STATEMENTS SUBMITTED TO THE SIXTY-FOURTH MEETING
OF THE DEVELOPMENT COMMITTEE

Chairman: Yashwant Sinha, Minister of Finance, India

Ottawa, Ontario, Canada.
November 18, 2001

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NOTE ON THE SIXTY-FOURTH 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-fourth meeting on November 18, 2001, in the Government’s Conference Centre in Ottawa, Ontario, Canada. The meeting consisted of a single session, followed by the Chairman’s lunch for members on the same day. The members circulated their statements in advance and are part of this document. The session started at 9:00 a.m. and ended at 1:00 p.m.

Chairman’s Remarks. The Chairman of the Development Committee thanked the Finance Minister of Canada for hosting this meeting in Ottawa. He announced the selection of Trevor Manuel, Finance Minister of South Africa, as the next Chairman and introduced the Managing Director of the International Monetary Fund, who provided a report on the IMFC meeting held the previous day, and the President of the World Bank, who reported on the Bank’s response to the events of September 11 and the upcoming conference on financing for development.

The Agenda (Annex B) was adopted at the beginning of the session, followed by the discussion of the two topics (“Impact of Recent Events on Low- and Middle-Income Countries: Response of the World Bank” and “United Nations Financing for Development Conference”; the session was adjourned at 1:00 p.m. The Communiqué (Annex A) was approved during the Chairman’s lunch and reflects the salient points of this session.

* September 11, 2001
Note by the President of the World Bank, James D. Wolfensohn, to the Development Committee

The coming years will pose enormous challenges, testing our effectiveness as a development community. The developing countries face the challenge of sustaining development, moving forward with reforms, and safeguarding stability as new stresses arise from falling commodity prices, plummeting revenues from exports and tourism, and reduced private investment. Compared with a year or even six months ago, we face together a world with a more sobering global outlook, more refugees, higher tensions, and much greater uncertainties—all of which will make our fight against poverty still more difficult.

As we take on these challenges, however, we can draw on a growing, but still fragile, new asset: an international recognition of global interdependence. We must build on this recognition, while also recognizing and gaining from global diversity, to renew and deepen our efforts to launch an international response that matches the scale of the problems that the developing world faces. Most of these problems were already with us on September 10th—they are not new. But what is new is a far deeper understanding of their magnitude and importance, and a much greater willingness to act together. This must inspire us all to deepen the fight against poverty—both the short-term struggle to control and limit the ripple effects of September 11, and the longer-term campaign to meet our shared development goals.

A New Recognition of an Interdependent World

The trend toward greater interdependence among nations has gathered momentum for centuries, accelerating rapidly in the past two decades. September 11 painfully underscored that new reality. These terrorist attacks were not the first to cost innocent lives, nor will they be the last, but they were of a scale that reverberated around the world in a way that no one could ignore. I trust that we will not hear again the argument that what happens in Afghanistan is of no relevance to someone living in Alabama, Amsterdam, or Auckland.

I believe that we now all recognize that poverty and frustration in central Asia can create havens for terrorists whose actions are felt across the planet. We see that AIDS in Botswana is part of an epidemic that affects all countries—not only because of the common tie that binds all humanity together, but because communicable diseases spill over national borders, and because epidemics weaken economies and threaten social stability. In the same way, we now must recognize that poverty in Northeast Brazil is the responsibility of us all. If the argument of a common humanity did not convince us of the importance of acting together before September 11th, then an expanded understanding of our self-interest will surely do so now. We live in one world. How we manage our interdependence will determine whether we are intimidated or empowered by the bonds that unite us.

One world does not mean one model. It is fundamental that we recognize that what is at issue here is interdependence—that is, our dependence on each other. We must not be dependent on, or subordinate to, any one dominant set of values or views on development. The great potential of the integrated world lies precisely in the richness of its diverse parts. Diversity provides a source of strength, both at the national level and globally. It is something to celebrate.
All cultures have something of value to provide to the world, and we must be open to all. The challenge we face is in large measure a challenge of changing attitudes, of learning to work together rather than simply making demands of each other.

Resources, goods and services, values—all these are things to be exchanged, not simply exported from one dominant culture to all the others. There are more than a billion people living in China, more than a billion in India, another 600 million in Africa, 500 million in Latin America, and so forth. Notwithstanding their many contributions, it is impossible that the billion people living in the richer countries—or any other single group, for that matter—could have a monopoly on the answers to all questions about development strategies or societal values. This is all the more true as the reform effort has shifted, in so many countries, from macroeconomic reforms to deeper structural and social reforms whose success will hinge on their ability to adapt to local conditions. In this context, there must be a shared understanding of values and cultures across the development divide.

Developing countries themselves must make the key decisions driving their development. Country ownership of development and programs is more important than ever, and it will become even more so with expected demographic changes. In the next thirty years, the population of the world will increase from 6 to 8 billion, and virtually all of those two billion additional people will live in the developing world. The sooner we are able to embrace the implications of this, the better. The new framework for global development must tap the wealth of our shared knowledge and the promise of global integration; it must also draw on local preferences, values, and aspirations.

In this environment of interdependence—not new, but newly recognized—global governance and global institutions play a crucial role. Only such institutions and governance structures can ensure that all countries have a voice, and can thus help to ensure global commitment to the common endeavor of peace and prosperity. Only with a new commitment to building global governance and addressing global problems will we be able to tackle the challenges of long-term development and short-term instability. The World Bank Group is central to this agenda, together with the other IFIs.

A Shared Objective: The Millennium Development Goals

This new commitment to global action can and should be turned immediately toward specific and concrete actions. Indeed, the international community has already taken the first steps, by moving strongly to confront terrorism directly and increase security. We have also seen real collaboration—and it must continue—aimed at averting global recession. These are signs of a rising international response to international problems.

But we must go one step further. The greatest long-term challenge for the global community in building a better world is that of fighting poverty and promoting inclusion worldwide. We recognized both the scale of the challenge and our moral obligation to take it on, when we as an international community pledged last fall to meet the Millennium Development Goals. We have committed to reach the ambitious income poverty target of reducing the proportion of people living in absolute poverty by half by 2015. But the goals for 2015 must and do go beyond income. Importantly, they include the goals of achieving universal primary
education (as well as gender balance in education by 2005) and reducing child and maternal mortality rates by two-thirds and three-quarters, respectively.

There is no doubt that meeting the MDGs was a great challenge before September 11\textsuperscript{th}. Even with the relatively strong growth predicted last year, the trends at that time indicated that many of the world’s countries, indeed whole regions, would fall short of the income poverty goals, and that the world as a whole was in danger of failing to reach the non-income goals. While three billion people live in countries that are integrating, reforming, and catching up with the rich countries, another two billion are in countries that are being left further behind. Far too many of the countries of Sub-Saharan Africa belong to this latter group. And the scale of the challenge is not only immense now, but rising, as a further two billion people are added to the populations of developing countries by 2030.

Last fall, we committed to the Goals; this fall, the prospects of reaching them may seem remote. Yet a strong push toward the Goals is even more imperative now, in the wake of September 11\textsuperscript{th}. Because of the terrorist attacks, growth in developing countries will falter, and progress in poverty reduction will slow, with farmers, rural laborers and others especially in Africa and parts of Latin America bearing a particularly heavy burden. We will not meet our goals unless together we take urgent steps to scale up our activities. This was true several months ago, and it is still more true now.

**Dealing with the Short-Term Consequences of September 11\textsuperscript{th}**

We must not allow the immediate consequences of September 11\textsuperscript{th} to derail our long-term strategy for growth and poverty reduction. To this end, there are pressing issues on which we must act together urgently, with each country or organization playing its own role.

Even before the attacks, developing countries were feeling the strain of the global economic slowdown. Trade and capital flows were already down, for example. Trade growth had dropped from 13% last year to less than 2% this year, hitting East Asia especially hard; capital market flows to developing countries had already dropped by more than 25%; and commodity prices had fallen more than 7%. All of this worsened financial strains in such countries as Argentina and Turkey. As a result, developing country GDP growth was already projected to slow from 5.5% in 2000 to just 2.9% in 2001.

September 11\textsuperscript{th} has of course darkened the picture substantially, for developed as well as developing countries. First, there are the immediate costs. Tourism revenues have fallen sharply, especially in the Caribbean and the Middle East and North Africa region, and transport costs have soared (with the costs of ship freight to South Asia increasing 15%, for example); both factors have combined with depressed developed-country demand to hit the export earnings of developing countries. In capital markets, the spreads on emerging-market debt increased immediately (160 basis points for Brazil and Argentina, 70 basis points for others), and the combination of reduced demand and more risk aversion among investors has placed new strains on these debtor countries. And finally, refugees represent a major new economic burden for countries close to the conflict. Even before the attacks, 3.5 million Afghans were already living
as refugees in Iran and Pakistan; this figure is now swelling, and the increase in numbers is straining public services and could create budget and food security pressures.

Second, there are the medium-term costs of the delayed global recovery. For the middle-income countries, this means a more extended period of both reduced export earnings and reduced capital flows. Our expectation is that the delayed recovery plus the greater risk aversion will lead to sharp falls in capital flows in 2002, even beyond the fall that we will see this year. For the low-income countries, the effects will be felt primarily through reduced export earnings. Demand will fall, and prices of commodity exports, such as metals and agricultural goods, are likely to drop further. Moreover, there are considerable uncertainties about the timing and durability of recovery.

What is the poverty effect of all these shocks? As a result of the decline in income growth, millions of people who would have escaped poverty will not do so. The increase in poverty will inevitably exact a human toll, as mortality rates are strongly correlated: for example, the fall in income could well mean that that tens of thousands more children will die. And the social upheavals that have followed September 11th in a number of countries will exact additional costs, which will doubtless fall disproportionately on poor and vulnerable people.

In our view, the international community will need to move strongly in four areas to respond to the shock of September 11th, beyond the steps it is already taking to disrupt terrorist financing:

- The developed countries, particularly Europe, Japan, and the United States, must continue to work to keep the engine of growth moving; they have already been moving on monetary and fiscal policy. Without this engine, there is no doubt that the global economy will stall, and with it poverty reduction.
- We must put in place support mechanisms for countries that suddenly find themselves hosting large numbers of new refugees.
- We must provide greater support for countries that are highly dependent on tourism, and that have thus incurred collateral damage from September 11th.
- And finally, we must continue to intensify our efforts to provide financial and other support for reform in the countries most affected by the shock to international capital markets, as well as by the general economic downturn.

In addition to taking these steps, the uncertainties in the global political and economic situation demand that we carefully monitor the situation as it develops and prepare to respond further as necessary.

The Committee has a separate paper setting out in more detail our assessment of the potential impact on different regions and groups of countries, and the preparations underway in the Bank Group and the mechanisms we will use to help. As Ministers know, we are working to deliver on our programs and are preparing to assist affected member countries as and when help is needed. And we are doing so in close coordination with our colleagues in the IMF and with the other multilateral development banks (MDBs).
With the sharp slowdown in private flows, the activities of our private-sector arms take on added importance in the wake of the attacks. The IFC is assessing the need for additional support to help sustain private investment flows to countries most affected by the crisis. First indications are that main impact on private investment will come from reduced access of corporate entities to financial markets. Reduced access could have serious repercussions for developing countries, contributing to bankruptcies, unemployment, and further economic decline. The IFC is therefore exploring options to support projects sponsored by such corporate entities by mobilizing funding from the markets. In MIGA’s assessment, a scale-back of foreign direct investment in the aftermath of September 11 is likely to reduce demand for some guarantee products, while increasing demand for others, such as war-related risk coverage.

We are also monitoring the situation in Afghanistan, as we have been for several years. We are working with our partners on developing a comprehensive reconstruction program that could be implemented if circumstances permit.

Events have lent added urgency to the collective efforts of the international community to curb financial abuse, including terrorist financing. In collaboration with the Fund, the Bank is joining the international program of action through stepped-up diagnostic work under the joint Financial Sector Assessment Program, and helping countries strengthen their governance and supervising frameworks through training and capacity-building. We are working with our borrowers to tighten still further our safeguards and scrutiny of the use of funds we provide.

I believe we currently have sufficient financial capacity in IDA, in the IBRD, in the IFC, and in MIGA to respond to the emerging needs of members, in cooperation with other international institutions and donors. But we live in a world of both financial and political uncertainty, and we will need to monitor the situation carefully.

**Deepening the Fight for Development and Poverty Reduction**

Our new deeper understanding of the global interdependence and balance affects how we see the world being governed. It affects how we see our mutual responsibilities and our ability to help each other. But we must also act, and we must act effectively to fight poverty, in very practical ways. We have recognized the challenge. We have an agenda. And we have an action plan. The actions of developing countries themselves are of course paramount in determining progress in the fight against poverty and whether we meet the goals. In countries whose governments have little real commitment to poverty reduction and the reforms necessary to achieve it, no amount of aid is likely to move us very far in the right direction. Countries must help themselves through well-designed development strategies, as well as reforms to policies and institutions. Such policies and reforms not only provide for progress in poverty reduction but also are the best protection from outside shocks. And yet that is not enough; even with strong progress on reform, many countries will fall far short of the Goals if they do not receive greater international support. This action plan recognizes that we will all need to work together to achieve the Goals; with the new recognition of our interdependence, I am confident that we will be able to do so.

**An International Community Working Together for a More Integrated World**

I would propose four priority areas for international action:
First, continue the move toward better policies, investment climate, and governance in developing countries. Improvements in policies, institutions, and governance are essential to development progress even in the best of times. But now, as uncertainty and the economic downturn dry up sources of funds, it is all the more imperative that developing countries accelerate reforms to improve their investment climates and to enable poor people to participate in the process of growth. If it supports such reforms, additional financing from the international community will be a real help in implementing pro-poor programs and encourage private investment.

We know that when we back countries that have a clear strategy for development and are doing what is necessary to implement it, our development assistance can have very large development payoffs. At the same time, we must work with countries that are having greater difficulty, to ensure that they are laying the groundwork for better policies, institutions, and governance. I will return in a moment to what the Bank is doing in this area; here, the important point is that this is a task for the whole development community.

Second, tear down trade barriers and give developing countries a better chance in world markets. Now more than ever, we must support the new WTO negotiations and ensure that the next round is indeed a development round, motivated primarily by a determination to make trade an effective engine for poverty reduction and development. Rich countries must increase market access for the exports of developing countries, thus increasing the payoffs to policy and institutional reforms. We estimate that dismantling trade barriers could well provide an additional cumulative income in developing countries of some $1.5 trillion over a decade and increase annual GDP growth in the developing countries by an additional 0.5 percent over the long run. This in turn would lift an additional 300 million people out of poverty by 2015, beyond the 600 million that will escape poverty with the growth we are currently anticipating. But to make this happen, the developed countries must be willing to put agriculture and textiles on the negotiating table. We must also press ahead with capacity building to help developing countries negotiate as equal partners; and we must build a development architecture that makes trade work for the world’s poor.

Outside the WTO framework, the Bank, together with other international financial institutions and agencies, can provide "aid for trade" through stepped-up development assistance in several areas. One vehicle for this is the Integrated Framework, which was set up by bilateral donors to provide trade-related technical assistance to LDCs. Poverty Reduction Strategy Papers (PRSPs) can provide the basis for setting out the actions needed on trade policy and infrastructure, and for securing the support from the international community for priority reforms and investments.

Third, increase development aid, but allocate it better and cut down the burden it imposes. Private capital flows to developing countries are falling sharply, reversing the trend of the last decade. They are currently expected to fall from $240 billion in 2000 to an estimated $160 billion this year. This makes it still more important that governments increase official assistance. Currently, aid claims only 0.22 percent of GNP of the OECD countries, far short of the 0.7 percent goal set by most of the international community. The evidence from the Bank's
work on aid effectiveness demonstrates that well-directed aid, combined with strong reform efforts, can greatly reduce poverty; it can also mitigate particular effects of crises, such as terms-of-trade shocks. If we are serious about meeting the MDGs, we must generate a substantial increase in ODA from its current level of $50 billion a year. In our paper for the Development Committee on Financing for Development we argue that, assuming that recent policy improvements are sustained and that policy performance in countries with poor policies improve, then ODA flows would need to double to approximately $100 billion per year to achieve the 2015 poverty goal. Over the longer term, the international community should strive to meet the target of providing 0.7 percent of GDP—the Millennium Goals are only one step in the fight against poverty, and they cover only the next 15 years. Moreover, the developed world is significantly more wealthy than it was when the target was set.

Donors are approaching the final stages of considering the 13th replenishment of IDA. It is critically important that IDA has strong resources going forward to meet the extraordinary challenges of the coming years. IDA is central to the global effort to support the poorest countries, with almost 80 countries looking to it for support. We must build on IDA’s success in backing good policies, good governance, and real government commitment to poverty reduction, to ensure that aid is both increased and also focused on those countries that suffer from severe poverty and are making strong efforts for poverty reduction.

At the same time, we must harmonize our aid procedures and flows. Development effectiveness depends on making the best use of available resources; but the transaction costs of aid management and delivery have risen even as aid volumes have declined. Harmonization of donor policies, procedures and practices can have tremendous potential to liberate country capacity and reduce transactions costs. A separate paper has been circulated setting out the progress we are beginning to make on this issue, in cooperation with other donors.

Fourth, act as a global community where it really matters. This means confronting terrorism and internationalized crime, and money laundering, but also combating communicable diseases like AIDS and malaria, building an equitable global trading system, promoting financial stability to prevent deep and sudden crises, and safeguarding the natural resources and environment on which so many poor people depend for their livelihoods.

The key is to combine these approaches: working in partnership for improved policies and governance, together with strong country ownership of those policies, more and better aid, and a better global environment for implementing the policies.

In Monterrey, Mexico, in March 2002, we will meet at the UN conference on Financing for Development (FfD). The discussion on FfD is a milestone in the partnership between the IMF, the Bank, and the UN. It is also an important opportunity to focus the attention of the international community on poverty reduction and on the Millennium Development Goals, and to expand the constituency in support of the actions that are needed to help countries meet these goals.

Meeting the Challenge: A New Development Compact

But can we succeed in reducing poverty, given the scale of the challenge that I outlined above? Recent history tells us that we can. Consider what has happened to world poverty:
after increasing steadily for 200 years, the total number of people living in poverty worldwide started to fall 15 or 20 years ago. In fact, over twenty years, the number of poor people has fallen by perhaps 200 million, even as the global population grew by 1.6 billion. This has been a direct result of the better policies that developing countries have been putting in place.

And progress extends well beyond income measures. Education and health have also improved. Since 1970, the proportion of those in the developing world who are illiterate has fallen sharply, from 47 percent to 25 percent; and since 1960, life expectancy has risen from 45 to 64 years.

Yet we must not underestimate the challenges that remain. Nearly half the developing world—some 2 billion people—live in countries that have seen little growth in the last two decades. And even in those developing countries that have been doing relatively well, hundreds of millions of people are marginal to the progress of growth. As a result, well over 1 billion people, around 20 percent of the population of this planet, live on less than $1 a day. We have a global challenge of inclusion.

Given the scale of the challenge before us, we will succeed only if we all do our part to meet the Development Goals. We should commit ourselves to a new development compact that makes these roles clear. As part of that compact, the wealthier countries will need to commit to expanding and harmonizing aid, and to opening their markets more fully to developing-country exports. These policies are not only a moral imperative, but also a bulwark of national security. There is no doubt that a less inclusive world is a less stable one, and that international borders do little to stop the scourges of communicable disease and violence.

Developing countries, for their part, should continue their movement toward better managing their economies. They should work to improve the investment climate for entrepreneurship and growth for all firms, particularly small firms and farms. And at the same time, they should invest in their people, expanding the opportunities for poor people to participate in the process of growth. We have seen great progress in the last decade or two, as countries in all regions have brought their macroeconomies and fiscal situations under control and are working to improve their institutions and governance. They will need to press ahead with these reforms; the current international environment may seem to make reforms more difficult, but the reality is that it increases the costs of not reforming.

