in a broader sense and the ability to trade.
- Facilitate improved participation of developing countries in trade negotiations and in the WTO structures in general.

The fight against poverty is a common responsibility of mankind. It is an immense task, which requires a common purpose and massive resources. It requires markets to deliver growth and it requires policies to deliver equity and humanity. Meetings as the one we have today help us establish such a shared vision.

Statement by Mr. Juan Somavía, Director-General, International Labour Office

The 2000 Spring Meetings in Washington provide a unique opportunity for reflection on the major issues that confront the multilateral system at present. Two questions dominate: (a) how can the potential of globalization to benefit everybody be realized and its negative effects contained?; and (b) what are the most effective strategies for poverty reduction in the new millennium?

The facts are well known. At present, the problems of employment and poverty continue to present formidable challenges at both the national and international levels. Despite slight employment revival in Europe in recent years, the global employment situation remains grim. The ILO estimates that by the end of 1998, some 1 billion workers - or one-third of the world's labour force - were either unemployed or underemployed. The number of persons who are actually unemployed will have reached about 150 million by the end of this year. In addition, 25 to 30 per cent of the world's workers - or between 750 and 900 million people - will be under-employed, i.e., either working substantially less than full-time, but wanting to work longer, or earning less than a living wage. Although the employment outlook has picked up somewhat in a number of industrialized countries, this has to be weighed against persistent difficulties faced in Central and Eastern Europe, and in East Asia. The Asian financial crisis alone added about 10 million new unemployed to the 140 million global unemployed estimated prior to the start of the financial crisis. Elsewhere, in South Asia and Africa, the employment picture has failed to improve. In Latin America, unemployment has grown as a result of low or negative economic growth. In the European Union, recent economic improvements have reduced average unemployment, from 10.7 per cent in May 1997 to 9.5 per cent in February 2000. A notable exception has been the United States, where unemployment is at its lowest level since the early 1970s. These stubbornly persisting high levels of unemployment and underemployment have triggered growing concern over the social exclusion that follows from limited employment opportunities for the young and the old, the less skilled, the disabled and the ethnic minority groups - and with a bias against women. Youth unemployment rates continue to be on average double those of adults. The ILO estimates that there are about 60 million young people, between the ages of 15 and 24, who are in search of work but cannot find it.

Poverty continues to present a daunting challenge. According to the World Bank, while some progress has been made in reducing poverty, this inching forward has been painfully slow and uneven. With respect to income poverty, we can see two trends over the past decade. In percentage terms, the picture looks positive. The proportion of the population of developing and transition economies living on less than $1 a day fell from 28 per cent in 1987 to 24 per cent in 1998. Excluding China, the reduction is rather less - from 29 per cent to 26 per cent in those same years. But a growing world population has delivered a stark challenge. The actual number of people living in dire poverty has remained roughly constant, at about 1.2 billion. Excluding China, the number has actually risen, from just under 880 million to over 980 million. In addition, the total number of people living on under $2 a day is now estimated at nearly 3 billion, approaching half the world's population. These figures mask substantial regional differences with the number of people living below the $1 a day level in sub-Saharan Africa growing over the 1987-98 period from under 220 million to over 290 million - more than 70 million additional individuals. The increase has also been large in South Asia (48 million) and in the transition economies of Eastern Europe and Central Asia (23 million). Latin America and the Caribbean have seen an absolute increase of 14 million. The prospects for future reduction in the numbers of those living in poverty do not look bright. Recent World Bank estimates, based on a "business as usual" scenario of continuing slow growth and recurring crises, show that by 2008 the same number of people, about 1.2 billion world-wide, may still be living on under $1 a day.

All this must be seen within the framework of a globalizing world. Globalization creates both unprecedented economic opportunities as well as deepening social inequalities and personal insecurities. As the 1995 Copenhagen Declaration of the Social Summit noted: "globalization … opens new opportunities for sustained economic growth and development of the world economy, particularly in developing countries", but that "at the same time, the rapid processes of change and adjustment have been accompanied by intensified poverty, unemployment and social disintegration". Accordingly, it identified the key challenge as that of "how to manage these processes and threats so as to enhance their benefits and mitigate their negative effects upon people". If anything, these insights remain more valid than ever after the five years that have elapsed since 1995.

Against this background, the ILO believes that it has become essential to work towards a closer integration between economic and social policies at both the international and national levels. At the international level this implies that the ongoing initiatives to develop close collaboration between international economic and financial organizations on the one hand, and those with a social mandate like the ILO on the other, needs to be pursued vigorously, exploiting more fully the mutual complementarities between economic and social policies and allowing for greater policy coherence. An integrated approach that considers economic and non-economic factors simultaneously is likely to yield both better economic and distributional outcomes. It is also more likely to advance goals that are desirable in their own right such as a greater degree of participation and democracy. For example, simultaneous progress in achieving economic growth, boosting employment, reducing inequality, improving socioeconomic security, strengthening basic rights and democratic governance, and developing sound institutions necessary for the efficient functioning of markets, can all be made mutually supportive. It will reduce the risk that policies in one sector undermine, rather than support, the attainment of objectives in another. It will also facilitate progress towards an optimal allocation of resources between the competing claims of economic, social, and political objectives. As such, in terms of policy outcomes, the whole will be greater than the sum of parts.

There seems to be a consensus, to which the ILO fully subscribes, that we need to rethink development. As Mr. Wolfensohn summed it up in his speech for Coalition for Change last year, "we need a new international architecture to parallel the new global financial architecture". In fact, the different actors within the multilateral system are searching for a new paradigm. The IMF declared in the Summit Meeting of African Heads of States (18 January 2000) that "poverty reduction is a priority for all of us, calling for country-driven strategies that involve all partners in development". Its Poverty Reduction and Growth Facility (PRGF) has been launched as an instrument to contribute to this initiative. UNCTAD X participants declared that "we came to Bangkok to deliberate on developmental strategies in an increasingly interdependent world, and on how to make globalization an effective instrument for development". The UNDP's Poverty Report 2000 provides an approach for "overcoming human poverty". And finally, the recently launched Millennium Report of the United Nations Secretary-General “We the peoples: the Role of the United Nations in the 21st Century” urges the world leaders to make globalization work for people in every nation. The World Bank/IMF efforts with respect to the implementation of the Poverty Reduction Strategy Paper process, and the enhanced HIPC debt relief initiative are an important component of this global response. The massive demonstrations in Seattle at the end of last year during the WTO Ministerial Conference and those surrounding this very meeting are symptomatic of the widespread sense of anxiety and socio-economic insecurity that has accompanied the accelerating process of globalization. Unless effective action is taken soon to allay these fears, the present form of globalization may be stalled by a growing social and political backlash.

Since 1994 the ILO has been addressing this issue through a Working Party on the Social Dimensions of the Liberalization of International Trade. At its last meeting a fortnight ago, the Governing Body decided to extend the scope of this work and gave the Working Party a wider mandate. The Working Party, now renamed the Working Party on the Social Dimension of Globalization, will focus its work on the crucial issue of how the process of globalization can translate into social and economic progress for all. Its high-level tripartite deliberations on the issue will be supported by an expanded program of research that is being launched by the International Labour Office. Since its inception the Working Party has welcomed the participation of the IMF and other institutions such as the World Bank, the WTO, and UNCTAD in its work. It renews this invitation in the new and expanded phase of its work and looks forward to active and substantive collaboration with these organizations, both in its deliberations and in the carrying out of the research upon which these discussions will be based.