And international institutions must do a better job of harmonizing policies and collaborating with development partners. Together, we are working to help construct the key pillars of development: building a good investment climate and investing in people. Poor people are a great asset in the fight against poverty, not a liability. But to realize their potential, they must be equipped with education, health, and social protection, and they must live and work in an economy that is encouraging investment and creating jobs. As I will now explain, we have oriented our work in the Bank Group toward building these strategic pillars.
The Role of the World Bank Group

I have already spoken of the short-term response to September 11th; we have contributed to this response by reexamining and refocusing our country programs, and we stand ready to help further with immediate needs. At the same time, the Bank Group is implementing a coherent strategy to accelerate longer-term development and poverty reduction in our client countries. We have adopted the Comprehensive Development Framework (CDF)—with its core principles of long-term development vision, partnership, results orientation, and country ownership—as the basis of our work. The CDF underlies the poverty reduction strategy (PRSP) approach, and it appears under other names in programs and approaches carried out by other organizations. We have built on this foundation to construct the key elements of the Bank Group’s strategy: assistance programs that are tailored to the circumstances of each country, whether it is low-income, middle-income, or post-conflict; support for the provision of global public goods; internal reforms aimed at maximizing our development effectiveness; and new instruments to support effective partnerships with other development institutions.

Supporting Low-income Countries

We are making good progress in implementing our new approach to providing support to low-income countries, based on country-owned poverty reduction strategies. So far our Board has endorsed 38 interim poverty reduction strategies (IPRSPs), and 8 full poverty reduction strategies (PRSPs) as a basis for IDA assistance. We are also making progress in introducing the new poverty reduction support credit (PRSC) for this group of countries, with 2 PRSCs already approved. Bank and IMF staffs are cooperating in a new and highly effective way in supporting these country strategies, and increasingly the strategies are being used as a basis for wider donor coordination. At the time the PRSP process was launched, staff were asked to undertake a comprehensive review of the approach after two years of implementation. That review is currently underway, and the results will be reported to you at the Spring Meetings. Our success or failure in this endeavor will depend upon African countries; successful development of low-income countries requires success in Africa.

In addition, the FfD agenda focuses on debt relief as an integral part of the external assistance package. The Highly Indebted Poor Country (HIPC) initiative is providing such relief for 23 countries; we are proud of what we are achieving with HIPC and of our strong partnership in implementing it with the IMF, other MDBs and donors, and NGOs.

At the same time, we are committed to working with countries that are not on track for debt relief or other forms of large-scale aid. There is no denying that we know more about how to support countries that are making good progress toward development goals than other poorer-performing countries. To strengthen our approach to working with this latter group, we have recently established a Task Force on Poor Performing Low-Income Countries—those for which, on current trends, meeting the development goals will clearly be an uphill struggle. These countries often face a policy environment that is not conducive to sustained growth and poverty reduction; their governance is also often weak, with citizens lacking a voice or, worse, suffering from harassment; and finally, their public institutions are ineffective and unable to deliver core services to the population. These countries are typically not candidates for significant lending, but that does not mean that no assistance is possible. The Task Force will seek to identify a focused strategy, to be carried out with diverse partners, that can effect change in these countries
and help them break the cycle of poverty. We must do all that we can to ensure that they are not left further behind.

One special challenge in the low-income countries is meeting the Education for All (EFA) goal—the goal of ensuring that all children receive primary education by 2015. Globally, the challenge is considerable, as one out of every five children in developing countries does not attend primary school, and sixty percent of these are girls. When the Development Committee met in April 2001, Ministers agreed to consider the subject at a future meeting; the Committee now has a background paper on “Education for All.”. In Genoa, the G8 leaders reaffirmed their commitment to help all countries meet the Dakar goals and urged the Multilateral Development Banks to increase their efforts in supporting education as a key factor of poverty reduction and economic growth in the global knowledge economy.

The Bank is placing education, as well as health, at the core of its activities. In addition to investment lending, the World Bank will make use of other lending tools to provide flexibility in responding to the varying needs of countries. Programmatic lending based on PRSPs will provide rapid availability of financing for countries where a strong macro-economic framework and good governance mechanisms are in place. In addition, as funds become available, we will consider increased use of grant financing in certain situations, such as in conflict and post-conflict countries where past arrears make new lending impossible.

In the education sector, the World Bank will focus on improving primary school completion rates and quality, through support for both improved service delivery and targeted programs to encourage families to send their children (particularly girls) to school; successful examples of such programs include those in Brazil, Mexico, and Bangladesh. We are also putting in place mechanisms for systematically tracking resources going into education through the HIPC/PRSP process and for monitoring the effectiveness with which such resources were being utilized. Working with others, we will also help countries map out their path to achieve EFA goals.

Beyond education and health care, we know that good governance is one of the key preconditions for success in development. The Bank is committed to helping members strengthen governance arrangements, particularly in areas of public sector management, legal and judicial reform, financial system development, accountability, and anti-corruption measures. Using our strengthened diagnostic work, we will ensure that every future CAS contains a review of the government’s public sector management and accountability arrangements. Where there are weaknesses we will work with the government to agree a program of actions to tackle them. For HIPCs, we will be presenting a joint paper with the IMF early next year on strengthening public sector management capacities.

**Promoting Growth and Stability in Middle-income Countries**

Following discussion at the Committee’s April meeting, we have been actively implementing the proposals to strengthen our support for middle-income countries.
We are continuing our efforts to improve the quality of Bank Group Country Assistance Strategies, grounding them even more strongly in each country’s own vision of development.

We are setting about rebuilding our country analytic and diagnostic work, and in particular focusing on the cross-cutting analyses of country financial management and fiduciary systems, and of social, structural and sectoral policy reform priorities.

We are working to ensure that more systematic use of development-focused adjustment lending is underpinned by strong country policies and fiduciary systems. We will be consulting widely later this year on a range of policy issues relating to Bank adjustment lending.

The Board has approved proposals for a new “deferred draw-down option,” which may be attractive to a particular category of middle-income borrower.

At the request of the Board, we are carrying out this fall a further review of IBRD loan pricing, addressing in particular issues of selectivity and incentives.

Rebuilding Post-Conflict Countries

An important subset of both sets of countries, particularly relevant in the current circumstances, is post-conflict countries. We have an important role to play in helping peace and development set down roots in societies just emerging from conflict. We have done this together with partners in Bosnia, where international support is helping communities come together at the local level on small-scale projects, creating jobs, and bridging ethnic differences. More recently, we have assisted the post-conflict societies of East Timor and Kosovo—where the international community is helping to rebuild infrastructure, reintegrate soldiers into the society and workforce, and restore the capacity of governments to manage their economies. And we have also moved quickly and creatively to try to stabilize a fragile situation in the Democratic Republic of Congo, by supporting reforms and the peace-building effort through the first IDA post-conflict grant (of $50 million) and by working with the IMF and the African Development Bank to resolve a difficult arrears problem.

Success in these initiatives may take years of hard work, but the alternative is a never-ending cycle of violence. We reject this alternative, and we are now active in 35 post-conflict operations worldwide. In future months, we are prepared to expand these efforts to Afghanistan and other new post-conflict countries.

Central to conflict prevention and peace-building must be strategies for promoting social cohesion and inclusion. Inclusion means ensuring that all have opportunities for gainful employment, and that societies avoid wide income inequalities that can threaten social stability. But inclusion goes well beyond incomes. It also means seeing that poor people have access to education, health care, and basic services such as clean water, sanitation and power. And it means ensuring that poor people participate effectively in the decisions that shape their lives.

Providing Global Public Goods

At the same time, we are pushing ahead strongly with global issues. Although country programs have historically been our primary mode of assistance, not all issues are best addressed at the country level. Country-owned strategies do much to set the directions of our work, but they alone are not sufficient to manage the global agenda.
As you know, the finances of our institution are such that we are constrained in the resources that we can provide for global public goods. But within these constraints, we have moved purposefully toward greater global effectiveness. The Bank is strongly increasing its commitments to fight the global scourge of HIV/AIDS, and is expanding resources for tuberculosis, malaria, and other infectious diseases. Alongside strong country programs, we are working in Africa and the Caribbean on new ways to tackle cross-border transmission and to support regional rather than purely localized efforts—we are discussing with IDA Deputies the possibility of greater use of grants in support of these efforts. And we have provided key staff and support for the launch of the Global Fund Fighting AIDS, TB, and Malaria, which was announced by the UN Secretary General and G8 leaders earlier this year.

Strengthening Ourselves to Meet the Challenge

As you know, we have in recent years made major strides in our effort to reorient the Bank Group’s internal organization and procedures to enhance development effectiveness. We have decentralized to move our decision-making closer to our clients; we have acted to increase the quality of our projects, and the quality has increased, as judged by the independent Operations Evaluation Department; and we have invested in the knowledge and skills necessary if we are to assist developing countries effectively.

Building on these successes, the Strategic Directions that I outlined at the Spring Meetings in April this year set out the broad agenda for the next three to five years that will direct our management and governance within the institution.

- **Improvements in the Budget Process**: During FY01, a number of further reforms were implemented that focused on (1) improving the linkage between the Bank’s strategic priorities and the allocation of budgetary resources and (2) strengthening the monitoring and accountability arrangements governing the use of these resources.

  We have also established a clearer relationship between country work programs and administrative budgets, and provided greater budget stability for units. Priorities have been clarified in several ways. At the broader level, priority was given to front-line activities, with $48 million of the $55 million real budget increase over FY01 allocated to the operational units. Within Regions, priority was given to poverty reduction, and consequently the largest increases were focused on Africa and South Asia.

  A system of quarterly business reviews was introduced to provide Vice Presidents and senior management with an opportunity to meet at regular intervals during the year to discuss financial and operating performance, as well as to address unit-specific issues or concerns. We have also introduced a new quarterly system for reporting to the Board on key operational deliverables, resource management, and human resource issues.

- **Disclosure Policy**: In August 2001, the World Bank’s Board of Executive Directors approved revisions to the Bank’s policy on the disclosure of information, making changes that will bring greater transparency and accountability to the Bank’s support for the development process. The policy changes were approved after the Bank published its
draft review of the policy in September 2000, held extensive consultations to solicit the views of civil society, industry groups, and governments in 21 countries around the world, and provided opportunities for comment through the Bank’s website.

The disclosure policy will now permit public access to documentation from the entire project cycle, from preparation through implementation to independent evaluation. Documents in which the Bank’s independent evaluation arm—the Operations Evaluation Department—reviews Management performance in various operational processes will be disclosed, along with the Management Response to such evaluations. Similarly, reviews by Management’s own Quality Assurance Group of the quality of key activities such as loan preparation, loan supervision, and economic and sector work will be available.

- **Risk Management**: Following the report of the Risk Management Task Force that was established last year, two actions were taken: (a) a risk management committee was set up at the senior management level, and (b) Operational Risk Management Working Group was formed to set up a framework for identifying, assessing, monitoring and managing risks in lending operations.

  The top priorities for action in FY02 are to work with Regions and Networks to develop a more integrated and uniform framework for risk assessment for all lending operations, to be piloted in one or two Regions, and to undertake stocktaking of risks for Senior Management and the Board. At the same time, it is proposed that revised procedures be put in place to ensure Management focus on the most risky operations.

- **Management Structure**: As you know, Sven Sandstrom will soon retire as Managing Director of the World Bank. Among his many contributions, Sven played a particularly important role in working with this group on our shared mission of development and poverty reduction. I am sure you would want to join me in thanking him for his long and distinguished service to this institution and to the development community.

  We have been carrying out our own internal reviews of the management structure of the Bank and have also listened to the constructive suggestions of governors on the subject. With Sven’s retirement, we have taken steps to tighten our management structure. We believe the new arrangements are off to an excellent start.

- **Analytic Work**: Following a thorough review and the resource increase agreed in this year’s budget, we have begun a process of rebuilding the quality and content of the Bank’s analytic and diagnostic work. In carrying out this work, increasingly in collaborative partnerships, we aim to be more selective than in the past, drawing on the contribution of others wherever possible. We are also identifying core areas where the Bank's country knowledge needs to be kept systematically up to date to inform the country policy dialogue and Country Assistance Strategy (CAS). These core areas include the broad social and structural constraints to sustained growth and poverty reduction, as well as the basic fiduciary analyses of countries' public expenditure, procurement, and financial management systems.
Making Partnership a Reality

Since April we have also made good progress in strengthening collaboration with the IMF, putting into practice the vision for Bank and Fund roles and partnership that Horst Köhler and I set out last year. This goes beyond the increasingly close cooperation in implementing our joint approach to supporting low-income countries, using the PRSP process. Over the summer we joined with the IMF in reviewing our collaboration in better focusing the conditionality attached to our loans. We have identified a number of proposals, building on the principles that have guided our collaboration in the past, and issued a paper for wider consultation. The proposals we are pursuing together will involve substantial changes in the way staffs of both institutions approach their tasks. They will also, I believe, bring major benefits to our borrowers.

The global crisis underlines with new urgency the vital role that must be played by a strong and coordinated framework of IFIs/MDBs. Along with Horst Köhler and the presidents of the regional development banks, we have forged closer links, sharply increased the frequency of meetings and videoconferences of the heads of institutions and of senior managers, and are committed to coordinating still more closely on a number of key fronts. Our growing collaboration is now formalized in memoranda of understanding between the Bank and the other MDBs, but more important than the formal documents is the growing collaboration and joint work that underpins them—on coordinating country strategies, sharing economic and social assessments, building strong and clean financial systems, strengthening governance and the fight against corruption and money-laundering, harmonizing our operational policies and procedures, ensuring that our pricing is appropriate to our development objectives, and in a growing number of other important fields. There is still some way to go, and important issues remain to be worked out by all of us together with our common shareholders, but progress towards closer coordination is strong and, in my view, irreversible. That will add significantly to the strength of the international community in the days ahead.

Responding to the request of the Development Committee, we are reviewing Bank procedures to facilitate harmonization with MDBs and bilateral donors, particularly for financial management, procurement, safeguard assessments, and sector-wide approaches. Major changes underway include:

- Introducing flexible reporting requirements through the Loan Administration Change Initiative and reducing necessary demands on borrowing financial capacity.
- Reviewing audit policy for Bank-financed projects to find more cost-effective ways to obtain assurance about the use of Bank resources while contributing to the development of borrowers’ audit capacity.
- Promoting greater reliance on capacity building for procurement. A framework is being proposed for the design of procurement arrangements in multi-donor sector programs.
- Clarifying the project-based environmental and social statements in its Operational Manual that form the basis for conducting safeguard assessments required under the Bank’s policies. This effort will enable the Bank to participate more effectively in the harmonization work in this area.
- Examining the fiduciary components of eight sector-wide approaches in which the Bank has been involved to assess the effect of its fiduciary policies and procedures on project design, and implementation. The aim is to agree on an approach that builds country
capacity, is compatible with the approach used by other partners, and provides the necessary assurances required by the Bank.

**Conclusion**

Over the next two years, we will face enormous challenges—including promoting long-term development in low-income countries, supporting reforms and safeguarding stability in Argentina and Turkey, and confronting squarely the challenge of Africa. All of this must happen in an international environment that is less conducive to growth and development than it was two months ago. We must rise to these challenges.

I have outlined the ways in which I believe the international community can and must act effectively to respond to these challenges, by promoting better policies, institutions, and governance in developing countries, expanding market access for developing countries and promoting trade, scaling up and harmonizing aid, and providing global public goods. I have also laid out the ways in which the World Bank Group is moving, coherently and strategically, to promote more rapid development—through our country programs, our global actions, and our internal management and external partnerships.

But as a concluding note, let me step back once again from those specific policies and underline the spirit in which we must move forward. The need for scaling up our efforts cannot be overstated; nor can we afford to delay. If we are to rise to the challenge of making a better world for the 6 billion who are here and the 2 billion more who will join us in the next 30 years, we must act now. In practical terms, no one player can do this alone. Equally important, the legitimacy and effectiveness of the effort will depend on its inclusiveness and recognition of diverse values and approaches. There must be a truly global coalition to fight terrorism and overcome conflict, but we must also build a powerful and global coalition to promote inclusion and overcome poverty. The time for action is now.
Statement by the Managing Director of the International Monetary Fund, Horst Köhler, to the Development Committee

1. These extraordinary meetings of the Development Committee (DC) and the International Monetary and Financial Committee (IMFC) are taking place at a time of heightened economic uncertainty around the world. They are a crucial element of the response to new risks and challenges for the global economy, in the wake of the terrorist attacks of September 11. Our discussions should demonstrate that the entire international community stands together in working to bring about economic recovery, safeguard the stability and integrity of the international financial system, and maintain the momentum of the fight against world poverty.

The Global Outlook

2. Even before the attacks on September 11, economic activity was weakening throughout the world. The advanced economies faced declines in equity values, industrial production, and business and consumer confidence. Developing and emerging markets in turn were experiencing weak external demand, low commodity prices, and growing risk aversion in international financial markets. In the aftermath of the attacks, the situation facing emerging markets and developing countries will clearly be even more difficult. Fortunately, many countries entered this period with low inflation and relatively strong fiscal and balance of payments positions, which left them with greater room to maneuver, and in many cases policy responses have already taken place or are underway to deal with the economic downturn. The resilience of many emerging markets to shocks has been improved in recent years by the adoption of flexible exchange rate regimes, stronger reserve positions, and more limited short-term obligations, as well as reforms of the international financial system. Moreover, for most countries the recent decline in oil prices has helped to support economic activity and reduce external financing requirements. As a result, we continue to expect that there will be a recovery during the coming year. However, there is also the possibility of a worse outcome, involving still lower growth and increased financing requirements for many countries.

The IMF’s Response

3. As I noted in my statement of October 5, these challenges and risks must be met with a coordinated response by the entire international community. Economic policies in the advanced countries have a crucial role in supporting an early return to sustainable growth and financial strength; emerging market and developing countries need to pursue growth-oriented policies, while recognizing that there will be little market tolerance for weak fundamentals; and the IMF, World Bank, and other international organizations must be proactive in providing their members with policy advice and financial assistance.[1] We have been working closely with the regional development banks to coordinate our response to the unfolding needs of member countries, and the heads of the international institutions recently sent a letter to the DC and the IMFC.

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1 See the Statement of the Managing Director on the Situation of the World Economy and the Fund Response (News Brief No. 01/98, 10/05/01) for a description of the IMF’s response—policies and financing.
describing these activities. As an important element of the comprehensive response to recent events, the IMF and the World Bank are intensifying their contributions to the international effort to combat money laundering and the financing of terrorism.

4. For its part, the IMF is monitoring the situation closely, and is in touch with the authorities in the advanced economies; with emerging markets facing reduced external demand and constrained capital market access; with countries in the Caribbean and elsewhere coping with falling tourism and workers’ remittances; with low-income and other developing countries affected by weak commodity prices; and with “front-line” countries affected more directly by the conflict in Afghanistan. Based on an initial, comprehensive assessment, I can confirm that the institution’s financial instruments and liquidity position are adequate to enable it to respond to the potential needs of its membership, even in the event of a deeper or more protracted downturn in global economic activity; but we are keeping these under careful review, in case further adaptation is warranted by future developments.

5. The joint note that Jim Wolfensohn and I sent to the DC and the IMFC provides our common assessment of potential effects on low-income countries and possible policy responses. The IMF stands ready to provide additional support to low-income countries through the PRGF, in support of sound poverty reduction and growth strategies. Our staff is in close contact with country authorities to discuss the potential scope and modalities for any additional IMF support, and will have carried out in-country reviews with about 40 low-income members before year-end. The likelihood that there will be a sharp increase in Fund lending to low-income countries—to perhaps $1.5-2.0 billion next year—does underscore the importance of completing ongoing discussions with our members, to increase PRGF loan resources. I therefore welcome Japan’s recent decision to contribute $1.0 billion to the PRGF’s loan resources, which will assure that the IMF will have the minimum amount necessary to support the PRGF through 2005. In addition, the Bank and the IMF have recently adopted procedures for revisiting the amount of debt relief under the enhanced HIPC Initiative, and we intend to apply these in cases where debt sustainability has been compromised by exogenous developments.

A Broader International Response

6. A number of other international initiatives are underway to respond to the risks and uncertainties in the global economy and help meet the needs of developing countries. As expressed in my November 8 joint statement with Jim Wolfensohn, our hope is that by the time of our meetings in Ottawa, the WTO Ministerial in Doha, Qatar, will have made a decisive start on the launching of a new multilateral trade round—one which gives special weight to the needs

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2 See joint letter of the Heads of the IMF, World Bank, AfDB, AsDB, EBRD, and IADB to the members of the Development Committee and of the IMFC, of October 5, 2001 (FO/DIS/01/126, 10/16/01).

and concerns of developing countries, including improved access to developed country markets. We are also working with others to provide technical assistance to help developing countries improve their capacity to trade and participate more effectively in the WTO, including in multilateral negotiations.

7. The DC will also be seeking to maximize the contribution of the United Nations Conference on Financing for Development (FfD) to the fight against world poverty. The conference, scheduled for March 2002, offers an opportunity to cement and accelerate the international effort to work to achieve the Millennium Development Goals. In particular, the FfD process can help by achieving consensus on the crucial role of domestic policies and governance in the fight against world poverty; promoting an effective division of labor among country authorities, international organizations, and the private sector and civil society in supporting the efforts of developing countries; and in particular, by providing an impetus for the mobilization of more adequate level of ODA resources.

Looking Ahead

8. Since this Committee last met, there has been further progress in implementing the country-driven PRSP approach, with encouraging early results. Together with the World Bank, the IMF is engaged in a comprehensive review of the PRSP process, drawing on input from low-income countries themselves, other international organizations, donors, and civil society organizations. We will report the early experience with the findings of the review and put forward proposals for strengthening the approach, with a view to improving its development impact, at the 2002 Spring Meetings of the DC and IMFC. Using the PRSP approach as a basis for concessional assistance is consistent with an overall framework based on mutual accountability, of action by the poor countries themselves and stepped up support by the international community. With this in mind, I would like to welcome the New Partnership for Africa Development (NPAD) recently launched by Africa’s leaders, which emphasizes the role of African ownership, leadership, good governance, and accountability for planning and implementing reforms. The IMF will continue assisting the participating countries in many aspects of policy advice and capacity building that are important elements of this initiative.

9. On each of these topics, I look forward to additional guidance from the Ministers on how we can best work together to achieve our common objective—a significant and lasting reduction in world poverty.

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4 See IMF and World Bank Heads Call for a New Round of Multilateral Trade Negotiations at Doha, Qatar (News Brief No. 01/111, 11/08/01).

5 See paper prepared for the Development Committee Financing for Development (DC2001-0024, 9/18/01) and Financing for Development—Update Note (DC2001-0024/1,11/5/01).
Prepared Statements Circulated by Members

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

Let me begin with a word of thanks to Chairman Sinha for all his hard work during his term of office, and especially given the challenging context of the present meeting. I wish him well, and look forward to a productive working relationship with his successor, Minister Manuel.

I also extend my best wishes to our departing Executive Secretary, Alex Shakow, who has greatly contributed to enhancing the effectiveness of the procedural aspects of the Committee’s work. I welcome the new Executive Secretary, Tom Bernes, and look forward to working with him. Last but not least, I wish to express my thanks to Canada for hosting this important meeting.

Impact of Recent Events on Low- and Middle-Income Countries: Response of the World Bank Group

The World Bank’s *Global Economic Prospects* reminds us that the current global economic slowdown in fact began in mid-2000 and originated in the United States. The events since September 11 of this year have, unfortunately, accentuated the slowdown. For the first time since the mid-1970s the three major economies—the United States, Europe, and Japan—are decelerating in tandem. This in turn has resulted in an unprecedented deceleration of world trade from 13.3 percent in 2000 to an estimated 1 percent in 2001. Growth of exports from developing countries is projected to drop sharply from 19 percent in 2000 to 2 percent in 2001. Both oil and non-oil commodity prices have dropped steeply. Capital flows to developing countries have also recorded sharp declines.

The major industrial countries have a special responsibility to adopt pro-growth policies that would revive the global economy. In this context we commend the swift monetary and fiscal response by the U.S. authorities and welcome the coordinated response to ease monetary policy by central banks in industrial and emerging developing countries. However, there is more room for further easing of monetary policy and for fiscal stimulus in industrial countries, especially in Europe. Industrial countries can also assist in the recovery of the global economy by removing the existing significant barriers to exports of developing countries.

It is also worth noting in this context that oil-producing countries have once again demonstrated their understanding and cooperative spirit in meeting the challenges confronting the world economy. They have extended full support to the efforts being made to bring about world economic recovery by tolerating, at this difficult juncture, an inordinately low level of oil prices. This is a good time for industrial countries to review their policies of taxing oil and oil-based products as part of the needed fiscal stimulus in these countries. Lowering the tax burden on these items would correct distortions in resource allocation and enhance economic efficiency. Furthermore, it would partly offset the recent substantial increase in the cost of transportation and insurance.
There is no doubt that the decline in receipts from tourism since September 11, reduced access to financial markets, the substantial drop in oil and non-oil commodity prices, the significant slowdown in world trade (compounded by increases in transport and insurance costs), and internal displacement and the worsening refugee problem could make it more difficult for many developing countries to achieve their poverty-reduction goals. The Bank’s poverty alleviation mission is thus even more important.

It is therefore incumbent on the World Bank Group to redouble its efforts to support its clients in these difficult times. The World Bank has a good array of instruments and a significant amount of flexibility, which should enable it to customize its response to different country situations. Of course, the Bank needs to work within its mandate and in cooperation with the IMF and other multilateral development banks in ways that will ensure consistency of approach and complementarity of resources. In this context it is comforting to note that the Bank currently has adequate financial means to maintain its role and manage its risk-bearing capacity.

The Bank will need to pay special attention to the effects of recent developments on the commodity-dependent low-income countries. Most of these countries are heavily indebted poor countries (HIPCs). In this regard, the increased participation of the Arab multilateral institutions, the Islamic Development Bank, and the OPEC Fund in the HIPC Initiative is welcome and is a matter of record. Indeed last month, Saudi Arabia, the largest shareholder of the Islamic Development Bank, proposed, and shareholders accepted, a doubling of the Bank’s capital. This should enable the Islamic Development Bank to mobilize additional resources for poor countries and increase its own lending to them.

**United Nations Financing for Development Conference**

The continued strong engagement of the Bank and the Fund in the financing for development (FfD) process is indeed welcome. We would encourage the Bank and the Fund to remain engaged. The two institutions should take the following key messages to the next UN PrepCom meeting in January 2002: First, avoid the creation of new institutions and new financing mechanisms but explore how to use existing ones more effectively. Second, explore ways to increase the participation and influence of developing countries in international dialogues and decision-making processes. Third, promote national responsibility for development. Fourth, avoid policies that adversely affect groups of countries or target specific commodities.

It is an encouraging sign that inter-agency consultations have resulted in the emergence of a consolidated set of international development targets and indicators for the Millennium Development Goals (MDGs). However, the Bank and the Fund should guard against the potential problem of trying to tie policy to a small number of numerical targets that may or may not adequately represent countries’ own priorities. It is important, therefore, to build consensus on attaining the MDGs with the aim of promoting country ownership, making them more practical and suitable to individual country circumstances.

The problems that developing countries are experiencing are not merely a reflection of an imbalance between policies and external resources. They also depend on the countries’ ability to promote growth and on their access to markets. In this context, the joint Bank-Fund paper on FfD rightly emphasizes the importance of private sector investment and access of developing countries’ exports to industrial countries’ markets.
A hospitable investment climate is critical to successful private-sector-led growth, expanding employment opportunities, and reducing poverty. Supported by well-functioning public institutions, a strong judicial system, an efficient banking system, and good macroeconomic policies, the private sector should be able to create employment opportunities and contribute effectively to development and poverty reduction.

The Bank Group institutions and the IMF are well equipped to support developing countries’ efforts to improve the climate for the private sector and to attract private sector flows, both domestic and external. Such flows can be a substantial ingredient in financing development.

As discussed in Global Economic Prospects, in times of global economic slowdown, barriers to trade in industrial countries as well as subsidies tend to rise. It is important to avoid increased protectionism during the current downturn in the global economy. It is estimated that subsidies and other support to agriculture alone in the high-income countries are currently running at around US$1 billion a day, or roughly six times all development assistance. This is one measure of the cost to developing countries of protectionist policies in industrial countries. Free access to developing countries’ exports to industrial countries’ markets provides the best potential source of FfD and therefore for lifting developing countries out of poverty. In this context, a new WTO round can be helpful as long as it addresses the concerns of developing countries and does not slow down the accession of new members.

Financing for development could provide a vehicle for identifying the priorities of the many different entities involved in financing global public goods, within their mandates, and to rationalize areas of responsibilities to avoid duplication and dissipation of effort. Clearly, much work remains to identify available resources and additional requirements. It is also clear from the assessment by the Bank and the IMF staff that global taxes and fees, such as the Tobin and carbon taxes, are unlikely to be a significant source of financing. Such taxes should be discouraged.

Reducing transaction costs can in effect be seen as another source of FfD. Efforts to harmonize donors’ operational policies and procedures can lead to a substantial reduction in cost of development assistance and allow recipient countries to better manage aid programs. In this context, the success of the Coordinating Group, which was established by the Arab multilateral institutions, the Islamic Development Bank, and the OPEC Fund, is worth noting. The Group has successfully developed voluntary common guidelines in areas ranging from project appraisal to project evaluation, supervision and monitoring. Perhaps the Bank and the Fund can draw some lessons from this experience.

Education for Dynamic Economies: Accelerating Progress Towards Education for All

There is no doubt that when combined with good policies, education becomes a key factor in increasing productivity, raising living standards, and reducing poverty. Achieving universal primary education is a first step in this process.

Commitment to universal primary education since 1990 has been strong, and some countries have made considerable progress. But progress has been uneven and much remains to be done to achieve the target of Education for All (EFA) by 2015. The challenge is particularly acute in Sub-Saharan Africa, where 55 million children of primary-school age could be out of school in 2015 if current trends continue. IDA has a special responsibility to play a significant
role in promoting education and development in the region. The spread of the HIV/AIDS epidemic in Africa and its potential to undo much of the progress made in the social sectors justify the use of IDA resources for this purpose. We cannot support the use of scarce IDA resources for other global initiatives that are externally driven and whose benefits do not predominantly accrue to IDA countries.

Both quality and quantity of education matter, but quality matters more in boosting economic growth, which is necessary for reducing poverty. In assessing progress towards EFA, it is appropriate to use, as Bank staff suggest, primary completion rates rather than gross enrollment rates. In this context, the Bank’s paper shows that the MENA region has the highest rate of children completing the first five years of schooling. Still, all regions can do better.

Education clearly belongs within the Bank’s core mandate. It is therefore disconcerting to note that World Bank lending to education has dropped significantly in recent years. The Bank needs to do more and should rethink its priorities. It will also need to work with other partners to identify respective roles and the available resources for financing education. As suggested by Bank staff, these should be determined through a country-by-country analysis.

Statement by Mr. Alberto Bensión, Minister of Finance (Uruguay)

Impact of Recent Events on Low- and Middle-Income Countries: Response of the World Bank Group

The significant direct and indirect impacts of the September 11 events and the increased uncertainty come at a time when the world economy is in the downward phase of its business cycle. This calls for action to avoid a protracted world recession. In this context, a consistent advance in trade liberalization policies can play a defining role in lifting the world economy out of recession and developing countries out of poverty.

We welcome the new flexibility in the management of the Bank’s portfolio to increase or accelerate transfers under existing and new operations. We also support the proposed enhanced flexibility to redefine the Country Assistance Strategy (CAS) envelope through a short accompanying note when a rapid and decisive response to events is warranted. However, we believe that this is not the time to use Special Structural Adjustment Loans/Credits, since they would add financial pressure to an already stressful situation.

We are also of the opinion that at the present time, when conditions are more severe than during the FY98/99 crisis, the Bank Group should permit countries to increase their use of Structural Adjustment Loans (SALs) beyond the 63 percent level reached in FY98/99. SALs could play a dual role of supplying timely financing for the emergency while helping to advance much-needed structural reform, particularly in the area of improving the investment climate.

In addition to accelerating resource transfers under existing or new operations, deteriorating terms of trade and losses in export earnings in low income countries will require additional debt relief in line with the HIPC Initiative. The Bank should work closely with other development partners, dividing the work in accordance with their respective comparative advantages. Support will have to be tailored to the needs of low- and middle-income countries, increasing
concessional lending in the first case and complementing private sector financing in the second one. IFC and MIGA should be ready to help developing economies in this particular phase of the economic cycle, expanding their activities to counteract the contraction of private financing, especially in the small- and medium-size enterprise (SME) sector.

**United Nations Financing for Development Conference**

We strongly support this initiative, which brings a global perspective to one of the most important challenges facing developing nations. We expect the conference to have a lasting influence on the way we approach FfD and to arrive at a pragmatic set of recommendations.

We welcome the holistic approach to FfD, which goes far beyond financial transfers to include trade, governance, and policy reform. We also salute the emphasis on country ownership and favor the creation of partnerships among the main participants in this process.

Macroeconomic stability, structural reforms, a sound investment climate for private sector development, and good governance are crucial for the effectiveness of external financing, accelerating growth and reducing poverty. We welcome the establishment of a solid legal system where property rights and contracts are respected. Developing countries are increasingly focusing on achieving progress on all these fronts with the support of the Bank Group, the IMF, and other international finance institutions (IFIs).

Internal reform in developing countries is crucial for poverty alleviation. Industrial countries have a very important role to play, particularly by opening up their markets. Market access for exports is the most efficient and effective way to accelerate the fight against poverty in developing countries. World Bank studies have shown that trade liberalization and the elimination of domestic and export subsidies in industrial countries can have a significant effect in reducing worldwide poverty and providing the necessary FfD. Moreover, global trade liberalization produces a win-win outcome for the world as a whole and for industrial countries in particular.

As much emphasis should be placed on reducing import tariff barriers as on reducing “hidden” non-tariff barriers, such as extreme standards and countervailing measures, in trade liberalization. It is well established that the use of labor and environmental standards as governmental preconditions to open trade are counter-productive; they neither help trade creation nor help improve standards. In most cases the standards are endogenously resolved when the developing country exporter reaches an industrial country market.

We salute the efforts recently made at the WTO Doha conference to achieve progress in world trade liberalization, and we expect it to mark the launch of the development round of global trade negotiations.

Last but not least, harmonization of policies and processes of multilateral and bilateral donors is an area in which very little progress has been achieved to date. We call for a more active partnership among donor agencies to reduce the transaction costs of aid delivery and to deliver aid in a more transparent and competitive manner. In particular, we call for the generalization of untied aid schemes and the benchmarking of procedures in this area with those of the private sector in its normal conduct of international business.
The fight for growth and poverty reduction has to be a joint effort by developing and industrial countries to achieve a more equitable world. We have high expectations for the outcome of the Financing for Development Conference and we expect the Bank Group to play a very important role in the implementation of its recommendations in line with its comparative advantage.

**HIPC/PRSP Progress Reports**

The successful implementation of the HIPC Initiative continues to be dependent on longer-term debt sustainability in qualifying countries through sustained economic growth, poverty reduction, and the pursuit of prudent debt-management policies. In those countries already past their decision points, it will be challenging to remain on track and to reach their floating completion points without delay. But perhaps the biggest challenge is bringing the remaining countries, most of which are conflict-affected, to their decision points as soon as conditions permit. Moreover, last September’s events will require an immediate impact assessment in order to determine additional relief needs that the Initiative might have to consider. In all of these efforts, the Bank’s engagement in those countries through economic and sector work could help them move forward more expeditiously.

HIPC relief will provide a strong basis for debt sustainability and social expenditures. Government poverty reduction through social expenditure, primarily in health and education, is projected to rise; in 2001/02 government expenditures in education and health are expected to be three times those on debt service. The effort to halve the incidence of poverty by 2015 will require increased assistance by the international community in addition to the domestically generated savings that can be used to finance this process.

While it is still early to make a full assessment, two years have passed since the Poverty Reduction Strategy Papers (PRSP) were launched as a prerequisite for concessional financing, and the experience so far is encouraging. In this regard, it should be noted that 36 countries have prepared Interim PRSPs and five countries, including Bolivia, have completed their full PRSPs and are engaged in their implementation.

**Harmonization of Operational Policies and Procedures – Progress Report**

Harmonization has been a continuous topic of discussion since the last Development Committee meetings. We strongly agree that the development community should collaborate closely on both the multilateral and the domestic fronts to lessen the burden on recipient countries.

- On the multilateral front, MDB working groups examining financial management, procurement, and environmental assessment should intensify their efforts.

- On the bilateral front, we welcome efforts in the areas of financial management and accountability, the pre-implementation stages of the project cycle, and reporting and monitoring, both at the institutional level and focusing on deliverables and action.
We understand that there are risks involved in both fronts. It would be important for MDBs and bilateral donor agencies to openly discuss the potential difficulties that the process may face.

On the recommendations, we emphasize the relevance of the harmonization process in view of its significant impact in reducing the cost of doing business in recipient countries and in multilateral and bilateral institutions.

The harmonization process requires both using the minimum number of standards (i.e. streamlining the processes) and proceeding efficiently, which requires selecting the best standards. First, harmonization should not be the result of aggregating institutional requirements; rather, is should consist of a set of common procedures and practices to be agreed upon by all interested parties. Second, we believe that each of the working groups should preserve its own path of progress. We expect significant work on common standards or best-practice principles to be completed soon. Third, we believe that one important partner in the harmonization process is the private sector. It might be possible to develop common technical and procedural good standards based on private sector practices.

*Progress Toward Education for All*

Education is fundamental for combating poverty through increased productivity and income and improving the quality and the rate of economic growth. It is also crucial to empower the poor, better positioning them to live fuller lives and face the challenges of the knowledge era. Education has positive effects on health, the environment, and good governance, among others.

We therefore call for an expanded role for the Bank Group in supporting education and supplying innovative approaches to break the vicious circle of low coverage and quality and reduced incomes. In particular, the Bank should ensure that full coverage is accompanied by good quality education, since it is well known that quality education makes the greatest contribution to economic growth.

The report shows that the progress to date in achieving EFA goals has been uneven. Education reform is a complex issue requiring the participation of a wide variety of actors and a well-structured framework to achieve progress. The effort cannot be centered only on “in-school” reforms and financing; it must also encourage the participation of families and develop the appropriate accountability processes to build up efficient delivery systems.

We ask the Bank Group to study in detail ways of organizing accountable delivery systems with a correct structure of incentives for all participants in the education effort. This should include the government, teachers, families, and the private sector. Furthermore, we urge the Bank to analyze results-based delivery mechanisms, including separating financing from the delivery of education. This would permit better outcomes in terms of the quantity as well as the quality of education.

We expect this very important topic to receive appropriate treatment at the next Development Committee meeting, based on the proposed action plan that addresses all education issues, including beyond-school issues that are crucial for improving educational quality.
The recent terrorist attacks exacerbated the downward momentum that was already evident in the global economy. Developing countries are the most vulnerable. Directly or indirectly and to varying degrees, developing countries will be affected by the deterioration in the economic outlook, continuing fears about possible further terrorist actions and the side effects of the war to combat terrorism. The weakening in global demand has brought sharp falls in exports and commodity prices, including in some cases substantial losses in tourism receipts. The downturn in financial markets and increased risk aversion are inhibiting capital flows. Even when the recovery gets underway in the global economy, some countries will confront continuing severe problems of refugees and post-conflict reconstruction, while others will face longer-term structural effects in areas such as trade, tourism, and insurance.

The implications for global poverty are stark. In some regions already facing serious challenges in addressing poverty, such as Africa, reducing the numbers of those in absolute poverty will become even more difficult. For other countries, many of which have made quite significant gains in poverty reduction, such as in Asia, progress may be stymied or even reversed. The Bank’s own illustrations show an additional 10 million remaining below the one dollar a day benchmark for extreme poverty, just from the incremental reduction in the developing world’s growth attributed to the events of September 11.

Recent events in Asia are illustrative of many of these concerns. Prior to September 11, many East Asian economies were already close to or in recession as exports and industrial production had fallen precipitously. Further deterioration in the U.S. or Japanese economies is likely to produce even sharper declines. We urge the Bank Group to remain actively engaged in the region. The problems facing Indonesia are especially acute.

Many small islands are also finding that the slump in tourism, combined with weakening export demand, falling commodity prices, and increased transport and insurance costs are adding to their longer-term problems and may require support for significant economic restructuring even as conditions improve.

If the dimensions of the problem are challenging, there is also a positive note to reflect on. Recent evidence suggests that our policies against poverty are working. As the Bank notes in its forthcoming *Globalization, Growth and Poverty: Facts, Fears and an Agenda for Action*, since about the 1980s, “...the long trends of rising global inequality and rising numbers of people in absolute poverty have been halted and perhaps even reversed.”

As the largest single source of development finance, the World Bank will need to play an active role in the international response, operating within its core mandate of poverty reduction through promoting economic growth and structural reform.