Furthermore, the ILO's *decent work* agenda, which emphasizes the roles of (i) fundamental principles and rights at work, (ii) the creation of quality employment through productive investment and enterprise development, (iii) social protection, (iv) transparent and free social dialogue for conflict resolution, consensus-building, and legitimacy, and (v) gender equality, is intended to provide an important contribution to the development of the new paradigm.

To be effective, *decent work* has to be placed within a coherent policy framework supported by the multilateral system as a whole. We can no longer afford to provide countries with disparate, and sometimes contradictory, policy advice. It is within this perspective that the ILO is determined to be a full partner within the system, notably taking part in the World Bank and IMF initiative on poverty reduction. The ILO offers its unique tripartite platform at the country level to enhance ownership and consensus-building around the poverty reduction strategies being promoted within a comprehensive development framework by the Bank and the Fund at the country level, integrated with the ILO’s own agenda for the promotion of *decent work.*

The achievement of this task depends on providing sound answers for a number of questions and challenges that remain before us. Prominent among these are:

- How to design macro and sectoral policies for employment-intensive growth and to ensure that full employment is re-established as a central objective of national and international economic and development policies.
- How to enhance the potential of employment creation in the informal economy at a time when the share of the formal sector in developing countries has been declining, with particular priority being given to the possibility of upgrading the productive part of the informal economy to the small and medium enterprise level, and to the need to respect basic rights at work.

- How to improve and adapt systems of social protection to the needs of different countries and various sectors, to cope better with insecurity resulting from globalization, and to extend coverage to all workers, while drawing a balance between the cost of social protection and the benefit of stability.
- How to put in place precautionary measures against sudden shocks (the lesson of the Asian crisis should not be forgotten).

All this urgently requires creating a better understanding of the interaction between different dimensions of economic and social policies within the new framework of a global economy. This would serve as a basis for policy proposals that could enhance the capability of countries to cope better with the social impact of globalization, and to build the consensus required at the national and international levels, for comprehensive and sustainable development and poverty reduction to become a reality.

Statement by Mr. Y. Seyyid Abdulai, Director General, OPEC Fund for International Development

Trade and Development

Anxiety persists about globalization and its perceived threat to human values. The anxieties may have been fuelled by several global problems, including the increasingly apparent asymmetries and imbalances in our international economy, environmental degradation, erosion of social values and a rise in political extremism.

Some actually blame globalization and the liberalization of trade and financial flows for these problems as well as the impoverishment of millions. This should come as no surprise as entire economies and millions of people suffered losses as a result of overwhelming capital outflows in 1997 and 1998. Several countries, particularly in Asia, painfully experienced the detrimental impact of rapid capital movements on socio-economic development and poverty levels. Policy makers have started to argue in favor of a more selective liberalization of capital flows (to shield developing countries from the impact of financial crises) and for the reform of our international financial architecture as well as a “moralization” of financial markets.

Others point toward major international institutions such as the World Trade Organization (WTO), the Bretton Woods Institutions and the United Nations system, whose mandates, structures, and operations have come under critical review. Demands are being made for more transparent, accountable and effective forms of global governance, and for an economic order that could strike a more sensitive balance between prevailing economic interests and long-term social concerns.

More than two decades ago, countries of the South emphasized the need to strengthen international cooperation in order to reduce the widening inequalities between rich and poor. This, they argued, could be achieved through reform of our international trading arrangements, and by the writing-off of the external debt of the poorest developing countries. Although some steps have been taken to respond to these concerns, the progress made so far has not been enough to check a widening of disparities between developed and developing nations.

The concerns about globalization and its impact on the world economy became particularly manifest during the *Millennium Round* of trade negotiations, which was launched in conjunction with the Third WTO Ministerial Conference in Seattle, USA, in November 1999. The negotiations were disrupted and ultimately called off as a result of strong pressures from civil society. The enhanced involvement of civil society in the global debate on trade and development can be deemed to be a positive sign, as it helps facilitate moves toward more effective forms of global governance and more transparent and accountable international institutions.

The Seattle experience was very much in evidence at the annual meeting of the *World Economic Forum* in Davos, Switzerland, in January 2000, when world political and business leaders faced the serious issue of attempting to resolve the backlash against globalization and free trade which had caused the suspension of the Seattle negotiations. Davos was followed by the *Tenth United Nations Conference on Trade and Development (UNCTAD X)* which was held in Bangkok, Thailand, in February.

UNCTAD X constituted an effort to break the impasse; it considered the trade agenda within a development framework; offered a global forum for dialogue and consensus building among all stakeholders; and allowed for a collective process of in-depth reflection on the development experiences of the last few decades, and the challenges ahead. The conclusions and recommendations of the Conference were incorporated in a *Bangkok Declaration* and an ambitious Plan of Action on issues to be addressed. The commitment to a fair, rules-based and transparent multilateral trading system that would benefit North and South was reaffirmed.

The discussions in Seattle and Bangkok have illustrated the diverse, complex and often novel issues that feature on the agenda of the debate on globalization, trade and development. These range from labor and environmental standards, child labor, slavery, women's issues, intellectual property rights, trade integration, government procurement, investment, liberalization of trade in agriculture, services and several other sectors, to institutional reform. Addressing this broad spectrum of issues is, indeed, a task of daunting proportions. In dealing with them, a sense of urgency and priority is essential. Their variety, however, must not distract us from attending to our most crucial and urgent task: curbing the rising numbers of people living in absolute poverty.

The Development Committee needs no reminder on the consensus reached by the international community about the need to fight poverty, as set out in *Strategy 21: Shaping the 21st Century: The Contribution of Development Cooperation*[1.]. Building on a string of UN conferences, Strategy 21 spells out a number of social and economic objectives for the international community to achieve in partnership with major stakeholders in development.

The overarching and most important objective propounded in this strategy is to cut by half the proportion of people living in absolute poverty by 2015. Another major goal includes the reversal of the degradation of the environment and the loss in environmental resources by 2015. Progress is also to be made towards achieving universal primary education by 2005, closing gender disparities in primary and secondary education by that same year, improving access to reproductive health services, and substantially reducing maternal and child mortality rates by 2015.

[1.] Ref. May 1996 policy paper of the OECD Development Assistance Committee.

The WTO has an important role to play in international endeavors to achieve the Strategy 21-poverty alleviation and related targets. It could fulfill this significant role by ensuring that international poverty alleviation is given the highest priority in the forthcoming trade negotiations. This would entail granting differential and more favorable treatment for developing countries, including special attention to the *least developed countries (LDCs)*, as embodied in the WTO agreement.

The need to cut by half the proportion of people living in poverty is particularly relevant to Africa, home of the majority of the LDCs. This is a continent that is constantly struggling with all kinds of catastrophes, be they natural such as floods, droughts, desertification, or man-made such as wars, internal conflicts. Just recently, the United Nations was warning of a massive famine in the Horn of Africa; conflicts have left behind millions of orphans and unsupported elderly; and diseases have been affecting the most productive elements of the population. Nearly half of the continent’s 760 million people are strikingly poor, surviving on less than US$1 a day.

In an increasing number of African countries, the implementation, at great cost, of painful macro-economic and structural policies, reforms and improvements in governance have begun to produce results. Despite having taken measures to improve the enabling environment, however, most African countries continue to attract only a meager share of foreign direct investment (FDI). They have difficulty of access to Northern markets and encounter obstacles as far as transfer of technology and technical assistance are concerned. Therefore, understandable concerns exist that African countries (and LDCs in particular) are threatened with increasing marginalization from the mainstream of the global economy. These unfortunate developments are taking place in conjunction with further declines in ODA, which has been falling steadily, from 0.33 percent of DAC countries’ GNP in 1992 to 0.23 percent in 1998.

Considering the precarious situation of the LDCs, it is regrettable that *tangible* progress regarding special and preferential treatment afforded to them and to the developing countries, in general, has been so limited to date. Failure to act on this issue constituted one of the reasons for the suspension of trade talks in Seattle. Unfortunately, the discussions in Davos and Bangkok have not resulted in a satisfactory resolution of this matter either.

Home to over 10 percent of the world’s population, the 48 LDCs account for less than 1 percent of world trade, a share which saw a decline of 40 percent since 1980, and this proportion is still shrinking. Granting differential and more favorable treatment to these countries in the framework of the forthcoming trade negotiations would definitely not constitute a major sacrifice for the industrialized countries. We, in that regard, warmly welcome the recent proposal made by some developed countries, notably the countries of the European Union (EU) and Japan, for duty-free treatment of LDCs exports. This initiative deserves much support and other industrialized nations should emulate it. However, even the offer made to the LDCs is not as generous as it appears: the bulk of exports from these 48 poor developing countries is already exempt from duties in Western Europe and the U.S. These exports consist mostly of produce and raw materials which do not threaten in any way domestic industries in the North. Therefore, concessions ought to be extended to grains, textiles and clothing, among others, where it would make a real difference for the Southern countries concerned.

Due consideration should be given in the forthcoming round of trade negotiations to issues related to the implementation of the Uruguay Round agreements, particularly those agreements designed to improve market access opportunities for developing countries.

These issues are twofold: On the one hand, some developing countries face difficulty in implementing the Uruguay Round agreements either due to a lack of resources, or because of problems they were not aware of at the time they entered into these agreements. On the other hand, developing countries may have expected benefits from the Uruguay Round agreements which did not materialize. The need for reduction by the industrialized countries of high tariff and non-tariff barriers on products in which developing countries have a comparative advantage, such as agriculture, textiles and clothing, is an area of common concern and priority in this respect.

To focus only on agriculture, trade in that area offers many developing economies real opportunities for growth - if these opportunities are not stifled by trade barriers in the developed countries. Despite the encouraging proposals for special and preferential treatment for LDCs products, there is a lingering doubt as to whether the Northern Partners will respond positively to calls for rapid progress on liberalization during the forthcoming trade negotiations. Northern reservations on the rapid liberalization of agricultural trade became evident during discussions on who would chair the negotiations on agricultural trade liberalization, which were officially launched at WTO in Geneva on March 23, 2000.

Another worrisome issue to the South is the growing use of anti-dumping measures by major industrialized countries to ensure protection of certain products. Furthermore, there is a need to facilitate accession by poor countries to the WTO, a process that has become increasingly lengthy and laborious.

However, these and other issues of common interest to the developing countries threaten to be overshadowed by the many new topics that have been brought to the negotiating table, mainly by the industrialized countries. These issues concern public procurement, competition policy, environmental and labor standards, and the Multilateral Investment Agreement (MAI) which has drawn considerable criticism from governments, labor unions, research institutions, and non-governmental organizations. The developing countries are likely to feel extremely reluctant in taking on new commitments and issues if their own preoccupations are not adequately addressed in the forthcoming round of trade negotiations.

During the past few decades, a large number of arrangements and institutions have been created, or are in the process of being set up, to promote trade liberalization and regional economic integration[2.]. Competition amongst these and other trading blocks may lead us back to the disastrous protectionist policies of the 1930s. The tensions bred by competition, marginalization, widening inequalities, and the breakdown of free trade will invariably have dire consequences.

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2. These include the North American Free Trade Agreement (NAFTA), the European Union (EU), the European Free Trade Association (EFTA), the Caribbean Common Market (CARICOM), the Southern Common Market (MERCOSUR), the Association of South-East Asian Nations (ASEAN), the Gulf Cooperation Council (GCC), the Arab Maghreb Union (AMU), the West African Economic and Monetary Union (WAEMU), and the Southern African Development Community (SADC), the expected Free Trade Area of the America's (FTAA) by 2005 and a free trade area in the Mediterranean basin by 2010.

Clearly, there is no desire for such unhelpful policies. The international consensus about the importance of free trade to sustained economic development and world peace is overwhelming. This is illustrated by the growing number of GATT/WTO member countries, which increased from 85 in 1980 to 100 in 1990, and 134 in 1999, with more than two thirds being developing countries.

Nonetheless, the drive for trade liberalization and integration is meeting with increased resistance. The events in Seattle painfully demonstrated that the new round of multilateral trade negotiations, if they are to be successful, should endeavor to seriously address prevailing human and social concerns. A new development paradigm is gradually emerging which centers around core human values, emphasizing the need for economic growth to be participatory, inclusive, equitable, fair, and sustainable. The gradual rise of a global civil society and the increased demands for public accountability are accelerating the processes of change inherent in this paradigm shift.

The WTO has an essential role to play in maintaining the rules-based system and in consolidating the achievements of the past, while becoming a more effective instrument for sustainable socio-economic development and poverty alleviation. For the WTO to fulfill this role, however, the organization will have to continue to meet the highest standards of integrity and transparency in decision-making. It will also have to demonstrate greater sensitivity for the concerns of the developing countries (and the LDCs in particular) as well as vision and leadership in working towards meeting the development targets set out by the international community.

If the next round of trade negotiations fails to develop a more flexible and positive approach to the needs of the poorest countries, these countries will continue to miss out on the benefits of our global trading system, a situation that might lead to further impoverishment. On the other hand, a more sensitive and responsive approach to the concerns of the poorest developing countries could help strengthen public support for the activities of WTO, leading ultimately to an increased commitment of public resources to these activities, and helping the organization become a more effective instrument for sustainable development and poverty alleviation.

We stand on the threshold of a new century and a new millennium. Uncertainties about the future abound. The shape of this future will be decided by the interplay of a complex set of interrelated issues and competing interests. Hopefully, this interplay will have positive results, and help create a global trading system that can play a regulatory role while at the same time promoting sustained economic and social development. Our challenge today is to assiduously work towards the establishment of global governance structures that can provide vision and sound leadership, and add strength and stability to the world economy.

Statement by Mr. Nitin Desai, Under Secretary-General, Department of Economics and Social Affairs, United Nations

United Nations and poverty eradication

The difficulty of the fight against poverty is illustrated by the fact that, despite large increases in wealth and enormous economic and social progress in some parts of the world, some 1.2 billion people struggle on less than $1 a day. The co-existence of extreme inequality and extreme poverty are, in themselves, unacceptable and must be a priority concern of the international community. The Secretary-General of the United Nations has therefore called on the Millennium Summit to adopt the target of halving the proportion of people living in extreme poverty by 2015.[1.]

Poverty eradication has been a longstanding goal at the United Nations, as underlined in the outcomes of all the global conferences of the 1990s, particularly the Copenhagen Declaration adopted at the World Summit for Social Development in 1995. The United Nations has always recognized that poverty eradication programs – as all national development strategies and measures - have to be country-driven and embody a high degree of national ownership in order to be effective. Reflecting this premise, and as called for by the Copenhagen Declaration, some 80 developing and transition countries have already prepared their own national poverty reduction programs. The long experience of the United Nations system in assisting countries in their efforts to combat poverty should be drawn upon in preparing the Poverty Reduction Strategy Papers (PRSPs) called for by the IMF and the World Bank.