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1 On behalf of the constituency comprising Australia, Cambodia, Kiribati, Korea (Republic of), Marshall Islands (Republic of), Micronesia (Federated States of), Mongolia, New Zealand, Palau (Republic of), Papua New Guinea, Samoa, Solomon Islands and Vanuatu.
The Bank is well placed to respond through existing instruments and can provide additional financial assistance through new lending commitments under Supplemental and Emergency Recovery Loans and Credits, investment and adjustment lending and Special Structural Adjustment Loans. In addition, resource transfers can be increased or accelerated for existing operations through portfolio restructuring, frontloading disbursements, and temporary increases in cost-sharing limits. There is a case for a limited expansion of existing IDA grants to cover a wider range of post-conflict situations. Depending on the course of events, this may include Afghanistan. IDA, while retaining its special emphasis on Africa, should recognize that three-quarters of the poor in IDA-eligible countries are in other regions. In responding to the current situation the Bank should ensure that its overall priorities are not distorted and that performance continues to be a critical factor.

Heavily indebted poor countries will have access where appropriate to these various Bank instruments. In addition, changes in their economic circumstances will be reflected in the amount of debt relief provided under the HIPC Initiative for countries reaching their decision point. For HIPCs that have already passed the decision point, where there has been a fundamental change in their long-term debt sustainability in exceptional circumstances due to exogenous factors, this can also be taken into account when they reach the completion point.

IFC should help sustain private investment flows to developing countries. As the aggregate amounts being sought are probably well beyond its financial capacity, it should focus its efforts where they will have the greatest impact on maintaining employment in the short term and preserving the economic growth capacity of countries in the medium term. In considering the use of off-balance sheet vehicles, it should give attention to the need for transparency and the close monitoring of risks. MIGA can also assist in meeting the likely increase in demand for investment guarantees for war-related risks if private insurers seek to reduce their exposure, although it should be careful not to displace private markets.

The Bank should support countries that need to reconsider aspects of their development programs and priorities through its analytic and advisory services. Priorities should include analysis of how to manage downturns in tourist and other export demand in some countries, governance issues in conflict-affected and poor-performing countries, and economic and social issues around areas of conflict. Heightened concerns about the clandestine financing of terrorism warrant greater urgency being given to diagnostic work on compliance with international financial supervisory standards related to money laundering and other financial abuse, based on the pilot programs currently underway in Luxembourg and Switzerland. This work will need to be followed up quickly with assistance that builds on work already underway in this area, such as for capacity building and training regulators. Additional technical assistance is especially needed in small states where government resources are already stretched.

There is scope available this financial year for additional concessional IDA lending and for a considerable increase in new IBRD commitments, which last year were at their lowest real level in two decades. The Bank should continue to be mindful of the need over time to maintain and rebuild its risk-bearing capacity. It should also take into consideration any encashment constraints in any frontloading of loan disbursements. Just as the global slowdown and recent events are increasing demands on the Bank, they are also placing greater constraints on the capacity of donors to provide new resources as their budgets come under pressure and they face a range of other financing requirements. The Bank will therefore need to continue to look critically at what trade-offs can be made to allow the best use of available resources.
Financing for Development

The Financing for Development Conference to be held in Mexico in 2002 offers an important opportunity to advance international understanding of what is required to promote economic development and poverty reduction. There is broad agreement that national policies and governance are crucial to development. This should be the central theme of the conference. Improving the effectiveness of international assistance will also be important to ensure maximum impact in reducing poverty.

Sustainable development depends to a large extent on private initiative, sound policies and governance, which are essential for both domestic and external investment flows. Establishing and maintaining an environment conducive to investment requires building effective public institutions, the judicial system, the banking system, macroeconomic policies, and open and competitive markets. The most important development lesson from the past fifty years is that open economic policies that promote broad-based growth have been the most successful way of reducing poverty. The dramatic reductions in poverty in many East Asian countries pursuing such a growth path have been the main reason that, despite setbacks, the number of people living in poverty worldwide has fallen over the last decade from over one-quarter to about one-fifth. Improving the investment climate should be a key objective of aid but in many countries requires major reforms of the policy and regulatory framework. Accordingly, we should support work to assess the quality of national investment climates, including through comparable indicators, and to disseminate information on them. This should be complemented by technical assistance and capacity building support to help developing countries undertake the necessary reforms.

Trade is a vital engine for growth and poverty reduction. The discussions in Doha earlier this month provide a promising basis for moving forward with a new trade round that could bring considerable benefits to developing countries. Agricultural trade liberalization will be critical because of the importance of this sector to most poor countries. Restricted market access and domestic agricultural subsidies in wealthier countries continue to limit significantly the ability of poor countries to grow and reduce poverty. At US$300 billion per annum, agricultural subsidies amount to six times global aid flows and are approximately equivalent to the GDP of Sub-Saharan Africa. A concerted effort on trade liberalization is required by all developed and developing countries. Moves to open access and provide trade preferences to least-developed countries need to occur in conjunction with broader-based trade liberalization. There are also significant benefits to be gained by developing countries liberalizing their own trade restrictions, although effective and targeted assistance will continue to be required to enable them to participate in the global trading system and to implement WTO commitments.

There is considerable scope to explore further ways that aid might be made more effective. The recommendation by the Zedillo panel that aid allocations be linked more closely with levels of poverty within a country and the extent to which national policies are effectively directed to reducing poverty is welcome. Internationally there have been considerable efforts to move in this direction. Although specific bilateral programs remain focused on particular countries’ areas of closest interest, aid is collectively more focused on these criteria than ever before. The Bank has significantly strengthened its performance-based allocation system and, at least within Regions, lending is generally allocated primarily to better-performing countries. Yet there is scope for the Bank to strengthen this even further. In particular, the impact of
quantitative caps and targets on the Bank’s ability to help the most people escape poverty needs further consideration.

The aid budgets of donors need to take account of budgetary constraints, the perceived effectiveness of aid, and comparisons with the performance of other donors. While recognizing the importance of aid, it is likely to prove difficult to build a consensus at the Financing for Development conference around proposals to dramatically expand levels of assistance or to use the conference as a pledging session. Nor is the volume of aid necessarily the central factor in halving the proportion of people living in poverty. East Asia, which was home to one of the largest concentrations of poor people in the world, has almost halved poverty in the past decade despite receiving less aid per capita than almost any other region. In contrast, capacity constraints, conflict, and poor governance have often resulted in poverty increasing in regions receiving far greater amounts of aid per capita.

The various development targets endorsed by recent international conferences can be effective in motivating development efforts and providing a focus on outcomes rather than inputs. Caution is needed, however, about using them as a basis for determining donor funding or designing detailed operational strategies.

Regardless of aid levels it is important for the international community to make better use of aid through more efficient cooperation and coordination and, while maintaining appropriate standards, minimizing the overhead costs to aid recipients. This constituency supports greater coherence and closer collaboration among the various international bodies engaged in economic development within their existing mandates. Cooperation should be based on a clear identification of the comparative advantages of individual bodies and a clear delineation of roles and responsibilities. We do not support the creation of new coordinating institutions or major changes in governance structures.

**HIPC Initiative and PRSP Progress Reports**

It is encouraging that since the last meeting of the Development Committee two more countries have gained access to interim debt relief and three have now reached the completion point. These countries are likely to have their total debts reduced by about 60 percent. But it is worrying that several countries that have already passed their decision point are experiencing problems in implementing their policy commitments and macroeconomic programs. It is important that they persevere with their efforts to ensure that the benefits of debt relief are used for poverty reduction and sustainable economic development. Good progress by heavily indebted poor countries (HIPCs) in meeting policy commitments will send positive signals to the donor community. There are daunting challenges also in bringing the remaining countries, most of which are conflict-affected, to their decision points as conditions improve.

I look forward to a comprehensive review of the impact of Poverty Reduction Strategy Papers (PRSPs) at the spring meetings next year. PRSPs provide a framework for developing countries to articulate strong country-owned programs. While the development of PRSPs is in some cases taking longer than anticipated, it is important to obtain quality programs based on effective consultation. The need for quality is reinforced by the gradual shift towards greater use of programmatic instruments, which need to be tied closely to well-articulated programs and clear performance targets.
Arrangements for meeting World Bank costs associated with the HIPC Initiative until 2005 seem close to being secured. This will be a major achievement. Fully financing HIPC will, however, require continued efforts by the international community.

Harmonization of Operational Policies and Procedures

Differences in the operating policies and procedures by donors and multilateral institutions impose a burden on the administrative capacity of recipient countries, increasing transaction costs and impeding the effectiveness of aid. The action plan that has now been agreed upon for the harmonization of policies and procedures is a significant step forward. Multilateral development banks must now proceed vigorously on their commitments to harmonize policies and procedures for procurement, financial management, and environmental assessments. This work is appropriately focused on bringing processes associated with the core products offered by all institutions more closely into line. The requirement now is to proceed to concrete actions, such as the recent standardization of bidding documents.

The appropriate level of standards also remains a key issue. The Bank must not compromise core fiduciary principles or safeguard standards, but the most exhaustive standards are not always the best. In some instances the potential development benefits that might be gained through greater harmonization of procedures may justify a greater tolerance for risk. Attention should also be given to building the capacity of developing countries to take the lead in aid coordination and to manage activities effectively in compliance with safeguards. This will take on even more importance as we explore further the potential for engaging in sector wide approaches.

Progress Toward Education for All

The Dakar World Education Forum in 2000 highlighted the importance of education and affirmed the goals of universal primary education by 2015 and eliminating gender disparities by 2005. Combined with good policies, education is a key factor in promoting economic growth and poverty reduction as it contributes directly to national productivity. It also contributes to social well-being and the construction of democratic societies. Improving educational outcomes requires more than just raising gross enrolment rates. It requires qualified teachers, adequate learning materials, effective institutional arrangements, and the incentive structures provided by employment opportunities attuned to educational attainments. It also requires attention to complementary inputs such as health and nutrition, water and sanitation, and rural infrastructure. It therefore needs to be closely integrated into a country’s overall development priorities and planning rather than in isolation from them. I look forward to the action plan on Education for All (EFA) to be prepared for discussion by the Committee at our next meeting in April 2002.
Statement by Mr. Pascal Couchepin, Federal Counsellor, Ministry of Economy (Switzerland)

First, I would like to express my gratitude to the Canadian Government for hosting this meeting and for its hospitality.

The September 11 events affected the entire world economy, but those suffering most will be the poor. The World Bank Group will have a particular role to play in mitigating the worst effects and helping rekindle economic recovery in the developing world.

The international community will have to act quickly to address the humanitarian, social and economic impacts of the conflict in Afghanistan. While there are prospects for a new political beginning in Afghanistan, the country is still far from peace and a return to normal life. A lasting solution can only be found in the context of a regional approach. It is essential that the Bank’s response take into account the close ethnic and cultural ties between Afghanistan and its neighboring countries. Economic stability in border states is crucial. The Bank should also place greater emphasis on helping Central Asian countries, particularly Tajikistan, Uzbekistan, and the Kyrgyz Republic, combat the negative effects of the crisis in the region. We also believe that the Bank should consider strengthening its presence in Turkmenistan.

The donor community must recognize that the transition of Central Asian economies is far from complete. Those countries that have followed the advice of the IMF and the World Bank to liberalize their markets and foreign exchange regimes are now confronted with an unsustainable debt burden. Those that have not are increasingly feeling the strain of long-standing policy distortions on their current accounts as well as in the real economy. They need our financial support to mitigate the negative shocks of a late liberalization policy. Finally, despite strong geopolitical interdependence, many countries have taken an isolationist economic course. Multilateral and bilateral donors must help these countries accelerate their market transition and integrate themselves into the global economy.

Integration is not just an issue for Central Asia. After Doha, I am hopeful that both developing and industrial countries have recognized the mutual benefits of liberalizing access to markets. If we do not provide poor countries with better access to trade, we will fail to achieve the ambitious but realistic goals of halving poverty by 2015. In this spirit, Switzerland has recently approved a reform of its General System of Preferences to provide low-income countries with preferential access to Swiss markets. A few years ago, we launched the Agency for International Trade Information and Cooperation (AITIC), a Geneva-based body that will help developing countries participate more effectively in future trade negotiations. I am happy to report that in Doha several countries announced their interest in joining this initiative. We would welcome closer cooperation and harmonization between the Bretton Woods institutions and the WTO.

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2 On behalf of Azerbaijan, Kyrgyz Republic, Poland, Switzerland, Tajikistan, Turkmenistan, Uzbekistan and the Federal Republic of Yugoslavia
Global Economic Outlook and Response by the World Bank Group

The global economic downturn began long before the terrorist attacks on the United States. The September 11 events added a high degree of uncertainty about the depth and length of the slowdown in global output. There is no doubt that developing countries are the most vulnerable to the current economic slowdown. Decreasing commodity prices, heightened financial instability, and reduced access to financial markets are felt by many countries around the world. Others are confronted with higher borrowing costs, lower foreign direct investment, loss of tourism revenues, and a higher cost of trade. Some might even face the possibility of political turmoil.

The new situation requires a vigorous and flexible response by the Bank. Interventions need to be linked to country performance and absorptive capacity. We trust that the Bank will undertake this within its current financial capacity.

The Bank should concentrate on crucial social and economic issues in the most affected countries and keep a strong focus on the poor. I support the Bank’s proposal to strengthen its capacity for economic and sector work (ESW) and accelerate the Financial Sector Assessment Program (FSAP).

While we support basing Bank lending on country performance, we believe that the time has come to address the question of weak performing poor countries. In this respect we welcome the Bank’s decision to set up a task force to examine this issue.

In many countries the global slowdown manifests itself as a downward swing in the business cycle. This may require counter-cyclical action but not necessarily wholly new development programs. I endorse additional financial assistance for the countries mentioned. But as the Bank’s resources and capacity are already stretched, priorities must be set. The need for additional balance-of-payments support justifies a temporary increase in the share of policy-based lending. The Bank should avoid dealing with balance-of-payment gaps by accelerating investment projects, since this could undermine the quality and sustainability of such operations.

The situation of low-income countries has also affected the discussions of the IDA 13 replenishment. I caution the Bank to remain realistic about the replenishment target and avoid mortgaging future flows and funds of IDA.

UN Conference on Financing for Development

I welcome the opportunity for an exchange at the highest level on the international community’s approach towards financing for development (FfD) and the role of aid at the Monterrey conference next spring. It is crucial not to overload the agenda of the conference with issues that do not have absolute priority.

Within the framework of the six-point agenda of the conference, we should in my view address the following issues: (i) identifying the gaps in the current patchwork of international assistance and how gradually to address them; (ii) improving the division of labor among donors, in particular between the international financial institutions (IFIs) and the UN agencies; (iii) advancing the harmonization agenda as a precondition for more effective use of limited aid.
resources; (iv) clarifying the conditions under which aid works more efficiently and effectively at the national and international level and what this means for the allocation of aid resources; (v) highlighting the responsibility of industrial countries to provide better access to their markets for developing countries’ key exports; and (vi) placing the Millennium Development Goals (MDGs) in a context of resource mobilization by providing a more refined analytical framework for defining global aid levels.

The role of the private sector in enhancing growth and productivity, and thus helping to reduce poverty, is crucial. The recently issued Private Sector Development Strategy (PSD) of the World Bank Group offers insight into how the Bank could more systematically apply the incentive mechanisms of private sector solutions to its own work. But it does not address the challenges of pro-poor growth. If we succeed in mobilizing private sector providers and in unbundling subsidies from the commercial elements of private sector operations, we will have come a long way in improving aid effectiveness. However, such efforts should not diminish the poverty-reduction mandate of the Bank; rather, they should ensure that access by the poor to services will be improved. The main point is that the World Bank Group and other multilateral institutions must provide coherent and comprehensive support to private sector development.

We are pleased to note that after the Doha conference, the WTO will be able to respond better to the needs of developing countries. The developed and developing countries will share the responsibility to improve market access. The conference should also explore the scope for more effective international cooperation in the area of global and regional public goods. It should clarify the volume and terms of financing required and how national programs should dovetail with global ones. I am not convinced that global public goods (GPG) in general need to be financed on a grant basis. An adequate mix needs to be found that takes into account a functional division of labor and global resource constraints. Finally, developing countries will also need to make additional efforts to mobilize domestic resources. This will increase ownership and therefore effectiveness of aid.

The Heavily Indebted Poor Countries (HIPC) Initiative: Great Challenges Ahead

There has been a marked slowdown in the number of country cases dealt with in the second half of FY2001 due to the more difficult country circumstances. I would like to reiterate that the Bank should not hasten the preparation of PRSPs for the sake of achieving faster debt relief.

My main concerns are that the financing of the Initiative remains unresolved and that there is a risk that the HIPC Initiative will create commitments against future replenishments of IDA. In the long run this could seriously undermine IDA’s financial capacity. IDA is the largest source of highly concessional loans. A contraction of its lending capacity would jeopardize the objectives of the HIPC Initiative itself, since debt sustainability assessments are based on continued high levels of concessional aid.

The Board of Executive Directors approved the modalities for the Bank’s contribution to HIPC under the assumption that financing would be secured until at least 2005. However, in order for the Bank to commit to debt relief for new country cases, an additional US$700 million will be required from donors over the next 14 months. This situation is worrisome and needs to be addressed in a more concerted way.
The current political and economic outlook in Central Asia and parts of South Asia will aggravate further the dire debt situation in some of the Central Asian economies. The Bank has a responsibility to monitor the debt situation in these countries and to enter into a dialogue with governments as to how the debt situation can be resolved, especially in those countries that have been most responsive to the policy advice of the IMF and the Bank, such as Tajikistan and the Kyrgyz Republic.

Only sound debt management and strategy can guarantee long-term debt sustainability in HIPCs. Strengthening debt management must be a priority of HIPC governments beyond the HIPC completion point. In this context, I welcome the efforts undertaken by the Bank and the Fund to prepare a paper on debt management in HIPCs and look forward to discussing and defining the necessary steps to enhance the capacity of the HIPCs in this field.

**Poverty Reduction Strategy Papers: Promising Approach**

I welcome the fact that progress on Poverty Reduction Strategy Papers (PRSPs) is being measured in terms of the Millennium Development Goals (MDGs). Additional analytical work is needed to transform the MDGs into PRSPs and other planning instruments in middle-income countries.

Progress with PRSPs has been generally positive, but their implementation needs to be further improved. This is of particular concern given that the Bank’s new approach to low-income countries largely builds on the PRSP process and the Comprehensive Development Framework (CDF) principles of participation and social inclusion as well as country ownership. Moreover, a sound PRSP process could be a powerful driver for a more pragmatic approach to harmonizing donor procedures and standards at the country level. This is another reason why I call on the Bank to reflect critically on what it can do to ensure the success of the PRSP process.

PRSPs need to better incorporate crosscutting issues such as gender equality, sustainable development, decentralization, conflict prevention and rehabilitation, good governance, and trade. Monitoring and evaluation need to be addressed from the start and measurable poverty indicators specified. An excessive focus by external agencies on the technocratic aspects of PRSPs to the detriment of political determinants may erode, and perhaps ultimately compromise, development effectiveness. There is considerable scope for ensuring, jointly with the UNDP, that democratic institutions, including parliaments, are part of the consultative process. This is crucial for marshalling country ownership and social solidarity in the fight against poverty.

There is also a considerable tension caused by the power imbalances among the stakeholders of the PRSP process. The donor community tends to dominate the conceptual and analytical framework, and government accountability tends to be more directed towards donors than its own constituents. Ownership has also been seriously undermined by the need for rapid action to obtain HIPC relief or other financial support from the Fund or the Bank. Therefore, I welcome the more flexible time frame for countries to proceed from an Interim PRSP to a full PRSP. We in the donor community need to give partner countries the time they need to develop their own visions and plans, even if they do not meet all of our expectations for a comprehensive and well-founded development strategy immediately.

The IMF and World Bank Boards agreed that the implementation of the PRSP and the appropriate use of the funds freed up through the HIPC Initiative require comprehensive and
transparent public expenditure management. The capacity of HIPC's and other countries to track spending is still very weak. In the context of the PRSP process, it is therefore crucial to address the need to strengthen public expenditure management.

*Harmonization of Operational Policies, Procedures and Practices: First Progress Report*

Switzerland is committed to the harmonization agenda of the OECD Development Assistance Committee (DAC), the international financial institutions, and the UN agencies. Bilateral donors will also have to contribute for this process to advance. We are aware that harmonization is a highly sensitive process requiring governments to relinquish their accountability mechanisms in favor of internationally agreed standards and procedures. For this reason it is important to develop these standards and procedures based on internationally recognized best practices and with broad-based participation of the donor community. To actually reduce the burden and costs for client countries, progress in harmonization and implementation at the country level is urgent.

*Education for Dynamic Economies: Accelerating Progress Toward Education for All*

Education is not only of high intrinsic value. It also plays a powerful role in reducing poverty and inequality. Education lays the basis for sustained economic growth, democratic societies and knowledge-based, globally competitive economies. Switzerland is committed to contributing to these ends and supports the progress made since Jomtien and the efforts to achieve the Dakar goals.