In October 1998, the Development Committee encouraged the World Bank, in consultation with relevant organizations, to “develop general principles of good practice in structural and social policies”.[2.] The Committee subsequently decided that the further development of a draft note on such principles and good practice should be undertaken in the United Nations in the framework of the follow-up to the Social Summit.[3.] This matter is therefore being pursued by the Preparatory Committee for the Special Session of the General Assembly that will be held in Geneva in June 2000 in order to follow-up on, promote and advance the goals of the Social Summit.

The enhanced HIPC Initiative

The “Cologne Initiative” of 1999 promised faster, deeper, and broader debt relief for the poorest countries that demonstrated a commitment to reform and poverty alleviation. Specific proposals on the Initiative were adopted at the annual meetings of the IMF and the World Bank in September 1999 and the program is now being implemented. Welcoming this development, the General Assembly at the end of 1999 recognized the contribution that was being made to achievement of a durable solution to the debt difficulties of HIPC countries.[4.] Nevertheless, the

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[1.] See *We the peoples: the role of the United Nations in the twenty-first century*, report of the Secretary-General (A/54/2000), 27 March 2000 (available at http://www.un.org/millennium/sg/report/full.htm).

[2.] Communiqué of the Development Committee, 5 October 1998.

[3.] Communiqué of the Development Committee, 28 April 1999.

[4.] “Enhancing international cooperation towards a durable solution to the external debt problem of developing countries,” General Assembly resolution 54/202, adopted 22 December 1999.

Assembly stressed, *inter alia*, the urgency of arranging the funding required to implement the new plan and the need for flexibility in the plan's implementation.

Three months into the first year of implementation, the slow progress on individual country cases and the difficulties in arranging the requisite funding of the relief packages are giving rise to widespread concern. It is imperative that the agreed debt relief measures be applied to all eligible countries without further delay. The Secretary-General's "Millennium Report" reiterates the call on donor countries and international financial institutions to consider wiping off their books all official debts of the HIPC countries in return for those countries making demonstrable commitments to poverty reduction. In addition, the Secretary-General proposes new measures for handling the debt problem, including 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 a debt arbitration process to balance the interests of creditors and sovereign debtors and to introduce greater discipline in their relations.[5.]

HIV/AIDS

The United Nations is encouraged that the subject of HIV/AIDS is on the agenda of the Development Committee because it reflects recognition that HIV/AIDS is a major impediment to development as well as a health issue. The global targets for social development for 2015 are increasingly challenged by the HIV/AIDS pandemic: current trends in HIV infection will have a profound impact on future rates of infant, child and maternal mortality and life expectancy. Because of the critical role human resources play in economic growth, and particularly because those afflicted are in the prime of their working lives, the pandemic will have widespread negative consequences for economic development generally.

In response to this challenge and building on the agreement reached by the General Assembly at its special session on population and development in 1999, the Secretary-General is proposing, in his Millennium Report,[6.] a strategy to contain and reduce the spread of HIV/AIDS. He calls upon the Millennium Summit to adopt a goal of reducing HIV infection rates by 25 percent in the most affected countries by 2005 and globally by 2010. He calls on Governments to set a target of ensuring that, by 2005, at least 90 percent of young people have access to the information, education and services they need to protect themselves against HIV infection and that, by 2010, this proportion is raised to 95 percent. UNAIDS will work with governments and other partners to develop and implement national plans of action to achieve these goals. Additional financial and human resources will be needed for this effort, but experience suggests that one other key resource – the full and active support of governments – may be the most critical.

[5.] See *We the peoples: the role of the United Nations in the twenty-first century*, report of the Secretary-General (A/54/2000), 27 March 2000, paras. 181 and 183 (available at http://www.un.org/millennium/sg/report/full.htm)

[6.] Op. cit., paras. 128 and 129.

Small States

The United Nations has always recognized – and endeavored to respond to – the diverse nature and needs of Member States. We therefore support the proposition, expressed in the Report of the Joint Task Force on Small States, that in-depth analysis of the structural and conjunctural features of small states should be continued with a view to identifying their particular problems and formulating effective solutions. These should include examining the adequacy of different types of international assistance.

For its part, the United Nations Committee for Development Policy - an independent international expert body - has recognized that economic vulnerability should be taken into account in its review of the countries to be classified as Least Developed. In the General Assembly, it has been agreed that the needs of selected groups of countries, including both the Least Developed Countries and Small Island Developing States, should be given special attention in the high-level event on financing for development (see below).

General Assembly's Discussions on Financing for Development

Preparations for the General Assembly's high-level event on Financing for Development to be held in 2001 are continuing. It has been agreed that the event should have five substantive pillars:

- Domestic financial resources;
- International (private) resources, including trade, foreign direct investment and other private flows;
- International financial cooperation for development, including official development assistance and debt relief;
- Issues pertaining to the international monetary, financial and trading systems;
- The special needs of certain groups of countries, including the least developed countries, small island developing states and landlocked countries.

There is a universal recognition that the meeting in 2001 must be a collaborative effort. At the national level, it must involve Ministries of both Foreign Affairs and Finance, as well as such others as Commerce and Development. At the international level, the involvement of other international institutions, particularly the World Bank and the IMF, in the preparations for this event, as well as in the event itself, is universally recognized as being critical. Finally, it is also universally agreed that the 2001 event should be a broad and inclusive forum, with the active participation of both the private sector, particularly the financial community, and civil society.

An intergovernmental Preparatory Committee has been established and is currently consulting on all these issues. Arrangements for cooperation at the intergovernmental and inter-secretariat levels are expected to be completed soon with all the principal institutional actors. Both the IMF and the World Bank have participated actively and positively in the process to date.

To ensure that the 2001 event is a fully inclusive forum, regional consultative meetings will be convened as part of the preparatory process in the second half of 2000, organized by the regional commissions and UNCTAD in collaboration with regional development banks. The Preparatory Committee will also hold two sets of hearings in New York involving the private sector and NGOs to obtain their input into the process.

It is hoped that the United Nations will be able to continue to count on the full and active support of the Executive Boards of both the World Bank and the IMF, as well as the International Monetary and Financial Committee and the Development Committee, in this process.

Statement by Mr. Rubens Ricupero, Secretary-General of the United Nations Commission on Trade and Development (UNCTAD)

The period since July 1997, when the collapse of the Thai baht opened the financial flood gates across much of East Asia, has been a troubled one for the world economy. True, the crises in the developing world have been contained thanks to efforts at the national and international level. However, even as the flood waters have subsided and recovery begun, higher unemployment and poverty levels persist in the countries hit by the crisis. Moreover, it would be foolhardy of policy makers not to recognise the pervasive influence that financial volatility still holds over the economic prospects of developing countries, or their vulnerability if the richest parts of the world economy begin to stumble.

From a longer-term perspective, asymmetries and systemic biases in the world economy continue to stymie growth prospects in the developing world. The unbalanced nature of the globalization process is clearly visible in its selective nature, with finance moving much further and, indeed, faster than trade or real investment, and the movement of labour almost entirely excluded. But, even more significantly, the architects of integration have, all too often, ignored or downplayed the concerns of developing countries. In light of these, UNCTAD has for some time been questioning conventional wisdom that following a swift dose of liberalization, deregulation and privatization, free markets would unleash the kind of growth performance which is needed to address the deep-seated problems of poverty and underdevelopment. This analysis and policy advice has often fallen on deaf ears. But such concerns have become much more difficult to ignore since the Asian financial crisis and the debacle in Seattle.