The attainment and future challenges of Education for All (EFA) go well beyond access to education. We need to take into account learning achievement, the necessary linkages between basic education, skills development and employment, and the need to improve adult education programs. Special attention should be given to eliminating gender inequalities in education, reducing the number of youth out of school, and addressing the problems of other marginalized groups and minorities. It is very important to develop complementarity between formal and non-formal approaches.

The HIV/AIDS pandemic is a major threat to the attainment of the goals of EFA. At the same time, education could be a major force to fight it. The pandemic has to be tackled through international cooperation between the bilateral and multilateral agencies and the countries most affected. I welcome the Bank’s work to develop a coherent framework for addressing the issue.

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

We are meeting here today in Ottawa just weeks after the tragic events of September 11. During the discussions at the G-20 and IMFC meetings, where we focused on the middle-income countries, we stressed the urgency of rallying international cooperation. This meeting of the Development Committee also provides us now with an opportunity to examine the situation of the poorest countries. Indeed, this is where the greatest efforts are required to build a safer world to prevent poverty from breeding violence.

The shock currently battering the world requires immediate answers to reduce the vulnerability of the poorest countries. In addition, we need to address the financing needs of the
developing countries within the framework of the Monterrey conference in March 2002, during which the shareholders of the Bretton Woods institutions must send a strong message to the international community.

The current shock reveals the need to address the weaknesses of our framework for economic and financial regulation.

Our response to this challenge must be targeted first of all at the root of this major new instability: the existence in our globalized economy of channels used to finance terrorism, which need to be fought. We must obviously also provide the poorest nations with the economic support needed in this turbulent environment, without forgetting that, among the poorest areas of this world, Africa is the most vulnerable region.

The international institutions must make sure that all countries, including the poorest, help combat the financing of terrorism.

As I said at yesterday’s IMFC meeting, the international financial institutions have a major role to play. In particular, the IMF, whose integrity is a global public good, must help fight the criminal use of the international financial system. The United Nations, and very recently the FATF, have defined international standards for the fight against the financing of terrorism. The World Bank must help countries, especially the poorest, to work towards this objective.

I congratulate the Managing Director of the IMF on his decision to organize a special task force on these issues following the September 11 events. This will add the financing of terrorism to the IMF’s agenda and will strengthen its commitment to combating money laundering. The report issued for the IMFC is definitely a step in the right direction, reflecting a new drive and a stronger commitment. I whole-heartedly support this more global approach.

We must now act quickly to provide the institutions concerned, particularly the FATF, the IMF and World Bank, with the resources needed to achieve these objectives. We ask them to report regularly on concrete results.

I would like to draw your attention to the practical role required from the World Bank in the fight against money laundering in the poorest countries. At our request, it is gradually adding this issue to its priority standards for development in these countries. It will need to make combating the financing of terrorism an integral part of its interventions and do so as rapidly as possible, jointly with the IMF and other players. The poorest countries should no longer be a base camp for a few individuals who jeopardize the balance of our world.

The economic shock caused by these events also hurts the least-developed countries. We need to evaluate and satisfy their needs.

Even prior to September 11, global economic growth had already begun to decline. The populations of the developing countries were affected and I stressed during our last meeting the need to maintain social spending. The developing countries are all the more vulnerable in the exceptional circumstances like those caused by the September 11 events. We need to respond to their needs and use the instruments of the IMF, the World Bank, the regional development banks and other lenders to offer them assistance. Eradicating poverty and making sure globalization
does not aggravate inequality are part of our priorities. Indeed, they reflect the need for collective safety, since poverty and hopelessness produce fertile soil for extremists and terrorists.

Our multilateral institutions clearly have the means to deal with these short-term challenges. As I told the IMFC yesterday, I support the Managing Director’s initiative to include a mechanism for oil-importing developing countries in the compensatory financing facility (CFF).

Moreover, it is more than ever necessary to ensure that the IMF has the resources necessary to support poverty-reduction policies in the poorest countries, especially in Africa. It is equally important to implement the HIPC Initiative strictly and flexibly. It should be applied strictly in order to achieve the poverty reduction objectives and flexibly in order to take into account the real situation of the countries concerned and the shocks affecting them in the current economic environment. While the international institutions and the Paris Club make considerable efforts in this direction, it is equally important to ensure the participation of all creditors.

I want to thank the president of the World Bank for his proposal, under these special circumstances, to commit the remaining IDA 12 funds ahead of schedule. I also hope that IDA, which is in the midst of its replenishment negotiations, decides to use its considerable internal resources in order to provide eligible countries with exceptional support during the period of IDA 13.

Africa is the most fragile and the poorest continent: we need to make it our priority

In Sub-Saharan Africa, almost half the population lives on less than one euro a day.

The report entitled Global Economic Prospects recently published by the World Bank shows that the overall objective of halving extreme poverty can be reached by 2015. But the World Bank also tells us that extreme poverty is expected to continue to worsen in Africa. This is unacceptable. It is up to us, the political leaders of the countries from the North and the South, to reverse this trend. Preventing violence means first reducing inequality and preventing globalization from creating "pockets of poverty" because some people were forgotten by our development strategy.

This is why France continues to urge the World Bank to earmark 50 percent of its concessional assistance for Africa. The ongoing IDA 13 replenishment negotiations, scheduled for completion by the end of this year, should be an occasion for the entire community of lenders to renew this commitment and for the World Bank to develop a detailed and effective strategy to achieve this objective concretely. France has further agreed to contribute to the African Development Fund.

We must find the means to make this a more just and fair world; this is the key issue for the Monterrey Conference on Financing for Development.

The populations of the South and public opinion in the North expect the Monterrey conference to produce a credible outline of future financing for development (FfD). This is an objective that we, as shareholders of the Bretton Woods institutions, must address. While better explaining the role of our institutions to regulate globalization, we need to improve the efficiency
of their interventions. We also need to control the conditions under which public and private funding reach the developing countries in a manner consistent with other financing sources.

We need to clarify the actions of the IFIs to our own citizens.

From Prague to Washington, each recent meeting has triggered hostile demonstrations and strong criticism by the public.

Our institutions are too often misunderstood. They are accused of not doing enough, doing too much, or meddling in sovereign policy choices. We must require them to set an example. They must especially steer clear of areas outside their expertise.

And yet our institutions have unique financial resources at their disposal and are essential actors in governing globalization. They are instrumental in promoting a safer, thus fairer, world. They are vital partners of the developing countries, especially the poorest. The mandate we have given them is clear to us, but so far, dialogue has been absent. The G-20 is not yet representative enough. At yesterday’s meeting I suggested looking together for mechanisms designed to ensure a more balanced representation of the different regions and cultures in the world. I am also in favor of an Economic Security Council. The Monterrey Conference on Financing for Development will be a good occasion to take this dialogue further.

Clarifying the roles of our institutions and the consistency of their interventions.

The World Bank, regional development banks, the IMF, and the United Nations funds and programs are all specialized institutions whose spheres of intervention we have gradually managed to delineate.

Rebuilding Afghanistan must be a model of cooperation among development partners. The first priority will obviously be to set up a provisional structure to cope with Afghanistan’s most urgent needs. This will have to be done together with the population and in conjunction with the United Nations. At the same time, the IMF, the World Bank and the Asian Development Bank, each within the sphere of its respective areas of expertise, will have to consider the economic reconstruction of this country to restore normal life and allow people to fulfill their hopes once freedom has returned.

More generally, the reform of the multilateral development banks, begun last year and still underway, will help clarify the role of these institutions and make their interventions more consistent. It will make them more selective and therefore more effective.

The same need for consistency underlies France’s wish to create, within the framework of IDA and the African Development Fund, a grant window for social projects in the poorest countries. We cannot simply cancel the debt of these countries and then limit ourselves to interventions that we know will create new debt, albeit on concessional terms, but still unsustainable given the type of projects to be financed.

Nevertheless, it is important to limit this window to, say, 10 percent of the interventions. A larger window would risk weakening the institutions, their core mandate, and their financial capacity. It would also risk reducing their value added compared with the United Nations funds
and programs, whose role is to make grants for microeconomic projects designed to reduce poverty.

*Modernizing official development assistance, the pillar of international solidarity*

The UN Secretary General, Mr. Kofi Annan, had the inspired idea of requesting a panel of experts chaired by Mr. Zedillo to prepare a report for the Monterrey conference. It contains new ideas it contains and highlights the difficulties inherent in the path to development that we have chosen.

Three messages in particular come to mind, which I would like us all to take to Monterrey:

*Economic development requires clear, universally known, and respected rules.*

The first condition for durable economic growth is for each sovereign state in both the South and the North to lay down clear and fair rules that are applicable to all. Fortunately, all developing countries are working on this, notably those in Africa within the framework of their New African Initiative.

The keys to development can also be deduced from the following simple questions, which every economic actor poses: What is the use of building up a business when I know it can be stripped of its assets at any time? When my competitor can corrupt the authorities who supervise my activities? When he can engage in unlawful child labor and destroy the natural environment with complete impunity?

France’s vision is that an institutional and regulatory framework, the emergence of the rule of law, and the fight against corruption and financial crime are prerequisites for development. This is also the European vision.

To be effective, implementation of this institutional framework requires agreement at all levels, nationally as well as internationally. In our global economy we need global regulating mechanisms. The "development program" approved in Doha will contribute positively to this. More generally, environmental protection, the fight against infectious diseases, education of men and women, the fight against financial crime and the financing of terrorism, and the promotion of international financial stability are issues that we must tackle jointly and for which we need to adopt a global strategy.

*Development financing requires an accepted co-responsibility.*

Assistance is undermined by its own inefficiency. First, the effect of assistance on the people in beneficiary countries is all too frequently weakened by inappropriate methods. Second, the motivation for the efforts made by the populations of the North for the peoples of the South is weakened when they know that it is wasted.

Therefore, it seems to me essential to establish a systematic political linkage between increased assistance, which everybody wants, and more rational spending. In other words, our decisions should be considered positive only when based on consistent intervention by the international organizations, assistance objectives that are understandable to the citizens, and
genuine assessments of aid effectiveness. We still have a long way to go to achieve these objectives.

*Solidarity between North and South needs to be built on the initiatives agreed upon in recent months in order to implement a consistent framework. The following three initiatives are essential:*

- The HIPC Initiative, which together with the PRSPs forms a unique framework to fight poverty and inequality in such a way as to bring about efficient coordination among lenders under the responsibility of the beneficiary countries. We have high hopes for this initiative, which has just begun.

- Adaptation of the rules for North-South trade flows. The agreement reached in Doha about the price of AIDS drugs is one example of the pragmatic approach we must continue to promote. With its global, unilateral structure and the absence of a time limit, the “Everything but Arms” initiative is a major step toward access by the least-developed countries to the markets of the rich countries. I call on the other major industrial countries to take similar initiatives as soon as possible. The recent OECD agreements on the untying of ODA to LDCs also demonstrate the importance of economic and commercial freedom in the development process. However, these efforts would be insufficient without additional support to make it easier for the poor countries to join the world economy, diversify their economies and participate fully in the multilateral free trade mechanism.

- Harmonization of donor practices. The OECD DAC seems to be the central forum for this discussion. Everyone involved should contribute, including bilateral donors, financial institutions, and UN bodies. The IFIs and the European institutions need to improve the effectiveness of their practices without jeopardizing the security required in managing the large sums with which we entrust them.

The finance and development ministers will also have to consider new sources of financing for development in Monterrey.

Above all, we should improve our solidarity mechanisms. France, which has long made the largest relative effort of all the G-7 countries, wants to set an example. In the weeks ahead the French government will consider new objectives and improved forms of assistance.

Europe is also setting an example regarding solidarity between North and South. The EU countries contribute nearly half of global assistance to the countries of the South. If our other partners matched our level, each year more than EUR 25 billion would be granted to the countries of the South.

Combining ambition with new ideas is one of the qualities of the report drafted by Mr. Zedillo’s panel. I refer for example to the idea of creating mechanisms to tax carbon gas emissions, which should be considered in line with the Kyoto mechanisms.

But I believe we can go further. The idea of setting up new international mechanisms to tax other abuses of globalization, whether financial speculation (which Europe is currently
considering) or arms trade, seems of great interest. We need to make rational progress in this area.

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

I very much appreciate that, after a short postponement, we are able to hold this meeting, and I thank the Canadian authorities for hosting it. The immediate needs of developing countries and the long-term institutional problems with development assistance require greater attention after September 11. Developing countries face a 10 percent drop in the growth of demand for their exports as a result of one of the sharpest trade slumps in modern times. For the first time in a decade, net capital flows to emerging markets are set to turn negative in 2001. In many countries poverty will immediately and substantially rise. Worldwide progress in structural reforms and in the advancement of democracy is at risk. In this context, policy measures to revive growth should be accompanied by further trade liberalization, increased aid, and new initiatives to improve aid effectiveness. The underlying causes of poverty—lack of education and health, vulnerability and bad governance—should be tackled aggressively.

**Impact of Recent Events on Developing Countries: World Bank Group Response**

The World Bank Group should make full use of the instruments at its disposal to fight poverty in low-income countries, a growing social crisis in many middle-income countries, and to meet post-conflict needs. Some of the institution’s sector priorities should also be reassessed. MDBs will have to step up their role in post-conflict reconstruction and their involvement in areas such as financial abuse and money laundering.

Building upon its experience in other post-conflict situations, the World Bank will have to play a crucial role in reconstruction efforts, together with other multilateral development banks (MDBs) and UN agencies, such as the UNDP and the UNHCR. Also at this juncture it is crucial that the IMF and the World Bank conform to their respective roles, with the former focusing on macroeconomic stability and the latter on reconstruction and development needs. A framework for cooperation among different institutions, donors, and non-government entities in Afghanistan’s post-conflict reconstruction effort should soon be defined. We broadly support the Bank’s suggested strategy, currently under discussion, that reconstruction resources should be channelled through a trust fund. We look forward to the proposed Conference for Afghanistan’s Reconstruction tentatively scheduled for end-November.

The poorest countries particularly hit by the sharp deterioration in the terms of trade should receive additional IDA resources. We support an early and substantial replenishment of IDA, which would contribute to meeting the expected needs of the poorest countries. We also urge the Bank continually to monitor the debt situation of the poorest countries. Since last spring, the HIPC Initiative has continued to forge ahead, albeit at a slower pace. We recognize that the task has now become more challenging, since the countries that have not yet qualified are those emerging from conflict. It is a priority to bring those countries to the decision point as soon as preliminary conditions are met. As an exceptional measure, additional “topping up” of debt relief could be provided so as not to jeopardize the efforts of some countries to get out of the debt trap permanently.
The IBRD will also have to step up its efforts. The current World Bank Group financial situation appears adequate to meet increased needs based on the outlook that the global economic slowdown will not be long lasting. A more prolonged worldwide slowdown or a recession could require additional actions. The IBRD’s lending capacity is currently limited by portfolio exposures due to long-term loans previously issued to many borrowers. It also faces significant concentration risks. The top ten borrowers account for over 65 percent of IBRD’s portfolio and in three countries, accounting for 30 percent of the world’s poor living on less than US$2 per day, outstanding loans are close to the current single-country exposure limit of US$13.5 billion. If risks increase, the IBRD would be less able to provide a substantial volume of additional lending when it might be needed most. If necessary we must stand ready to open discussions to increase the lending capacity of the IBRD either through a general capital increase or some other financial mechanism in response to a drastic worsening of global economic conditions. The leverage of additional loans that paid-in World Bank equity generates, with a ratio of 5 to 1, is higher than for any other international financial institution and represents an asset for the international community.

The Bank Group’s private sector arm can also play a crucial role at this moment. At a time of increased perception of risk by foreign investors in emerging economies, IFC and MIGA should redouble their efforts to promote foreign and local direct investment in those countries. We recommend that the new Bank Group private sector strategy emphasize ways of extending the reach of markets to help the poor obtain jobs and better incomes. It will also be crucial to assist countries in improving their investment climate. In this regard, we take stock of the excellent results achieved by the Foreign Investment Advisory Service so far, and we urge other donors to give their support to this successful program. The completion of the subscription of the capital increase of MIGA is also urgent.

Turning to the criteria for allocating an increased volume of lending, we continue to believe that country performance, taking also into account poverty levels, should be the key determinant of IDA and IBRD allocations. If we were guided by criteria other than good performance, we would undo most of the progress achieved in recent years by the World Bank Group in increasing the effectiveness of its operations. Whatever the size of an external shock, domestic conditions will ultimately determine its overall impact on borrowing countries’ economies. Long-term development trends are the direct result of economic fundamentals, including savings, investment, population growth, and trade and productivity improvements.

At the same time we cannot refrain from addressing the issue of how to support very poor countries that might not have made adequate progress toward sound policies. In these cases the World Bank’s assistance, which could include an important component of technical assistance, should be specifically targeted to those citizens groups and sectors most directly affected by the crisis. This targeted aid should be channeled as much as is feasible through NGOs, civil society organizations, and local communities.

**Accelerating the Reform Agenda**

Beyond the immediate requirements, these events make it even more crucial to enhance aid effectiveness and accelerate MDB reform efforts. The World Bank is called upon not only to step up its activities but also to further enhance its effectiveness. We reiterate the need to move forward in implementing the recommendations concerning MDBs stressed by the G-7 at their latest meeting in Genoa. To play a crucial role in combating poverty and supporting equitable
and sustainable economic development, MDBs should concentrate on core social and human investment, particularly health and education, and on enhancing productivity growth. Selectivity, accountability, transparency, and a focus on results are key principles. We reaffirm that the MDBs should accelerate ongoing reforms to strengthen coordination, good governance in borrower countries, pricing issues, global public goods, and financial sector reform. We also reaffirm the importance of continuing the effort to improve the World Bank’s internal organization and its operational effectiveness.

In this context, we strongly support the harmonization process. We believe that full political commitment by recipient countries and all development partners, including bilateral donors, is crucial for the speedy and successful implementation of the highest appropriate standards. Harmonization issues and specific follow-up actions in this area should be given much greater prominence within the Comprehensive Development Framework (CDF) and in the Bank’s Country Assistance Strategies. The Development Committee could highlight the importance of the harmonization process by proposing that a high-level meeting be scheduled during the winter of 2002 with the involvement of bilateral and multilateral donors and the recipient countries. Such a meeting would help mobilize support towards the common goal and provide the occasion for reviewing the progress made and laying the foundations for further work.

There is an urgent need for a more systematic approach to fighting money laundering and financing of terrorist activities. The World Bank can greatly help in assisting countries build their capacity in the area of financial abuse. The Financial Sector Assessment Program (FSAP) should be central to this effort. We welcome this program’s expansion to include a standard anti-money laundering methodology. Follow-up should include technical assistance and training programs, particularly for those countries with the greatest need of upgrading their legal, judicial, and financial supervisory standards. We stress the need for the Bank to continue working with borrowers to strengthen due diligence on country procurement and financial management systems to fight money laundering and the financing of terrorism.

In the area of global public goods, we recommend a further effort to identify priority actions and realistic steps to enhance coordination and resource mobilization. Last July, at the G-7 meeting in Genoa, an agreement was reached to launch a Global Fund to fight HIV/AIDS, Tuberculosis and Malaria. Italy has already committed US$200 million to this fund. The extent of human suffering caused by these diseases calls for rapid implementation of the agreement. The momentum generated by the commitment of US$1.3 billion should not be lost and the commitment to complete the work by year-end should be kept. We look forward to a clear definition of the governance structure with a focus on quality and speed and on ways to anchor programs supported by the fund in countries’ overall development goals. The fund should leverage the efforts of international organizations and multilateral and bilateral donors already active in this area. The World Bank could make a unique contribution by offering its expertise in institution building and in designing programs that include health initiatives within broader, sustainable country development schemes.

We attach great importance to accelerating progress toward EFA. We appreciate the global efforts towards worldwide EFA and look forward to the discussion on this issue at the next meeting of the Development Committee. Given education’s strong complementarity to poverty reduction, the Bank should put increased emphasis on universal primary education in its analytical and sector work.
Finally, promoting access to trade is a key complement to aid. Open trade and investment drive global growth and poverty reduction. We welcome the agreement reached in Doha and reiterate our strong support to the new round of trade talks to enhance market access for developing countries. A number of industrial countries, such as those in the EU with its “Everything but Arms” initiative, have already adopted measures to allow immediate access to their markets. To take full advantage of these opportunities, developing economies must further liberalize their own markets. The World Bank should continue rewarding liberalizing countries with capacity building support and policy advice.

Financing for Development Conference

We appreciate the engagement of the World Bank in the process leading to the Financing for Development Conference. We should not miss the opportunity offered by this Conference to make ODA more effective and to advance the mobilization of resources towards the attainment of the MDGs. An important result already achieved is the emerging consensus on a set of broad policy recommendations: First, that development assistance should be grounded in sound policies and good governance in the recipient countries; second, that country-owned development and poverty-reduction strategies should provide the basis for effective deployment of resources; third, that establishing a stable and enabling environment for domestic and foreign investment is crucial for ensuring sustainable growth; fourth, that promoting access to trade is a key complement to development assistance; and fifth, that the additional resources to be devoted to the attainment of the MDGs should be complemented by an effort to make aid more effective.

Let me first address the problem of resources. The attainment of the MDGs requires the mobilization of additional resources. Donor-generated assistance should adequately reflect these needs. However, we must also explore new and innovative ways to finance development and reconstruction needs. While there seems to be an emerging consensus that schemes such as the Tobin tax are impracticable, we should continue to explore alternative mechanisms based on voluntary contributions, which could be supported and encouraged by fiscal incentives. We recommend that the Bretton Woods institutions further analyze these issues. We are also confident that improved aid effectiveness, in addition to leveraging better results with scarce aid funds, will ease taxpayers’ concerns on the use and impact of their contributions.

The conference will also address the broader issue of how to ensure better coherence of policies, programs, and operations among all of the international institutions involved in development activities. The need for better coordination is greatest in the area of global public goods but is crucial also in other aspects of development activities. Areas of overlap and duplication between the mandates of different international institutions presently coexist with institutional gaps.

Responding to requests made by recipient countries or by the shareholders, the Bank has developed important programs in health, education, and post-conflict reconstruction, where other UN agencies are also present often in positions of leadership. While the Bank’s role as a lending and development institution clearly separates it from those of other agencies, cooperation and coordination are often difficult. Where necessary, bilateral agreements through memoranda of understanding should be signed and regularly monitored to regulate joint activities as well as the exchange of information, knowledge, and technical know-how. This will be particularly
important as proposals are developed to add a grant-making component in areas such as health, education, and post-conflict to the Bank’s traditional lending activities.

In areas such as the environment and, until recently, money laundering, there are still important institutional gaps. Better coordination and filling of institutional gaps can be achieved without creating new institutions or “umbrella bodies.” We need to concentrate on improving the existing institutions, ensuring adequate and equitable representation of all participating countries, strengthening their transparency and accountability, and ensuring better inter-institutional coordination.

The World Bank has made progress on all these fronts in recent years. A renewed Development Committee could also play a useful role in this respect. The Development Committee was created to provide an overview of the development process and specifically to address the broad questions of the transfer of resources to developing countries. Since development issues will acquire increasing importance in the coming years, we need to consider whether the Committee’s current procedures and practices are adequate to meet the challenges we will face.

In the past the Committee has been most useful when it has prompted actions by the governing bodies of the Bretton Woods institutions on poverty alleviation policies and broader development programs, such as the HIPC Initiative, trade and development issues, or the harmonization of policies and procedures. On other occasions, our meetings did not fully meet the expectations of the development community. And we can be sure that these expectations will increase in the future. I am confident that the new Chairman of the Committee, together with the new Secretary, whom we are pleased to welcome, will address these issues and come up with some proposals to be considered possibly at the next meeting. These proposals could address procedural aspects such as whether to anticipate the definition of the agenda and broaden the discussion around it or to improve the process of preparation of the press release, and reconsider the appropriateness of finalizing it after the meetings and not before, as is the current practice. Reform proposals could also address more complex and far-reaching issues, such as whether to broaden participation to other members that are partners of Bretton Woods institutions in development programs and how to better coordinate the activities of the Committee with those of the G-20, the IMFC, or other forums.

On the inter-institutional relationships, progress has been made in recent years in the dialogue between ECOSOC and the Bretton Woods institutions. The meetings of the coordinating committee of the heads of United Nations Agencies (ACC) have also been fruitful. Further progress can be made on these collaborations. Issues to be addressed should include how to better allocate responsibilities among institutions, exercise oversight on the consistency of the activities of these institutions with their mandates, and set a common agenda for development. A jointly agreed mechanism to monitor forms of collaboration should also be established.
Statement by Ms. Hilde Frafjord-Johnson, Minister of International Development (Norway)

It is an honor for me to address the Committee on behalf of the Nordic and Baltic countries. I would like to start by extending my sincere condolences to the innocent people who have been struck by the tragedy of the events on and following the September 11 attack. It was a shock to the entire world and I am pleased to note that, despite these tragic events and the ensuing heightened level of global insecurity, we have been able to meet here in Ottawa. Our meeting today is an important symbolic act in the face of terrorism, which reinforces the message that we cannot and will not yield to acts of terrorism. I would like to express our gratitude to the IMF and World Bank staff and the Canadian authorities for arranging this meeting on such short notice.

Impact of Recent Events

Terrorism is borne of evil minds and must be strongly condemned. It strikes indiscriminately and has wide-ranging consequences for the lives of ordinary people. The recent events more than amply illustrate this. A terrorist attack on one nation-state has wide-ranging implications on the entire world economy. While not ignoring the additional pressure that this event has placed on an already strained world economy, it is the poorest countries, where economic growth is a particularly fragile process, that are likely to suffer the most from its consequences.

I commend the Bank for its ability to quickly analyze the situation and its implications for the world economy. There is no doubt that the recent events have dealt a setback to hopes for a speedy economic recovery of the global economy. Nor is there any doubt that this economic downturn will have negative effects on poor people throughout the world. The extent and gravity of this economic downturn is very difficult to assess at present and the situation is likely to remain volatile. Consequently, the Bank needs to be prepared in the event that the downside scenario should materialize. Initiatives to prepare for this possibility seem to require an even stronger focus on trade-related issues. In addition, we need to find ways to help the people of Afghanistan who have suffered considerably in the aftermath of September 11. The Bank must make full use of its ability to build alliances and partnerships with others, particularly the UN, in the planning for and reconstruction of the country. It should contribute to a coherent response by the international community.

In this context, we want to point out that money laundering is a challenge to the international financial system. With the recent events, money laundering has become an even more pressing problem. We welcome the Bank’s involvement in anti-money laundering activities such as diagnostic work and capacity building. Close cooperation with the IMF, FATF and other standard-setting bodies is essential in this respect.

We appreciate the efforts made by the Bank to take account of recent developments. We believe that the Bank should respond to the new situation, but we do not believe that the Bank can or should do everything. The Bank’s considerations should be based on a sound economic

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3 On behalf of the Nordic and Baltic Countries
analysis along the lines it normally follows. The Bank has an important role to play in this new situation within its mandate. Recognizing other actors’ importance and the real constraints as regards the Bank’s financial capacity, greater selectivity may be necessary. The implications of a generally riskier environment on the Bank’s risk-bearing capacity must be continuously monitored and reported. While an assessment of the Bank’s ability to meet present development challenges with existing instruments is appropriate, any actual involvement must arise from a demand-driven process. And in such a process, strict adherence to established lending criteria and fiduciary safeguards must remain the basic premise for involvement. Good governance, for example, must not be compromised.

**Financing for Development**

Beyond the impact of the events of September 11, there are also important overarching development issues that need to be addressed, in particular the mobilization of both public and private financial resources for development. My constituency attaches great importance to the FfD process. We see it as an important step in the efforts of the international community to reach the Millennium Development Goals (MDGs), which serve as a focal point in this process. We commend the Bank and the Fund for their active and constructive participation, which we feel has benefited the financing for development (FfD) process and contributed to the high quality of the various documents that have been prepared. We remain committed to working actively with all relevant parties to ensure that the International Conference on Financing for Development is successful. Its outcome should reflect the innovative nature of the process and confirm its unique and holistic approach to development financing.

I would like to take this opportunity to comment below on the major themes of the current development agenda and the roles we see for the Bank in implementing that agenda.

**Mobilizing Domestic and International Resources**

Development remains primarily the responsibility of the countries themselves. This responsibility includes the mobilization of financial resources and their judicious use to implement broadly owned development strategies which poor women and men have also had the opportunity to influence. Policy makers need to uphold the principles of good governance and work toward securing a stable macroeconomic framework, an enabling environment for private sector development, and social development and protection as prerequisites for development. The Poverty Reduction Strategy (PRSP) process constitutes a vehicle for low-income countries to ensure that a strategy broadly supported by the poor is in place and forms a sound basis for attracting and coordinating external support. We need to act and provide our support while at the same time allowing for a gradual improvement of the process itself as new generations of PRSPs are developed. We encourage middle-income countries to consider adopting the concept of a Letter of Development Strategy to achieve a similar basis for external support. In both cases we urge development partners to have the patience not to hurry the processes, thereby compromising their quality and usefulness.

In partnership with bilateral agencies, the World Bank has a key role to play in assisting governments in both low- and middle-income countries that are committed to sound social and economic policies in support of poverty reduction. Through a strengthened focus on high-quality analytical and diagnostic work, including economic and sector work and poverty and financial assessments (FSAP), the Bank can assist policy makers in identifying problems and developing
solutions. This analytical work, together with the various sector strategies that have recently been adopted, must also underpin the Bank’s Country Assistance Strategies (CASs). Fundamentally, the CAS has to be based on or respond to the development priorities set out in the countries’ nationally owned strategy (PRSP or other).

In countries where government commitment and performance is relatively weaker, the Bank still has an important role to play in the fields of advocacy and advice with the aim of arriving at a situation where ordinary lending programs from the Bank are feasible. The progressive shift to more programmatic lending through the new poverty reduction support credits (PRSC) is also in line with the notion that assistance must build on greater government responsibility for policy formulation and implementation as expressed in a nationally owned poverty strategy. In order for the Bank to live up to its fiduciary responsibilities, the PRSC crucially depends on sound and transparent public finance management. The Bank’s own procedures and requirements need to be adequately aligned.

The lack of infrastructure to satisfy basic needs is a serious bottleneck to achieving the MDGs. Investments in infrastructure used to be a public domain. Lately, private initiatives in this area have become increasingly important. Private provision has often proved to be a good way of increasing the efficiency, coverage, and quality of services. However, given the high rates of return required for private actors to engage and the often imperfect policy, legal and regulatory regimes in many countries, there are limits to the availability of long-term risk financing, particularly debt financing for investments. In this light, for a number of countries public-private partnerships could offer an alternative by which additional resources would be made available. In this way, the private sector could become more involved in the achievement of the MDGs.

For the Bank Group this offers attractive leveraging opportunities requiring close cooperation between the IBRD, IDA, IFC, and MIGA. In this context, we look forward to the adoption by the end of the year of a comprehensive private sector development strategy supporting the Bank’s role in policy advice and advocacy and acknowledging the state’s role as a regulator and provider of an enabling environment. In this domain, the Bank should, while respecting its mandate, support efforts to ensure that core labor standards are adhered to.

The last few years of reforming the Bank have led to an improved ability to fight poverty, and we commend management and staff for their efforts. The Bank must now take on the challenge of delivering in the field. We expect to see real progress in the mainstreaming of gender in the Bank’s operational activities. We are pleased to note the increased budgetary allocation to front-line operations of the regional departments in the Bank. However, a concern of ours is that despite a long-stated commitment to the principles of selectivity and comparative advantage, the Bank still seems to have trouble implementing them. Implementing these principles is important and the Bank must narrow its focus and cede leadership in fields where it does not have a comparative advantage. Staff members are overburdened and they appear to have little guidance on the tasks or sectors from they can usefully withdraw. We look to management to provide this guidance as part of the continued work on the strategic directions for the Bank.

*Promoting a More Coherent International Development Framework*

The FfD agenda devotes a large section to the issue of greater coherence in the international monetary, trading, and financial systems to promote development. Guiding the
Bank and the Fund’s input to the FfD process, we feel that the focus at the international level should be more on improving existing structures rather than suggesting new ones. On increasing SDR allocations and reviewing the IMF Compensatory Financing Facility (CFF), we do not see the need for changes to the present arrangements.

Harmonization of procedures and better coordination between the IFIs and the UN system could help build coherence. While underlining the fact that coherence starts at home, my constituency strongly supports this work bearing in mind the different roles and mandates of the institutions involved. As I have already emphasized, it is essential that the PRSP becomes the focal document for how the engaged development partners organize their support. The division of labor must take into consideration the comparative advantages of the respective actors.

My constituency welcomes a number of recent proposals concerning MDB reform, especially those relating to accelerated and increased harmonization. We also support the proposal to stress good governance through a focus on public sector management, accountability, and anti-corruption. However, we remain unconvinced as regards some of the other proposals, particularly those regarding possible price differentiation within IBRD.

We are also concerned about a significant expansion of grants in IDA. The Nordic countries have long advocated a greater use of grant aid in general for the poorest countries, but an expansion of IDA’s grant capability must be carefully limited. A significant increase in IDA grants would undermine the financial sustainability of IDA unless the grants are adequately compensated by the IDA donors. It would also undermine IDA’s nature as an international lending institution. Generally speaking, we also feel that the viability of IDA supported activities that are unable to generate sufficient flows to repay the very concessional IDA terms should be questioned. Importantly, redirecting a larger share of grants through IDA must be complementary to and not compete with grant financing from other sources, in particular the UN at a time when the World Bank itself has stressed the necessity of collaboration with the UN in the effort to combat poverty. The Bank and the UN need to have specific and complementary roles and we should not contribute to a blurring of their roles.

There may be merit in price differentiation between different types of IBRD loans. However, we oppose attempts to give different terms to different countries for the same type of loan as both inequitable and counter-productive. Also, we believe the idea that Bank Group loans to certain sectors such as health and education should a priori be subsidized or even grant financed is unfortunate. This could have a negative effect on the country’s feeling of responsibility for and thus ownership of reforms in these sectors. Since these sectors are crucial for long-term development, there is also no reason to mark them out as less suitable for loan financing. Furthermore, the sector that contributes most to poverty reduction will vary from country to country. Designing loan terms on the assumption that one sector universally across all countries contributes more to poverty reduction than other sectors is thus a fallacy. Instead, based upon ESW, the CAS should provide the instrument for the Bank to determine which sector contributes most to poverty reduction in a specific country and whether the Bank is best equipped to finance that sector or if other actors should take that responsibility.

Trade

We recognize the importance of trade liberalization for development and welcome the decision to launch a new round of multilateral trade negotiations. In light of recent events, it is
even more pressing that such a round have the interests of the developing countries at the center. We also urge other industrial countries to follow the example of the “Everything but Arms” initiative. As has already been stated, the World Bank has an important role to play in trade and development at the global level as an advocate of trade liberalization. At the national level, adequately sequenced, it needs to assist countries to build the capacity to participate in multilateral trade negotiations, pursue trade liberalization and undertake necessary policy and institutional reforms. In this respect, we are encouraged by the discussion of the “Leveraging Trade for Development” report this spring. The World Bank should continue to strengthen its role in the Integrated Framework and encourage developing countries to take trade policy issues and supply-side constraints more into consideration in the PRSP process. At the international level, the WTO is the natural leader. Yet the Bank is uniquely positioned through its intellectual leadership to plead the moral case for greater access to industrial country markets for products from developing countries. The Bank should therefore step up its advocacy work.

Reflections on ODA and Debt

Before closing, I would like to touch briefly upon official development assistance (ODA) and debt issues. As I stated above, development and resource mobilization are primarily the responsibility of each government. Capturing private capital flows and benefiting from increased market access for exports offer larger potential volumes of financing than ODA. While ODA can only be complementary to the above flows, it remains of fundamental importance. The Bank has estimated that ODA must be doubled if the goal of halving poverty before 2015 is to be achieved. Substantial progress toward attaining the 0.7 percent target is therefore fundamental. We urge all donors to follow the conclusion of the Development Council of the European Union to fulfill their ODA commitments. At the same time, we want to emphasize the importance of enhancing the effectiveness of ODA by untying aid to the least-developed countries that pursue sound policies in accordance with the OECD guidelines, among other ways. In the same vein, we also re-emphasize the importance of building public-private partnerships to maximize the catalytic effect of ODA for the mobilization of private resources. Donor coordination is another essential aspect of ODA effectiveness. We must reduce the administrative burden on the recipient countries.

The role of global and regional public goods in the context of ODA has already been the topic of much discussion. The provision of global public goods (GPGs) benefits all countries, developed as well as developing. This is one of the reasons why GPGs as a rule should be financed through additional resources. The public sector will have to play the key role, but we also need to find ways to actively involve the private sector. We believe that the Bank should finance GPGs primarily at the country level. At the global level, its role should be primarily analytical. It remains important to find innovative ways and means to finance GPGs. One way to do this is to actively involve the private sector. The UN and financial mechanisms such as GEF might be better placed when it comes to the actual implementation of the GPGs.

One of our concerns in the context of GPG is the effect of HIV/AIDS and its impact on the development of those countries hardest hit by the pandemic. While their capacity to generate domestic resources is diminishing, the need for such resources is increasing. Among international initiatives, the creation of a Global Fund to fight HIV/AIDS, Tuberculosis and Malaria will add considerably to the pool of funding required for this challenging task and we look forward to further contributions and initiatives from the international community, states and the private sector.
The Heavily Indebted Poor Countries (HIPC) Initiative remains as important as ever, if not more so in light of recent events. We welcome the paper on the operating procedures for reassessing HIPC relief at the completion point. Expectations of lower economic growth in the world pose an additional challenge to the successful implementation of HIPC. We feel that the credibility of the initiative is at stake if creditors cannot ensure that the goal of debt sustainability is reached even when a country follows sound policies. In this context, it is important to underline that all creditors must assume their fair share of the burden, including non-Paris Club bilateral creditors and commercial creditors. For a HIPC country to receive additional relief, it must be ascertained that debt sustainability was not reached due to exogenous factors. Furthermore, recalculations of additional debt relief should not include that which has already been announced by creditors on top of agreed amounts within the HIPC framework.

On current forecasts, committed relief will in certain cases not be sufficient, and resources in the trust fund are expected to run out. In accordance with the principles that have guided the initiative since its inception, HIPC debt relief should be additional to other development assistance. We must therefore identify new financing in order to secure the long-term financing needs of the initiative and deliver the required assistance. As a first step we urge all donors to fulfill existing commitments. The consultations on HIPC financing back-to-back with the IDA 13 replenishment meetings were a promising start for addressing the funding challenges. We welcome the recent agreement among donors to continue regular consultations on the financial requirements to ensure the successful implementation of the initiative.

Certain FfD documents have put forward the notion that further debt relief is needed and that it should be extended to middle-income countries. We cannot see the case for debt relief to middle-income countries and believe that debt relief for this category of countries could in fact be counter-productive, since it might cut them off from future access to private capital markets.

Conclusion

The events of September 11 have had a negative impact on the near-term prospects for global economic growth. This in turn will have immediate negative effects on the poorest people in the world and is likely to have adversely affected the prospects for reaching the MDGs by 2015. The Bank must act swiftly in the new situation. At the same time, the general operational guidelines that have served the Bank so well must not be compromised in the process. The Bank’s basic mandate must remain the basis for all involvement and selectivity must be employed. Furthermore, principles for providing credits must be upheld and risk exposure must be kept at prudent levels.

The Financing for Development Conference is an important part of our concerted efforts to secure and leverage financial resources for development and to assist countries to put those resources to efficient use. It is clear that the Bank has a fundamental part to play in this process. Nevertheless, the prime responsibility for poverty reduction lies with the government of each country, which needs to show its commitment to this task, notably by producing and implementing a nationally owned development strategy in the form of a PRSP or other similar exercise. Based on improved analytical work and with the new instruments both in the form of sector strategies and programmatic loan instruments, the Bank can assist with implementation at the national level. Now is the time to step up this effort. The Bank must focus on operationalizing the concepts of comparative advantage and selectivity at the field level to ensure
that its interventions have the desired impact. This means stepping back in certain sectors as well as coordinating its efforts with other donors.

Harmonization is a cornerstone for ensuring a more coherent international framework. Work must progress beyond the diagnostic stage to actually deliver better results on the ground. A number of proposals have been made both to improve the MDB system per se and the international framework overall. We support the aims of these initiatives, if not always their design. We remain skeptical towards more grant financing within IDA and price differentiation within IBRD based on the level of development of a country. We are, however, on a more general level, open to exploring innovative new sources to finance development.