In this context, the deliberations at UNCTAD’s Tenth Conference held in Bangkok in February, the first global meeting of the new millennium, merit further attention from a wider audience. Throughout the debate in Bangkok, involving governments, civil society and multilateral organizations, there was a general recognition that the globalization process should not be dictated by the interests of the rich and powerful. Implicit in much of the deliberations was a rejection of the idea that globalization is some unstoppable force sweeping inexorably across the face of the world.

Participants in Bangkok did not question the potential benefits from greater integration into the world economy. But there was a widely shared belief, particularly among developing countries, that leaving integration exclusively to markets and to competition among structurally unequal countries has not helped to produce these benefits, and has at times actually been a hindrance. So far the balance sheet of the market-driven globalization points to widening divisions within and across countries. It is also no exaggeration to say that we have entered a new century with a world economy more unstable than at any time since the inter-war years, and in which developing countries remain the most vulnerable to external shocks and disruptions.

Three sources of unevenness and vulnerability received particular attention in Bangkok. In the first place, the large and mercurial movements in financial flows have come to symbolize the dangers of operating in a global economy, some features of which resemble a casino. For many countries, policy-making has become hostage to financial markets, and the kind of discipline that these markets impose on governments is not always conducive to sustained growth and development. Since the Asian crisis, it is increasingly clear that when policies falter in managing integration and regulating capital flows, the damage that international finance can inflict on an economy can be enormous, and this applies even to economies with sound track records of macroeconomic management and social development. As a consequence, the need to overhaul the existing financial architecture is an urgent one.

Secondly, developing countries have been exposed to serious asymmetries in the trading system. Many of the predicted gains for these countries from the Uruguay Round have proved illusory. Indeed, a combination of declining terms of trade, uneven growth and persistent protectionism in industrial countries, and a rapid liberalization of trade and capital accounts in developing countries has resulted in serious payment disorders. The situation is particularly precarious for commodity producers.

Finally, many developing countries, amongst them some of the world's poorest, are still struggling with the burden of official debt. There is now ample evidence of the adverse effects of debt on investment and growth in these countries. This is particularly true of the LDCs where adequate external support remains a prerequisite for kick-starting the development process.

None of these obstacles to sustained growth and development can be effectively solved at the national level. Rather, collective energies and bold leadership at the global level are required if genuine progress is to be made. UNCTAD has called for appropriate action on all these issues and in a much more integrated manner than has been true of past approaches.

Volatile financial flows need to be tamed. Political constraints and conflicting interests, rather than conceptual and technical problems, appear to be the main reason why the international community has made little headway in setting up effective global arrangement for the prevention and management of financial crises. This is particularly true in recognizing debtor rights and burden-sharing. With bailouts on the scale recently seen in emerging markets becoming increasingly problematic, principles of orderly debt workouts need to be written into the rules of the international monetary and financial system. Exchange-rate coordination, including target zones for G3 currencies, along with more effective provision of liquidity to pre-empt currency crises in developing countries, could help bring a much needed degree of stability to foreign exchange markets. There is also much that could be done at the regional level, particularly among like-minded governments which are prepared to establish collective regional defence mechanisms against systemic instability and contagion. Premature financial liberalization must be avoided, and greater tolerance must be shown for capital controls, when countries need to use them.

Resource availability for developing countries, particularly the LDCs and those in Africa, needs to be improved. Although the 1990s saw a return of financial flows to developing economies, these were concentrated in a handful of emerging markets, and a substantial share of them were either unavailable for productive investment or proved too hot to handle. Official financing and efforts to help the least advantaged through debt relief will be needed for many countries. Indeed, it is now time to heed the consensus proposal of the Meltzer Commission and place a full debt write-off squarely on the agenda of multilateral and bilateral lenders.

Over the longer term, additional foreign borrowing makes sense only if higher export earnings are sufficient to finance the additional debt service. This means improved access to advanced country markets for producers from developing countries. Some of the most glaring imbalances in the trading system, such as the freedom of developed countries to massively subsidize their agricultural exports and place their industrial subsidies in the non-actionable category, must be removed. Unrestricted market access ought to be granted to the exports of LDCs and to products of export interest to developing countries such as agricultural goods, textiles and clothing. Trade negotiations must now give priority to the concerns of developing countries in general and LDCs in particular. In other words, a new round of negotiations must be development oriented. Flexibility also needs to be extended to developing countries regarding the design and implementation of their policies. In some areas of trade policy, the full impact on competitiveness of limiting the policy options of developing countries is already proving detrimental and needs to be reconsidered.

The end of sharp political rivalries at the international level has neither silenced the cries of the poor nor hidden the complexities of development policy. Extremism on policy issues cannot provide the route to a more prosperous world economy. To redress the imbalances and correct the malfunctioning of the world economy, a more inclusive and participatory decision-making process is needed at the international level. New international standards, under which globalization is fostered and managed, will have to be negotiated, in a democratic and transparent manner, by all parties concerned. Those standards cannot be set exclusively by a small number of rich countries.

More than a decade after the cold war ended, a truly international community that respects the aspirations of all its members - a new international economic order- is still in its infancy. The past decade has left us with a greater sense of realism about the difficulties we can expect to face and a more pragmatic frame of mind for moving forward. In both respects, the spirit of Bangkok provides a real sense of hope that the scourge of poverty and underdevelopment will finally be lifted in the new century.

Statement by Mr. Mike Moore, Director General of the World Trade Organisation (WTO)

Trade's role in the development process has never been more widely accepted:

- We know that if developing countries are to grow their way out of poverty, more must be done to remove barriers facing their exports of goods and services
- We know that the timing and sequencing of their own trade reforms is a critical issue
- We know that trade must be seen as part of a wider and more comprehensive development strategy
- We also know that bringing developing countries into the global trading system is key, not only to a more equitable world economy, but a more secure and stable one as well.

The real question we have to tackle is not whether trade is central to development and poverty reduction, but how to move a comprehensive trade and development agenda forward. Where are we in our preparations to launch the long-promised "Development Round"? And what should be our next steps?

First, we need to make real progress this year on the mandated WTO negotiations on agriculture and services. The stakes are high.

- Rural poverty is the most endemic and corrosive form of poverty in the developing world, and continuing high barriers to agricultural trade are a large part of the problem. The World Bank/IMF issues paper suggests that the global liberalization of agricultural trade could yield benefits to developing countries of over US$ 40 billion per year.
- Services liberalization is central to successful development strategies. It brings with it essential access to modern technology, and it can produce economy-wide benefits, in terms of more efficient infrastructures, lower communications and transport costs, stronger and better functioning financial markets. Service sector exports are also of significant and increasing importance for a large number of developing countries.

Second, we need to make progress on a package of measures to assist the least developed countries. With over ten per cent of the world's population, they account for just one-half of one per cent of world trade - and their share is shrinking.

- Their desperate situation is not the result of too much trade, but of too little. Tackling that requires a comprehensive approach, to encourage trade diversification, to correct policy impediments that hamper the development of competitive exports, and to build human and institutional capacity to help them grow into world-class traders.
- These problems will not be corrected overnight. What can be done immediately is to improve market access opportunities for the least-developed countries. It is shameful for their wealthy trading partners to continue to maintain tariffs and quotas against the products in which the least-developed countries have a clear comparative advantage.

Third, we need to take a more integrated approach to trade-related technical assistance and capacity building**.** This, above all, is where the Bank, the Fund and the WTO can give practical substance to calls for a more "coherent" approach to trade and development.