My constituency sees the FfD process as a key element in achieving the MDGs. A priority outcome of the International Conference on Financing for Development should be the awareness and recognition by all key development actors, in both developing and developed countries, that they are not alone in contributing to FfD. Each actor must seek greater consistency and coherence in its actions to ensure that resources are mobilized and used as effectively as possible. Clearly, the Bank has a significant role to play in assisting countries in mobilizing resources for development. We welcome the Bank’s continued active involvement in the FfD process.

In closing, let me reiterate our support for the broader approach to poverty reduction that the Bank has adopted over the past few years. We believe the strategies and loan instruments that have been developed to implement this agenda will be successful. We look forward to increased productivity in client countries, higher quantitative and qualitative growth, and improvements in the security dimensions of poverty on the path to sustainable development. We feel the Bank is on the right track and must now focus on implementation and results on the ground.

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

This Development Committee meeting is taking place under exceptional circumstances against the background of a global outlook that is uncertain from a political as well as from an economic perspective. Under these circumstances the mandates of the World Bank, the IMF and the other multilateral institutions are even more relevant than usual. The latest World Bank projections show that the global economic slowdown is having a severe impact on the pace of poverty reduction. Therefore, we should use this meeting as an opportunity to reinforce our support for the work of the Bank and the Fund. We can do that in words and in deeds in the form of an increase of official development assistance (ODA) and by offering greater market access for products from developing countries. I am grateful to the Canadian authorities and the City of Ottawa for their hospitality and for providing the opportunity to give voice to our political will.

**The Role of the World Bank in the Current Economic Situation**

After September 11, severe problems emerged in developing countries. President Wolfensohn put the issues clearly: “As many as 40,000 children under the age of five will die and some 10 million more people will be condemned to poverty because of the terrorist attacks in the United States on September 11.” The President also noted, "When you have a combination
of global downturn and severe drops in commodity prices and a huge reduction in international trade, the people who suffer most are clearly in the developing countries.” I fully support the statement of President Wolfensohn, which made clear that it is now or never to increase our ODA to 0.7 percent of GNP. “We need three things to cope with the effects of the terrorist attacks on the world economy. We need more international aid, building up by US$10 billion to US$20 billion more a year to a total of about US$100 billion more in the coming years; we need the opening of trade for developing countries; and we need continuing coordination of monetary and fiscal policies.” It is an excellent development, therefore, that the EU member states agreed at the Development Council last week on the principle of a timeframe for each of them to reach the 0.7 percent target.

When we look at the policy action required by the Bank, I conclude that within the scope of its mandate the World Bank will have to expand its activities in both low- and middle-income countries in order to counter the negative effects of the global economic slowdown. IFC and the IBRD need urgently to analyse whether their current financial capacity is adequate to cope with possible downside scenarios.

Providing IMF, IBRD, and IDA loans will of course be an element of the response to the post-September 11 economic downturn. The international community must realize, however, that this is not good enough for many countries. Heavily indebted poor countries (HIPC)s need more grants from bilateral donors, as they cannot accept unlimited new loans from the international financial institutions (IFIs). Additional loans for HIPC may undermine the objective of improving debt management and avoiding new debt overhang.

That is why I ask the international community, in particular the bilateral donors, to take part in a solution for HIPC countries that have reached their decision points and, while pursuing appropriate economic policies, have been hit by terms-of-trade losses due to, or worsened by, the September 11 events. The World Bank has estimated the impact of these events on the balance-of-payment and current account deficits of HIPC. Many countries will suffer from higher deficits, which they cannot finance themselves, particularly in the current context of an economic downturn. The Netherlands, therefore, urges the World Bank to set up a special multilateral trust fund to support low-income countries affected by a significant deterioration in their balance of payments. In addition, I urge the Bank and the Fund to monitor on a regular basis the impact of the deterioration in the terms of trade at country level. The trust fund should be aimed at good-performing HIPC countries that are committed to the full and timely implementation of their poverty-reduction strategies despite the difficult circumstances.

Poverty Reduction and Debt Relief

Two years have passed since the enhanced HIPC Initiative, the PRSP concept and the Poverty Reduction and Growth Facility (PRGF) were introduced. From the start we stressed the importance of ownership, participation, local capacity, pro-poor content, partnerships and aid co-ordination. During a technical mission in January 2000, the Utstein partners had an opportunity to discuss these critical issues with the Bank and Fund. We now want to follow up with a second mission, this time to New York, to seek the views of the UN agencies on the PRSP process. The current reviews of the PRSP and the PRGF provide an excellent opportunity to reflect on progress.
Last week, the Utstein ministers wrote to Managing Director Köhler and President Wolfensohn to highlight some of our concerns, which we hope will be addressed in the reviews. We remain concerned that insufficient attention is being given to the development of longer-term macroeconomic strategies for growth. We would very much welcome a joint Bank-Fund initiative to help countries develop macroeconomic programs to support their poverty-reduction strategies. Work on Poverty and Social Impact Analyses has been progressing, with several countries now targeted for pilot work. We continue to stress the priority we attach to this work and encourage the Bank and the Fund to expand their analyses of the impact of key policy changes on poverty.

The IMF’s participation is key but the Bank should take the lead. In order to safeguard the continuity of the Poverty Reduction Strategy (PRS) process, the Bank and the Fund should also assist PRSP countries in formulating realistic fiscal scenarios, including fall-back options in the event of deterioration in the external environment. At the same time donors should work hard to align their aid with the PRSPs. I believe there are still too many projects outside the PRSP framework and there is still too little budget support for good policies.

I am also concerned about the high demands from donors regarding the content of PRSPs. Donors should not expect perfect strategies that reflect every priority they can think of. Of course, there are key lessons we have learned in development practice. If a PRSP is lacking in this respect or if it does not take lessons learned into account, donors should intensify their policy dialogue. The response should not take the form of more conditionality. In addition, donors should prevent adverse external circumstances from resulting in inadequate ODA. This would make attainment of the Millennium Development Goals (MDGs) more difficult.

Higher ODA would also enable us to deal with the unresolved financial issues of the HIPC Initiative. The HIPC Trust Fund needs new pledges in the amount of US$700 million by mid-2002 to ensure smooth progress of the HIPC Initiative within regional and sub-regional institutions. In addition, the HIPC Trust Fund urgently needs donor pledges to be converted to actual payments. Delaying payment leads to a decrease in the net present value of existing pledges. I urge donors who choose to pay later to maintain the net present value of their pledges.

Donors made a commitment not to compromise the integrity of IDA when they agreed to the “pay-as-you-go” approach to cover HIPC financing. This approach leaves IDA with major unfunded gaps in the financing framework as IDA enters into commitments while all the financing in the next few years has to come from internal World Bank resources. Without the required donor contributions, the Bank’s financial integrity will be threatened since fewer additions can be made to reserves. This also erodes the Bank’s capacity to make additional means available to other poor countries from its net income. The Bank has even announced its intention to pre-finance HIPC cancellations of IBRD loans (US$860 million) out of IDA, despite the absence of compensating donor commitments. I trust that our commitment not to compromise IDA will be fulfilled, but at the same time I feel a need to remind others every now and then.

The Boards of the Bank and the Fund recently confirmed that it is possible to provide additional debt relief at the completion point to HIPC countries experiencing severe exogenous shocks. However, this option should not be an excuse not to provide additional assistance during the interim period in response to exogenous shocks that threaten to frustrate the implementation of a PRS. Countries facing severe humps in their average debt service ratios (i.e., more than 10
percent of the value of yearly exports) should also be in a position to benefit from such additional compensation.

I also urge the Bank, the Fund, and other donors to consider the domestic debt burden of some developing countries. This burden can still undermine sustainability at the completion point, as individual country cases (e.g., Bolivia and Ghana) have shown. African finance ministers also raised this issue at the Big Table II meeting in the Netherlands, organized by the UN Economic Commission for Africa.

Furthermore, the IFIs should step up their efforts to resolve, within the HIPC framework, the issue of post-conflict countries’ arrears, currently estimated at US$5 billion. Under current rules, these arrears prevent them from participating in the HIPC Initiative.

Finally, the British proposal to include countries from the former Soviet Union in the HIPC Initiative should be supported, assuming that they qualify. The possibility of admitting additional countries is of course already part of the Enhanced HIPC Initiative.

All these steps would result in a substantial increase in the cost of the HIPC Initiative. Donor support will therefore have to be increased before the HIPC Trust Fund faces liquidity and/or commitment constraints.

*Financing for Development*

The conference on Financing for Development (FfD) is the perfect occasion to follow up on our good intentions as formulated in the UN Millennium Declaration and the MDGs. The conference should go beyond promises and declarations. It should result in a political commitment to poverty reduction and in concrete agreements on how to achieve the MDGs.

In the Millennium Declaration, the international community recognized that the fight against poverty is the greatest challenge facing our global governance system. Business as usual is no longer good enough. There is no room for free riders now that we have unanimously agreed that the safety and security of our world demands a global response to the poverty issue.

This is not the time to put our feet up; on the contrary, we will have to pick up the pace in order to make it to the MDG finish line in time. The joint Bank-Fund document on the impact of recent events paints a disturbing picture of developments in low-income countries, particularly on the African continent, which is falling even further behind in poverty reduction. The negligible improvement in Africa’s social development indicators sends a sobering message.

Until now many donor countries have failed to meet their responsibility in what I see as a mutual obligation: developing countries with good policies and governance should be able to count on adequate ODA. Apart from internal resources and private investments that developing countries are able to generate, ODA will remain essential for many years. The Zedillo report and the joint Bank-Fund staff document on FfD both calculate that at least an additional US$50 billion annually is required to achieve the MDGs. That is why it is so important that all members of the international donor community deliver on their commitments to reach the 0.7 percent of GNP target for ODA as soon as possible. The agreement reached in Brussels last week at the Development Council is a significant step in the right direction.
Donor-recipient relations must also change. The New Partnership for African Development (NEPAD) provides a new approach based on predictable, long-term, pooled donor resources for a development program that is fully owned, pro-poor budgeted, and transparent. This initiative shows that the winds of change are blowing. Developing countries are now more often willing to admit openly that the responsibility for development begins with them. They themselves are to be held responsible for the quality of their policies and they must put their house in order if they want to experience the benefits of globalization and free trade. Drawing up PRSPs is a valuable but only a first step. Energetic implementation of those strategies by properly functioning institutions is the true mark of a government committed to reform.

I also wish to stress the importance of the position of the low-income countries, particularly those in Africa, as shareholders in the IFIs. These countries need to express their positions more forcefully and their voices should be heard. This is certainly an issue for the Development Committee to reflect on. The IFIs could also undertake actions to strengthen the voices of the poor countries. The constituency system is a great asset as it enables 183 members to be represented by 24 Executive Directors and representatives at the level of the IMFC and the Development Committee. Only if the integrity of the system is preserved can criticism of the “democratic deficit” in the governance structure of the IFIs be countered. Thus it is important that member countries, as borrowers, should not be pressured into taking positions on the Board as shareholders.

With regard to the MDGs, I note with concern that there is still too little consensus on the policy actions needed to achieve them. Therefore, it is important to improve coherence, both at national and at international level. We need more cooperation and more coherent views and actions among international institutions based on the overriding goal of poverty reduction. For this reason, I welcome the Bank’s role in the preparation of the conference on Financing for Development. I hope that this kind of cooperation with the UN system and other partners will be continued in the future.

At the national level, countries have to be consistent in the positions they take through their national representatives in Washington (Bretton Woods institutions) and New York (UN system). Sweden and the Netherlands have launched the Philadelphia process in an effort to improve the coherence between positions taken in the World Bank and at the UN. I would welcome follow-up by other members in New York and Washington. I am also in favor of expanding it to include the UN Institutions in Geneva and the WTO. I believe that improving coherence in this way will increase the effectiveness of international institutions in poverty reduction.

The World Bank document on FfD, which was prepared for this meeting, highlights a number of the above-mentioned issues. With regard to expanding market access, I fully support the emphasis on opening markets in industrial countries and the commitment by developing countries to improve the investment climate (The latter should play a key role in the Bank’s new Private Sector Development Strategy.). In this context, I believe that trade should be part of every Poverty Reduction Strategy and that the World Bank should assist all PRSP countries in analysing the impact of trade measures on growth and poverty. The Bank should mainstream this more forcefully rather than developing pilots. The document also raises the issue of financing global public goods without making clear proposals. I am not in favor of more IDA grants for global public goods.
The draft outcome paper of the FfD facilitator contains many recommendations and suggestions that deserve serious consideration, such as increased market access for developing countries. I welcome the positive outcome of the recent WTO ministerial conference in Doha, where the WTO member states agreed on initiating a new round of multilateral trade negotiations that should benefit the poor countries. Some other suggestions in the draft outcome paper, however, such as the currency transactions tax and the establishment of an international tax organization, seem neither practical nor realistic. Systemic issues will be part of the agenda for the conference. Although there is no harm in discussing possible changes in international governance to make it stronger and more responsive to needs, it should be clear that the mandates of the IFIs are not up for discussion.

Finally, we have commitment from rich and poor countries worldwide. The time is ripe to start practicing what we preach. No more half diagnoses or half measures. The ministers for development cooperation together with the finance ministers should roll up their sleeves and get to work.

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

The first progress report on donor harmonization gives a good overview of all the steps and initiatives required within the Bank, among partners, and at the country level. Such initiatives should be well coordinated to ensure harmonized policies and procedures at the country level. At this level, the Bank’s performance so far has been insufficient and the results disappointing. Although one cannot expect immediate results, the Bank could and should do considerably more. Implementation of measures is urgently needed. I urge the Bank to carry out more concrete analyses and pilots and to build partnerships, resulting in best practices for donor harmonization.

I am pleased that the progress report refers to a number of good examples of work done by others on harmonization at the regional and country levels. The report mentions the highly relevant work of the Strategic Partnership for Africa (SPA) in the field of common assessments of financial management and accountability. This SPA initiative, an incubator for best practices, deserves to be applied to other countries as well. Initiatives of bilateral donors like the Utstein group in Tanzania are also mentioned. In this country, pilots to harmonize procedures and policies at the sectoral level are being undertaken on the basis of national requirements.

I welcome the Bank’s efforts to review its own procedures, in particular those for safeguard assessments and Sector-Wide Approaches (SWAps). I am pleased with the proposed review of fiduciary components in eight SWAps, aimed at focusing the Bank’s operational approach more on the needs of the country concerned. Unfortunately, not all of these efforts have led to results in practice. I still receive signals that the World Bank maintains an inflexible approach when it comes to aligning its own operations with harmonized procedures. However, I am pleased with the President’s recent commitment to look into specific problems on a case-by-case basis. In my view, management and the Board, through its Audit Committee, should review the Bank’s existing procedures with the aim of finding an optimal combination of meaningful fiduciary controls and alignment with procedures in borrowing countries.

I am also concerned that the Bank is still too focused on developing standards, at least in the areas of procurement and financial management, rather than on developing good-practice
principles to allow for country-based approaches. Procedures based on a country’s own systems should be applicable to donors in that country. This will contribute to more effective donor harmonization and build institutional capacity, ownership, and compliance. In fact, the OED review on aid coordination, discussed during the IDA 13 meetings, stressed the importance of country-led partnerships in coordination and harmonization. I fully support OED’s recommendation that best practices in these areas should be followed.

At the inter-agency level, I am glad to see progress on the harmonization of environmental assessments by MDBs, country analytical work, and the work of the OECD/DAC Task Force on Donor Practices. This task force is leading the work on the pre-implementation stages of projects and on developing good-practice guidelines for Financial Management Frameworks. I encourage the Bank to adhere to the OECD/DAC Donor Accountability study, presented in June, which has identified feasible options for cooperation and harmonization. Finally, I appreciate the Bank’s efforts to collaborate with donors in carrying out Country Financial Accountability Assessments (CFAAs) in nine countries. This also applies to the proposal to cooperate with UN agencies in the areas of procurement and financial reporting arrangements.

Education for All

I am pleased with the excellent overview of where we currently stand. The Development Committee document confronts us with a harsh reality: the development targets for education will not be met if we continue with business as usual. We have already lost the battle for gender equality in the classroom by 2005. Despite the usual rhetoric (e.g. by the G-8), little action has been taken to keep the promises made in Dakar.

In this context, it is good news that the Bank has decided to increase lending for education and plans to take a leading role in the international debate with the aim of delivering on our collective commitments. I am pleased that the report emphasizes the importance of the quality of education. In the end, it is not only the number of schools that counts but what pupils learn as well. Central to the Education for All (EFA) goals is the opening up of opportunities for both individuals and communities to advance and break the vicious cycle of poverty.

I fully support the idea of a new framework for accelerating EFA. This is entirely in line with the discussions we are currently having with the Bank and bilateral agencies. Our focus in these discussions is country efforts to achieve national education targets. The role of the international community is primarily to assist in developing good education plans with a clear poverty focus and finding ways to finance these plans on a sustainable basis. At the international level, this should be done within a coherent framework that promotes harmonization among all parties: the banks, UN agencies, and the bilateral donors. At the national level, it should be done through partnerships with all stakeholders in the government and civil society. This meeting and the spring meeting offer good opportunities to stress once again that lack of financing should never be an obstacle to implementing the education plans of developing countries. This commitment is crucial to ensure that we achieve the targets of EFA.
Statement by Mr. Alexsei Kudrin, Deputy Prime Minister, Minister of Finance (Russian Federation)

Impact of Recent Events on Low- and Middle- Income Countries: Response of the World Bank Group

The events of September 11 changed our world dramatically. They forced us to take a new look at a wide range of issues affecting security and international relations. Moreover, their negative impact is being felt acutely in the economic sphere as well and is contributing to the overall slowing of economic growth experienced in the industrial countries over the past year. In this context, the World Bank Group obviously faces complex new challenges.

In order to develop an updated strategy for the World Bank Group it is essential, first of all, to evaluate the prospects for the world economy over the next few years; second, to understand the situation in developing countries and transition economies in the context of the global recession; and third, to analyze the adequacy of its own financial and institutional capacity to operate in the new environment.

The Bank still considers prospects for the world economy over the medium term to be favorable. In our opinion, however, it would be more reasonable and prudent to proceed on the basis of more cautious assessments. We should neither overstate the magnitude of the long-term consequences of the events of September 11 nor understate the magnitude of the slowdown in growth in the leading industrial economies.

Even before the tragic events of September 11, all indicators were pointing to the onset of a downward phase in the business cycle. However, as experience throughout the world has shown, it is extremely difficult to predict when trends will shift, when growth will turn into a recession and a downturn or, on the contrary, when a downturn will taper off and an upturn will begin. We have learned this lesson from our own experience. When market reforms were first launched in Russia, the majority of experts and analysts predicted that the transitional downswing in its economy would last for a year or two at most. On the other hand, after 1998 practically no one predicted that in 1999-2001 Russia would experience vigorous economic growth. We would also note that many predictions made in recent years with regard to other countries failed to come true, such as the optimistic predictions concerning Japan or the pessimistic ones concerning Korea.

Thus, we believe that in planning future activities it would be wise to proceed on the basis of somewhat more conservative assessments, and that the Bank’s activities over the next several years should have a more pronounced counter-cyclical focus.

The common feature of the World Bank Group’s client countries is that many of their current problems are caused to a significant extent by events beyond their control.

In brief, there are two scenarios in which international financial institutions provide assistance to their member countries:
• when their difficulties are the result of their own inadequate macroeconomic and structural policies, the absence of necessary institutions, or internal conflicts,

• when their difficulties are the result of the adverse impact of external factors, such as natural disasters, regional conflicts, and economic problems in other countries. Of course, the impact of external factors frequently reveals internal structural weaknesses.

In the first scenario, aid packages must emphasize maximum implementation of agreed stabilization programs and structural reforms, improved governance, anti-corruption measures, and other conditionalities. Frequently, it is precisely such institutional reforms, rather than financial resources, that are critical in dealing with a crisis.

In the second scenario, the challenge is to help developing countries hold on to the achievements of stabilization, structural, and social reforms already carried out. It is important to recognize that in these countries the consequences of external events can have a catastrophic impact on certain groups. Accordingly, emphasis should be placed on supporting existing structures and institutions, and on mitigating the effects of a crisis. The terms and conditions for providing financial assistance must not be prohibitively burdensome.

In this connection, we fully support the general readiness of the World Bank Group to expand the scope of its assistance, such as through adjustment lending and flexible management of its existing portfolio of investment operations. The measures being taken by the Bank to improve the coordination of its activities with the IMF, the UN, and regional development banks are extraordinarily important.

One-size-fits-all solutions to deal with the consequences of the emerging crisis should be avoided. Assistance to individual countries should be tailored to their specific problems and requirements. Specifically,

• A number of countries in Central and South Asia will need emergency support to cope with the events unfolding in the region.