- I welcome the fact that the World Bank and the IMF support for trade policy reform and trade-related capacity building is being made an integral part of the new Poverty Reduction Strategy Process. The support of the World Bank and the IMF, along with that of all the other development partners involved in the PRS process, can be of great value in assisting poor countries to enhance the benefits they derive from trade.
- The WTO's Integrated Framework for least-developed countries can provide a valuable complement to this approach. Like the PRS process, it is demand-driven and owned by governments, and it is inclusive of each country's full range of development partners. By better coordinating our trade-related activities under the Integrated Framework, we can provide an effective and ready available channel for conveying information on each county's trade needs into the Poverty Reduction Strategy process. I have invited the

heads of the six agencies involved in the IF to meet in early-July to consider how we can improve its operation.

- For the WTO to be an effective partner in this process, we need to increase our resources for technical assistance and training. That is why I am also looking to improve and regularize the funding of the WTO's technical co-operation activities. The WTO's core budget for technical assistance is a mere half a million dollars - although we receive additional funds from generous donors - and last year we were only able to meet one-fifth of the requests made to us for technical assistance. We need a regular budget sufficient to enable us to plan two to three years ahead and respond to increasing demands for technical assistance programs, not just individual projects. I am seeking an extra 10 million Swiss francs for the regular technical co-operation budget, and I hope that I will receive your support.

These represent essential first steps towards the goal of launching a new and ambitious round of multilateral trade negotiations, which I believe is central to the trade interests of developing countries. Developing countries need more liberalization, not less, and they are the main beneficiaries of the rules-based system. The reality is that only through a broad and balanced negotiation will countries achieve the cross-sectors trade-off that help to drive liberalization forward. Only an inclusive approach - based on the principle of non-discrimination - can ensure that the weakest and poorest countries are not marginalized. As important as unilateral, bilateral or regional initiatives have been, history shows that multilateral Rounds offer the most powerful vehicle for worldwide liberalization.

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)

DC/2000-01
February 23, 2000

NOTICE OF MEETING

The 61st meeting of the Development Committee will be held on Monday, April 17, 2000, commencing at 9:00 a.m. in the Preston Auditorium of the World Bank, Washington, D.C.

DRAFT PROVISIONAL AGENDA[1]

1. Topics for Discussion in the Restricted Session

A. Intensifying Action Against HIV/AIDS[i]
B. Trade and Development[ii]

2. **Items for Comment in Circulated Ministerial Statements**[iii]

A. Report of the Task Force on Small States[iv]

B. Progress Report on Implementation of Poverty Reduction Strategy Papers and The HIPC Initiative[v]

C. Update on the IBRD's Financial Capacity[vi]

3. **Other Business**[vii]

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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 (Preston Auditorium); Restricted Session 10:15-12:30 (World Bank Board Room, MC13-301); Chairman's Lunch 12:45-2:30 (Executive Meeting Room, MC13-121).

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.

[i] An issues note on this subject will be prepared by World Bank staff. About 45 minutes will be allocated to this subject at the beginning of the restricted session.

[ii] A joint Bank/Fund issues paper on this topic will be provided as background for ministerial discussion. About 90 minutes will be allocated to this subject in the restricted session.

[iii] In addition to the topics listed under this agenda, the World Bank Executive Board will discuss in mid-March various items concerning international financial architecture. If the Board believes the Development Committee should have further background on the Bank's role in architecture issues, a short progress report will be prepared.

[iv] The full report of the World Bank/Commonwealth Secretariat Task Force on Small States, entitled **Small States: Meeting Challenges in the Global Economy**, will be reviewed by the World Bank Board in March. Following that discussion, the report's executive summary will be converted into a short paper for the Development Committee.

[v] A joint Fund/Bank Progress Report on these subjects will describe major developments since the September Committee meeting which focussed on these topics. If ministers wish to discuss these matters, time will be made available during the Chairman's lunch.

[vi] This brief progress report responds to the Committee's request at its last meeting "that the Bank report regularly… on … issues" concerning IBRD capital adequacy (September 27, 1999 Communiqué, para. 11.)

[vii] 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. (**Please note that the Chairman will also host a working dinner on Sunday, April 16, from 6:30 to 10:00pm, to continue the discussion begun at the Chairman's lunch on September 27, 1999**. **A note to guide the discussion will be provided Committee Members about three weeks before the dinner.)**

FOR IMMEDIATE RELEASE

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

1818 H Street, N.W., Washington, D.C. 20433

Telephone: (202) 458-2980
Fax: (202) 522-1618

April 17, 2000

COMMUNIQUÉ

1. The 61st meeting of the Development Committee was held in Washington, D.C., on April 17, 2000 under the chairmanship of Mr. Tarrin Nimmanahaeminda, Minister of Finance of Thailand. The Committee's deliberations took place against the background of growing public debate about the appropriate roles of international institutions at a time when governments and people throughout the world confront the opportunities and rapid changes brought about by globalization. In their discussions of how to strengthen efforts to reduce poverty, to intensify the attack on HIV/AIDS, and to expand the benefits of trade to all countries, Ministers emphasized the importance they attach to preserving and further strengthening the family of multilateral institutions as a powerful force for global progress, equity and stability.

2. **Intensifying Action Against HIV/AIDS.** Ministers emphasized that the HIV/AIDS epidemic, which has already infected about 50 million people, is not only a very serious public health concern and the cause of great human suffering, but a severe danger to development progress itself. Ministers recognized that HIV/AIDS weakens economic growth, governance, human capital, labor productivity, and the investment climate, thereby undermining the foundations of development and poverty reduction. Ministers noted that the epidemic now poses not only an acute danger to development in Sub-Saharan Africa, but is a rapidly growing threat in Asia and the Caribbean, and a probable threat in many Eastern European countries and elsewhere as well. As HIV spreads quickly, even countries with currently low infection rates cannot afford to delay strengthening anti-HIV/AIDS programs.

3. In view of this alarming situation, the Committee called for rapid intensification of international action on the global HIV/AIDS crisis. Given the urgency of prevention and the vast needs for care and treatment, the Committee stressed the importance of effective partnerships to encourage each actor in the international system to focus on its comparative strength. Ministers urged governments, international agencies, civil society, the media and the private sector, including the pharmaceutical industry, to step up their efforts, building on experience gained in on-going activities. They urged developing and transition countries to increase their political and economic commitment to combating HIV/AIDS, to address the epidemic on a multisectoral basis, to scale up programs to nationwide - and in some cases regional - scope, to strengthen the

primary health care systems needed for effective delivery of services, and to provide more resources directly to local communities. The Committee encouraged industrialized countries and international organizations to mainstream HIV/AIDS in their development programs and to devote increased financial and institutional resources on a scale commensurate with the scope of the crisis. Ministers recognized that support for capacity building is particularly important in addressing this long-lasting development problem.

4. Ministers welcomed the World Bank's expanded efforts against HIV/AIDS, in particular its active participation in the UNAIDS partnership, its new HIV/AIDS strategy for Africa, and its work with the Global Alliance for Vaccines and Immunizations (GAVI). They urged the Bank to intensify its HIV/AIDS work on a global basis, focusing on its areas of expertise, and called on the Bank and the Fund to take full account of HIV/AIDS in their support for poverty reduction strategies and the HIPC Initiative.

5. **Trade, Development and Poverty Reduction**: Ministers emphasized the critical importance of trade for development and poverty reduction. They noted that accelerated and sustainable growth is a necessary condition for reducing poverty, and that more open economies tend to grow faster than closed ones; evidence suggests that substantial benefits could be gained from further liberalization of trade regimes in both developed and developing (including transition) countries. Ministers recognized that developed countries have much to do to improve market access for developing countries' exports (e.g. agriculture, textiles). Developing countries need to implement appropriately sequenced outward-oriented reforms that will permit trade expansion to promote development and poverty reduction. Ministers noted that the majority of the poorest countries lag behind in their integration into the world trading system. Additional domestic and international reforms are needed, including special consideration of enhanced market access for these countries (e.g. by extending comprehensive and predictable duty- and quota-free market access). Ministers also noted the potential of regional integration to help developing countries increase their share in global markets. Ministers strongly endorsed a timely initiation of WTO multilateral trade negotiations that address, *inter alia*, issues of most concern to developing countries.

6. Ministers emphasized that countries should ensure that their efforts to expand trade are integrated into a comprehensive framework for development that includes the necessary complementary reforms and investment in institutions, infrastructure and social programs. Ministers endorsed the commitment of the World Bank and the IMF to use their programs to support these efforts, which are increasingly reflected in countries' poverty reduction strategies. Ministers reiterated their call on the Bank, the Fund and WTO to cooperate with other parties in developing effective programs of capacity building for trade, including through an improved Integrated Framework for Trade Related Assistance for the Least Developed Countries. The Committee urged the Bank to mainstream trade in its country assistance programs by providing greater financial and technical support to improve trade-related infrastructure and institutions, including building domestic capacity for trade policy and negotiations, and by undertaking a strengthened research program on, *inter alia*, trade barriers to developing country exports, the issues developing countries face in implementing the Uruguay Round Agreement and the complex links between trade and poverty.

7. **Heavily Indebted Poor Countries Debt Initiative (HIPC):** Ministers noted the progress made in implementing the enhanced HIPC framework endorsed by the Committee at its last meeting. Five countries – Bolivia, Mauritania, Mozambique, Tanzania and Uganda – have thus far reached their decision points under this new framework, bringing total committed debt relief under the HIPC Initiative to more than $14 billion; moreover, up to fifteen additional country cases could be considered by the Bank and Fund Executive Boards this year. Ministers encouraged the governments of HIPC-eligible countries to continue to work closely with the Bank and Fund and other partners in pursuing sound policies and delivering effective reform programs so that the delivery of HIPC debt relief, and the related poverty reduction strategies, can move forward as swiftly as possible. The Committee welcomed the establishment by the Bank and the Fund of a joint implementation committee (JIC) to facilitate effective implementation of the enhanced HIPC Initiative and the new poverty reduction strategy approach.

8. Ministers appreciated that participation in the enhanced framework had now been approved by the governing bodies of a majority of multilateral institutions, although they recognized that successful implementation of the Initiative will depend upon the timely availability of adequate financing to meet their full debt relief costs. While these institutions were encouraged to utilize their own resources for this purpose to the greatest extent possible, Ministers recognized that many multilateral institutions needed additional bilateral support on an urgent basis. Ministers welcomed donor pledges and commitments of resources, including those announced since September, and urged that these pledges be turned into actual commitments as soon as possible. They also recognized that even with these pledges, the Initiative remains under-funded. Donors that had not yet done so were urged to make generous contributions to the HIPC Trust Fund. Ministers reiterated the need to ensure that debt relief does not compromise the financing from concessional facilities such as IDA. Ministers also reiterated the importance of the principle that all bilateral creditors should participate fully in the provision of relief under the enhanced Initiative, while recognizing the need for flexibility in exceptional cases.

9. **Poverty Reduction Strategies:** Ministers welcomed progress in implementation of the Poverty Reduction Strategy approach. The Committee had endorsed this approach at its last meeting as a means to strengthen the link between debt relief, and external assistance more generally, and poverty reduction, and to enhance the poverty focus of all Bank and Fund concessional lending. Ministers noted that many governments in low-income countries had begun to develop, through transparent and participatory processes, country-owned, comprehensive strategies that addressed key issues in tackling poverty, such as equitable growth, governance and corruption, and institution and capacity building. Ministers welcomed the steps taken by governments to develop and implement interim strategies that permit HIPC debt relief and concessional lending to be provided while governments prepare more comprehensive poverty reduction strategies.

10. Recognizing that this approach involves new ways of assisting low-income countries, Ministers urged the Fund and Bank to allocate adequate resources to support the PRSP process. The institutions were urged to continue to work collaboratively with member countries and other development partners to develop full poverty reduction strategies, integrated with macroeconomic and fiscal policies. These strategies should incorporate lessons learned as

implementation proceeds, including concentration on a limited number of clear, realistic and measurable performance targets and including those related to the International Development Goals. As poverty reduction strategies need to be mainstreamed, Ministers emphasized they should be fully integrated into countries' budget cycles. They also emphasized the importance of increased efforts, including both technical assistance and funding, to improve statistics and other data and the analytical skills at the country level needed to make the approach a success. Moreover, they encouraged bilateral and multilateral agencies to support governments in the preparation of their strategies. These agencies were also encouraged to participate in the discussion of the design of these strategies with the objective of increasingly aligning their assistance programs to these strategies as they are put in place, thereby strengthening donor coordination and reducing excessive burdens on developing country governments.

11. **Report of the Commonwealth Secretariat/World Bank Joint Task Force on Small States:** Ministers welcomed the report to the Development Committee and its analysis of the special characteristics of small states that make them particularly vulnerable, while noting that a number of larger states shared some or all of the same characteristics. They noted the report's conclusions that tackling small states' development challenges will take a combination of correct domestic policy action, continued external assistance, and where achievable, improvements in the external environment. They also noted the report's recommendation that the circumstances of small states should be taken into account in the policies and programs of the multilateral trade, finance and development organizations. The Committee supported World Bank and IMF proposals for their future work programs on the issues of small states, as set out in the report, and agreed that these steps could make a valuable contribution in helping small states face their development challenges.

12. **International Financial Architecture - Role of the World Bank:** Ministers welcomed the Bank's continuing contribution to global efforts to reduce the risk, and mitigate the impact, of future financial crises, noting that actions and policies that reduce vulnerability to crises also support successful development. The Committee welcomed the close collaboration that had developed between the Bank and the Fund on the program of financial sector assessments, the reports on the observance of standards and codes, and the work on debt management. Ministers encouraged the Bank to make systematic use of these assessments in designing, delivering and mobilizing support for capacity building.

13. **IBRD Financial Capacity:** Ministers reviewed an updated report on this subject from the World Bank and confirmed that the Bank's finances remain sound. At the same time, Ministers recognized that the Bank's financial capacity may at some point limit its ability to respond to future demands. Ministers requested management and the Executive Board to keep this subject under review and continue to report regularly to the Committee.

14. **Next Meeting**: The Committee's next meeting is scheduled for September 25, 2000 in Prague, Czech Republic.

DEVELOPMENT COMMITTEE

April 17, 2000

Tarrin Nimmanahaeminda, Chairman

James D. Wolfensohn, President, World Bank

Stanley Fischer, Acting Managing Director, International Monetary Fund

Alexander Shakow, Executive Secretary

Members	Executive Directors	Countries	Group
Ibrahim Al-Assaf Minister of Finance And National Economy Saudi Arabia *Hamad Al-Sayari* *Governor of the Saudi Arabian* *Monetary Agency*	Yahya Abdullah Alyahya (Bank) Sulaiman M. Al-Turki (Fund)	Saudi Arabia	1
Giuliano Amato Minister of the Treasury Italy *Alternate Member* *Antonio Fazio* *Governor of the Bank of Italy*	Franco Passacantando (Bank) Ricardo Faini (Fund)	Albania, Greece, Italy, Malta, Portugal	2
Peter Costello Treasurer of the Commonwealth of Australia *Alternate Member* *Rod Kemp* *Assistant Treasurer*	Neil Frances Hyden (Bank) Gregory F. Taylor (Fund)	Australia, Cambodia, Kiribati, Republic of Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Papua New Guinea, Republic of Palau, Samoa, Solomon Islands, Vanuatu	3
Pascal Couchepin Federal Councillor and Minister of Economic Affairs Switzerland	Matthias Meyer (Bank) Roberto F. Cippa (Fund)	Azerbaijan, Kyrgyz Republic, Poland, Switzerland, Tajikistan, Turkmenistan, Uzbekistan	4

Seydou Elimane Diarra Minister of State in charge of Planning, Development and Government Coordination Côte d'Ivoire <u>*Alternate Member*</u> *N'Golo Coulibaly* *Minister of Economy and Finance* *Côte d'Ivoire*	Bassary Touré (Bank) Alexandre Barro Chambrier (Fund)	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), Togo	5
Nicolás Eyzaguirre Minister of Finance Chile	Valeriano F. Garcia (Bank) Ana María Jul (Fund)	Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay	6
Laurent Fabius Minister of Economy, Finance and Industry France <u>*Alternate Members*</u> *Charles Josselin* *Minister of Cooperation and Francophone Affairs* *Ministry of Foreign Affairs*	Jean-Claude Milleron (Bank and Fund)	France	7
Jorge Giordani Minister of Planning and Development Venezuela	Federico Ferrer (Bank) Agustin Carstens (Fund)	Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, Venezuela	8
Victor B. Khristenko First Deputy Chairman of the Government of the Russian Federation	Andrei Bugrov (Bank) Aleksei V. Mozhin (Fund)	Russian Federation	9
Pedro Sampaio Malan Minister of Finance Brazil	Murilo Portugal (Bank and Fund)	Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Panama, Philippines, Suriname, Trinidad and Tobago	10

Kelebone Albert Maope Deputy Prime Minister and Minister of Finance and Planning Lesotho	Godfrey Gaoseb (Bank) Jose Pedro de Morais, Jr. (Fund)	Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Seychelles, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe	11
Paul Martin Minister of Finance Canada *<u>Alternate Member</u>* *Maria Minna* *Minister for International Cooperation*	Terrie O'Leary (Bank) Thomas A. Bernes (Fund)	Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines	12
Kiichi Miyazawa Minister of Finance Ministry of Finance Japan *<u>Alternate Members</u>* *Haruhiko Kuroda* *Vice-Minister of Finance for International Affairs* *Ministry of Finance*	Satoru Miyamura (Bank) Yukio Yoshimura (Fund)	Japan	13
Fathallah Oualalou Minister of Economy And Finance Morocco	Inaamul Haque (Bank) Abbas Mirakhor (Fund)	Islamic State of Afghanistan (informally), Algeria, Ghana, Islamic Republic of Iran, Iraq, Morocco, Pakistan, Tunisia	14
Didier Reynders Minister of Finance Belgium	Ruth Bachmayer (Bank) Willy Kiekens (Fund)	Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, Turkey	15
Abdulla Hassan Saif Minister of Finance And National Economy Bahrain	Khalid M. Al-Saad (Bank) A. Shakour Shaalan (Fund)	Bahrain, Arab Republic of Egypt, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Republic of Yemen	16

Clare Short Secretary of State for International Development United Kingdom <u>*Alternate Member*</u> *John Vereker* *Permanent Secretary* *Department for International* *Development*	Stephen Pickford (Bank and Fund)	United Kingdom	17
Yashwant Sinha Minister of Finance India	Balmiki Prasad Singh (Bank) Vijay L. Kelkar (Fund)	Bangladesh, Bhutan, India, Sri Lanka	18
Lawrence Summers Secretary of the Treasury United States <u>*Alternate Members*</u> *Timothy F. Geithner* *Under Secretary for* *International Affairs* *Department of the Treasury* *United States*	Jan Piercy (Bank) Karin Lissakers (Fund)	United States	19
Anne Kristin Sydnes Minister of International Development and Human Rights Norway	Ilkka Niemi (Bank) Olli-Pekka Lehmussaari (Fund)	Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden	20
Tarrin Nimmanahaeminda Minister of Finance Thailand **CHAIRMAN** <u>*Alternate Member*</u> *Bambang Sudibyo* *Minister of Finance* *Ministry of Finance* *Indonesia*	Jannes Hutagalung (Bank) Kleo-Thong Hetrakul (Fund)	Brunei Darussalam, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Vietnam	21

Heidemarie Wieczorek-Zeul Federal Minister for Economic Cooperation And Development Germany	Helmut Schaffer (Bank) Bernd Esdar (Fund)	Germany	22
XIANG Huaicheng Minister of Finance Ministry of Finance P.R. of China *<u>Alternate Member</u>* *Jin Liqun* *Vice-Minister of Finance*	ZHU Xian (Bank) WEI Benhua (Fund)	China	23
Gerrit Zalm Minister of Finance Netherlands *<u>Alternate Member</u>:* *Eveline Herfkens* *Minister for Development* *Cooperation* *Netherlands*	Pieter Stek (Bank) J. de Beaufort Wijnholds (Fund)	Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, former Yugoslav Republic of Macedonia, Moldova, Netherlands, Romania, Ukraine	24

Observers

African Development Bank	Omar Kabbaj President
Arab Bank for Economic Development in Africa	**Did not attend session**
Arab Fund for Economic and Social Development	**Did not attend session**
Arab Monetary Fund	**Did not attend session**
Asian Development Bank	Jean-Pierre Verbiest Manager of Strategy, Planning and Policy Coordination Division
Commonwealth Secretariat	Rumman Faruqi Director, Economic Affairs Division
Cooperation Council for the Arab States of the Gulf	Nasser I. Al-Kaud Director, Department of Money, Banking and Investment
Council of Europe Development Bank	**Did not attend session**
Development Assistance Committee	Jean-Claude Fauré Chairman
European Bank for Reconstruction and Development	Ricardo Lago Deputy Chief Economist
European Commission	Poul Nielson Member of the European Commission
European Investment Bank	**Will not attend session**
Inter-American Development Bank	Enrique Iglesias President
International Fund for Agricultural Development	Vera P. Weill-Hallé Representative Washington Liaison Office
International Labour Organisation	Eddy Lee Director, International Policy Group Bureau for External Relations and Partnerships

Islamic Development Bank	Ousmane Seck Vice-President, Operations
Nordic Development Fund	**Did not attend session**
Nordic Investment Bank	Jon Sigurdsson President and CEO
OPEC Fund for International Development	Y. Seyyid Abdulai Director-General
Organisation for Economic Co-operation and Development	Donald J. Johnson Secretary-General
United Nations	Richard Carey Acting Director of the Development Cooperation Directorate
United Nations	Ian Kinniburgh Director, Development Policy Analysis Division Department of Economic and Social Affairs; Peter Piot, Executive Director, UNAIDS
UNCTAD	Y. Akyuz Chief, Macro-Economics and Development Policies
United Nations Development Programme	Michael Marek Representative of the Washington Liaison Office
West African Development Bank	Boni Yayi President
World Trade Organization	Mike Moore Director-General