• IFC should step up its work in countries that could experience a reduction in the flow of foreign direct investment.

• Adjustment loans could play a critical role in countries experiencing debt-servicing problems due to changed sentiments in capital markets. We recognize that the share of such loans in overall Bank lending could increase to the peak levels of 1998; after all, the world today faces the prospect of a global economic crisis, not a regional one. The full range of these operations should be applied, including active use of supplemental financing for existing programs.

• Investment lending should be more consistent with the needs of developing countries as outlined by their national governments. While we by no means disagree with the principle that civil society should participate in the discussion of projects and country strategies, we believe that governments bear the primary responsibility for public resources, and that it is democratically established governments that most comprehensively represent the preferences of the broadest segments of the population.
Accordingly, consideration should also be given to proposals to strengthen financial oversight within the framework of assistance programs. There is no doubt about the major role played by good governance, by the vigorous campaign against corruption, money laundering, and other financial abuses in ensuring sustainable growth and eradication of poverty. International financial institutions must provide maximum assistance to countries that carry out reforms in these areas.

However, such programs should not be forced on countries where conditions in these areas are for the most part satisfactory. We know of cases in which such requirements are artificially tied to overall assistance programs, with the result that countries are compelled to divert limited resources to copy institutional solutions that have not been fully tested in industrial countries. After all, under current circumstances, any unwarranted increase in the direct or indirect cost of doing business with the Bank is unacceptable.

Given the sharp decline in private foreign investment in developing countries, the Bank should reconsider its current negative approach to project lending in the real sector and restore its active role in the areas of infrastructure, energy, and mining. The Bank could thus provide valuable support for the real sector in the countries that have suffered from the downturn, against a backdrop of continuing reforms to improve governance and strengthen institutions. The Bank should also be prepared to expand lending for social programs aimed at reducing poverty and protecting vulnerable segments of the population. Priority sectors should include education and health care, as well as community-based targeted programs.

**United Nations Financing for Development Conference**

The International Conference on Financing for Development will take place against a precarious global economic backdrop. Nevertheless, we hope that this factor could play a positive role by forcing conference participants to display greater realism, pragmatism, and solidarity when discussing international support for development and prospects for achieving the Millennium Development Goals (MDGs), especially those related to the fight against poverty.

In our view, the objective of the conference is twofold: first, it must emphasize that the primary responsibility for development lies with the developing countries themselves and that a great deal depends on their ability to mobilize their internal resources and improve economic and structural policies; second, it should set priority goals for improving the effectiveness of assistance provided by the international donor community and relevant multilateral institutions.

Our approach to the conference is guided by this twofold objective, and we hope that the principal outcome of this event will be clearer and more efficient mechanisms for cooperation among donor countries and multilateral institutions that will make it possible to translate our general concept of the goals into joint action at the individual country level. This objective must be addressed within the framework of existing institutions and their respective mandates, which must not be replaced by or supplemented with new international entities.

**Promoting a Favorable Climate for Private Investment**

We believe that eliminating or significantly reducing structural rigidities is a key issue to be addressed in creating a favorable climate for private investment as is the need to overcome the
shortcomings of existing institutions and regulatory procedures. To achieve these objectives, developing countries will have to focus diligently on stabilizing government finance and effectively managing public debt, with relevant assistance from the international community. An effective public debt management system can greatly contribute to not only reducing the severity of financial shocks, but also to lowering the risk of contagion and promoting the healthy development of financial markets. This is especially important in countries where public liabilities are the major component of aggregate debt.

In addition to strengthening public finance and achieving macroeconomic stabilization, it is equally important to design a set of measures to support and develop the private sector per se in order to promote a favorable investment climate. In this regard, the quality of the public regulatory framework is of primary importance, as are the tax regime and the legal system. Improving corporate governance in developing countries is equally critical for attracting long-term investment, developing domestic capital markets, and reducing the cost of capital for enterprises. Furthermore, as has been demonstrated in times of financial crisis, the existence of efficient social safety nets can substantially reduce social systemic risks and contribute to a more rapid resolution of the crisis.

Infrastructure quality is yet another area where governments need to focus their attention in order to ensure a tangible developmental impact. Over the past decade, this sector appears to have been inadvertently neglected in the process of allocation of international assistance. Most multilateral financial institutions and bilateral donors have almost exclusively focused on macroeconomic stabilization and institutional development, all but ignoring physical infrastructure. Over and above low levels of investment, these sectors face many unresolved problems, ranging from the difficult choice of privatization models to the development of an effective regulatory framework. It is therefore necessary to make infrastructure development a higher priority in international development assistance.

Integrating Developing Countries into the World Trading System

Eliminating barriers in developed countries to traditional and nontraditional exports of developing countries could play a crucial role in stabilizing the financial and economic situation in the former group of countries and in meeting the MDGs. Because the amount and significance of resources that could potentially be generated by such liberalization are far greater than any other sources of assistance for development purposes, we consider that transforming the world trading system for the benefit of developing countries could be a key component of international efforts to foster their sustainable economic development. At the same time, it is impossible to ignore the continuing distortion in the world trading system, as evidenced by the high incidence of various quantitative and other restrictions in those very sectors where developing countries as a group enjoy comparative advantages, such as agricultural goods, textiles, clothing, and steel.

In this context, we would eagerly welcome the early start of a new round of WTO negotiations, aimed at maximizing the benefits of trade liberalization to developing countries, increasing their integration into the global economy, and overcoming poverty. In addition, we would like to emphasize that the ultimate success of developing countries along this path depends on two factors: the actions of their developed country trading partners and their own internal efforts to create a favorable investment climate and an export-oriented economy.
We fully endorse the widely held view that achieving the international development goals will require an immense effort on the part of the international community and that this will not be just a one-time exercise, but will require painstaking work over many years.

In this connection, we would like to caution against an oversimplified, mechanical approach to the issue of achieving the international development goals and against reducing it to a set of assistance targets. The primary responsibility for implementing appropriate policies and adopting measures to achieve sustainable economic growth and equitable income distribution lies with the countries themselves.

We believe that the main lesson learned over the past decade is that the countries affected by the crises of the late 1990s did not try to reverse reforms aimed at liberalization and structural adjustment of their economies. On the contrary, they accelerated the pace of such reforms and concentrated their efforts on the remaining bottlenecks, particularly in structural and institutional areas. This strategy proved successful in most of the countries concerned. This experience demonstrates that the key to success lies not in merely expanding the volume of financial resources flowing into developing countries, but rather in increasing the efficiency of their utilization.

This is precisely why a serious approach to operationalizing international development goals must take into account the fact that for a large group of the lowest income countries it will be necessary not only to maintain previous volumes of external resources, but also to:

- ensure sustainable volumes of assistance over the medium term which are not subject to year-to-year fluctuations;
- improve the targeting of assistance to sectors that play a key role in promoting economic growth and hence in reducing poverty in these countries;
- ensure as much flexibility in resource allocation as possible while preserving a substantial element of concessionality; and
- harmonize external donors’ conditionalities for granting assistance.

This focus on a qualitative improvement in official development assistance will make it possible to avoid the hazards of a static model with predetermined mandatory targets for the volume of ODA broken down by year, group of beneficiaries, donors, etc.

As for the role of the World Bank in this process, we currently do not see a need for any fundamental change in Bank’s operational framework, especially in regard to assistance in implementing national poverty reduction strategies.

The HIPC Initiative

Further progress has been achieved in implementing the Heavily Indebted Poor Countries (HIPC) Initiative since the Development Committee’s spring meeting. In view of the increased
number of countries receiving HIPC assistance and the growing volume of resources channeled to them in the form of grants, and given the deteriorating world economic situation, the following issues have assumed particular urgency:

- How to ensure the irreversibility of HIPCs’ progress towards sustainable social and economic development and poverty reduction;
- How to ensure the financial sustainability of the Initiative itself, given the possible need for additional funds.

The first issue is especially urgent because in a number of countries past their decision point economic reforms and poverty reduction programs have gone off-track. We believe that a disruption in programs supported by the Initiative would have grave consequences. In order to remedy the situation, a thorough analysis of the reasons for such disruptions is needed. This analysis should be focused in particular on determining clearly where the disruptions were caused by external factors, and where they were the result of policy and governance problems.

We therefore believe that the recent attempts of the international community to increase the amount of assistance, accelerate its delivery, and broaden the number of recipients have led to an over-emphasis on the quantitative aspects of the Initiative that has resulted in a de facto liberalization of program monitoring requirements. Another factor has been outside pressure by international NGOs, many of which favor debt relief without any linkage to the macroeconomic and structural conditions. Such developments create a fertile ground for rising expectations of “automatic debt relief.” Evidence of this can also be seen in some HIPC governments’ unwillingness to comply with the external debt servicing obligations they assumed in accordance with the terms of the Initiative.

To ensure the Initiative’s success, its disciplinary elements need to be substantially strengthened. Perhaps consideration should be given to bringing the conditions for receiving HIPC assistance more in line with the performance-based resources allocation framework applied by IDA. Specifically, interim assistance could be linked to compliance with these criteria between the decision and completion points.

The inclusion of new countries in the Initiative, many of which are conflict-affected, raises extremely complex problems. Although funds received under the HIPC Initiative can play an important role in helping these countries return to normal life, the associated risks are especially high. We are therefore opposed to taking hasty decisions about the inclusion of such countries in the Initiative.

The issue of the impact of debt relief is of great importance. Although increased budgetary spending for social purposes, particularly education and healthcare, is a primary condition of the Initiative’s success, we should not attempt to judge its efficacy by this criterion alone. It is equally important to increase public investments in vital infrastructure, which is crucial for achieving higher rates of economic growth and sustainable poverty reduction.

The issue of funding the Initiative continues to be a critical one, particularly with regard to multilateral development banks. We are concerned that the global economic downturn could lead to an increase in the needs of poor countries and a reduction in resources allocated by donors, including for IDA and the HIPC Trust Fund. Also, a potential deterioration of the World
Bank’s loan portfolio could lead to a reduction in and even a cutoff of funding for IDA and HIPC.

In view of these and other considerations, we would suggest introducing some contingency planning into Initiative implementation framework such as alternative temporary implementation scenarios depending on the availability of resources during the hard times. The Russian Federation, as a member of the Paris Club, will continue to participate actively in implementing the enhanced HIPC Initiative. At the same time, we wish to point out that certain HIPC's have demonstrated an unwillingness to meet their bilateral obligations, even after debt restructuring within the framework of the Paris Club. We believe that such attitudes undermine the principles of the Initiative and should be treated in the same way as interruptions in the policy track record.

Another concern relates to participation by other bilateral and private creditors. The reluctance of some private commercial creditors to participate in the Initiative and their intention in a number of cases to pursue legal actions against the governments of HIPC's reflect the complex realities of the modern world. Such litigation attempts can be expected to intensify as global economic difficulties increase. It is entirely natural for private creditors to seek to recover debts owed to them. If the private sector in developing countries is expected to be the main source of economic growth and poverty reduction, then all market rules should be expected to apply, in particular those concerning the fulfillment of contractual obligations. We therefore believe that conflict between the interests of private commercial creditors, on the one hand, and governments and international development banks, on the other, is inevitable in the course of further implementation of the Initiative. The Fund and the Bank should assist HIPC's in working out mutually acceptable solutions, including the use of innovative market mechanisms.

Harmonization of Rules Governing International Development Banks

In our opinion, the failure to coordinate the regulations and standards of international financial institutions (IFIs) with those of bilateral donors continues to result in excessive costs for recipient countries and is seriously undermining the effectiveness of international assistance. We therefore agree that there is a need for careful coordination of priorities and action plans among aid agencies, IFIs, and recipient countries at the global level. We also have no objection to the proposal initially to focus efforts in three areas: procurement, financial management, and environmental assessment. These are the areas in which best practices for providing assistance and institutional capacity building in recipient countries have been clearly defined.

In this area we favor the approach aimed at harmonizing procedures—which essentially means making maximum use of best existing practices and introducing them at the system level in recipient countries—as against the second option that boils down to developing and indiscriminately imposing rigid international standards. Seen from the perspective of both the development impact and raising the efficiency of international assistance, the optimal way to proceed would be to focus on strengthening and improving existing national systems, including budget planning and execution, rather than forcing all countries to adhere to a particular standard. In other words, we favor the country model for harmonizing donors’ efforts, under which certain minimum requirements for all donors would have to be met but would be flexibly adapted to the specific circumstances of each recipient country.
Progress Towards Education for All

Ensuring universal access to education is a top priority of the World Bank and the international community as a whole. We support the work that is underway to meet this challenge in accordance with the goals set forth at the Dakar World Education Forum. The Bank should increase the volume of resources allocated for education. The magnitude of the goals in the area of education requires intensified efforts, and we believe that the topic merits a detailed discussion at a future Development Committee meeting.

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

Let me start by thanking the Canadian Government for organizing this Development Committee meeting on such short notice. It is positive that we are able to meet here in Ottawa after just a short delay from the originally scheduled dates. The IMF and World Bank semi-annual gatherings of ministers from around the globe to discuss the state of the world economy and the pressing issues of development are an important aspect of the international financial architecture that is worth preserving.

Impact of Recent Events on Low- and Middle-Income Countries: Response by the World Bank Group

The world economy was already showing worrisome signs of a slowdown prior to the tragedy of September 11, as the three major economic areas unexpectedly converged to lower growth. Such a simultaneous downward trend had not been experienced in recent decades. Negative externalities were already in place as far as developing countries are concerned, such as a continued decline in the price of most commodities, lower private capital flows to private firms in those countries, high volatility in financial markets, and reduced demand for exports. Yet recent events significantly accentuated negative trends. This may have a disproportionate impact on many developing countries, affecting some more severely than others, in areas such as trade finance, and tourism, depending on individual country circumstances.

The fundamentals in many key countries, both developed and developing, continue to be strong, and should form a good foundation for recovery in the not so distant future. The rapid and coordinated response, in particular by monetary authorities of the United States, Europe and Japan, has been of critical importance to help improve the prospects of recovery.

For many developing countries, a major downside of the present situation is the heightened uncertainty in global financial markets in the short run, due to the flight to quality movement. Given the very low interest rates, particularly in the United States and Japan, one can expect a gradual easing of present conditions, although the precise timing is still unclear. In this context the IMF and the World Bank Group have a role to play in smoothing out volatility and providing resources to maintain ongoing reforms and investment programs.

In recent years the World Bank adopted several new lending instruments, including the Deferred Drawdown Option for adjustment loans. This diversification was quite appropriate as it now places the institution in a somewhat better position to respond to the present challenge, where countries face different needs. Just as important as the availability of different lending instruments is the ability to use them in a flexible manner under current conditions. For countries
With regard to the existing portfolio, several measures can be put in place to enhance the Bank’s assistance. Restructuring of projects in case of changes in country circumstances or emerging priorities can benefit clients. With regard to investment lending, at present, many countries are faced with the situation of large amounts of committed resources that are not being disbursed according to schedule due to fiscal constraints on counterpart funds. This is costly to borrowers because commitment fees remain in place but countries do not have access to resources. Therefore, a temporary frontloading of disbursements through increased percentages, with compensatory reduction in disbursement percentages in outer years, associated with an increase in cost-sharing limits by the Bank, can ensure that committed resources continue to flow to borrowing countries as necessary. We urge the Bank to take this route, as was mentioned in the document and is permitted under existing policies.

In the non-lending area, we support the proposal to expand the Financial Sector Assessment Program (FSAP) exercise and to include anti-money-laundering methodology as part of the assessment. We also welcome the initiative to provide technical assistance and training programs, particularly for countries with the greatest need to upgrade their legal, judicial and financial supervisory standards. However, for the program to be meaningful, more important than the quantity is the quality of those assessments. Final reports need to be really useful and practical for local authorities. Even prior to recent events it seemed that overstretching of existing resources to execute joint Bank-Fund assessments in too many countries per year could be compromising quality. Serious consideration must be given to this issue.

In terms of new initiatives by the World Bank Group to respond to the present situation, we very much welcome IFC’s proposals to mobilizing funds from the markets through new options. Private capital flows to private companies in developing countries had been declining continuously since the Asian crisis. IFC’s role in catalyzing private finance to the private sector in client countries is of utmost importance for the development process. A vibrant private sector is the best engine of economic growth. The Corporation, however, is much too small to meet the need for capital in all borrowing regions, particularly at a time of increased risk aversion. Therefore, the creation of new instruments to leverage new finance, such as structured techniques using an IFC umbrella, will make a significant contribution. Many corporates with access to international markets in normal time may face higher refinancing risk during flight to quality periods. Although such corporates are no longer part of IFC’s core clients because of their normal market access, serving them in the current juncture will help smooth out the credit crunch in many developing countries.

The demand for IBRD lending in the coming year is still unclear, but we are pleased to know that the Bank retains enough risk-bearing capacity to respond in the immediate future. It is nevertheless worrisome that previous expectations to build additional capacity in 2002 will be difficult to realize. Exploring measures to strengthen the Bank’s finances in the coming years should be a high priority.

United Nations Financing for Development Conference

We welcome this good opportunity for a closer partnership between the Bretton Woods institutions and the UN system. It serves to remind us of the fact that the IMF and the World
Bank were created at a United Nations Monetary and Financial Conference. There was a clear view that the economic difficulties of the 1930s had been a major factor leading to World War II. Circumstances have changed considerably since, then but the main lesson remains: a world with too many excluded people is potentially much more violent. Prosperity and economic stability go hand in hand with peace and security.

Shared prosperity is all the more important today as nations come closer together via improved communications, transportation, trade and finance. As Jim Wolfensohn correctly points out in his Note to the Development Committee, we all need to recognize our interdependence, and “how we manage our interdependence will determine whether we are intimidated or empowered by the bonds that unite us.” In the long run, a world where globalization brings benefits to all will be more stable and safer for all peoples. Conversely, a world where too many countries continue to face challenges may be less safe for all. Consequently we urge the developed countries in particular to ponder over old lessons and take the opportunity, especially as we launch a new round of trade talks in Doha and prepare to discuss finance for development in Monterey, to be more forthcoming with regard to the needs of others. In view of the hyper-prosperity enjoyed by countries of the North in the last two decades, it is inconceivable that they cannot reduce barriers to exports from developing countries and increase official finance. Trade, in particular, is probably the best way to produce and share prosperity.

We agree that the Bank and the Fund’s contribution to the conference in Monterey should concentrate on the five issues noted in the document, some which have been discussed by the Development Committee in recent meetings. These five themes are: operationalizing the development goals and ODA requirements to reach them, the investment climate, integration into the international trading system, harmonization among multilateral development banks, and financing of global public goods.

We strongly support the reaffirmation of the commitment to reduce extreme poverty by half by 2015 and to achieve the other development goals. However, this commitment belongs to the international community as a whole and not only to the developing countries. As has been recognized, poverty reduction will depend on sound domestic policies by developing countries themselves, on actions by developed countries, and on systemic issues. Therefore, the indicators defined to monitor progress towards achieving these objectives should encompass issues such as, inter alia, the evolution of the levels of ODA, real improvement in market access, and aid coordination. In this connection, the proposal to double ODA from current levels seems appropriate.

The conference should consolidate more broadly two important principles mentioned in the document which are already largely consensus with the Bank and the Fund, namely, that a) sound domestic macroeconomic and governance environments are important prerequisites for efficient use of both domestic and external resource, and b) national ownership is necessary for external support to be effective. The recent creation of a task force within the Bank to address the needs of poor-performing low-income countries, with a primary focus on capacity building, is timely and appropriate.
**HIPC and PRSP Progress Reports**

The Progress Report on the implementation of Poverty Reduction Strategy Papers (PRSPs) recognizes that the initial timetable was too ambitious. This new requirement placed on low-income countries highly dependent on foreign aid has proven burdensome, due to limited local analytical and implementation capacity. Setting more realistic expectations, as suggested in the report, is a positive step, as are recent initiatives to set up specific trust funds by bilateral donors to provide capacity building to countries in need. Also important is the recognition that the PRSP process should not undermine local representative institutions. In fact, institution building and consolidation should be one of the indicators to gauge the success of this program.

**Progress Report on Harmonization of Operational Policies and Procedures**

It has always been our view that minimizing costs to client countries should be at the forefront of any exercise in harmonizing operational policies and procedures. Therefore, we are heartened by the consensus among donors during this first stage that building capacity and reducing costs to recipients are to be the primary objectives of this process.

Also important, current attempts at harmonization among donors in low-income countries need to be more vigorously pursued to ensure maximum benefits. In the initial stages, this requires instituting simple standards and common principles which can be adopted by those countries. This will relieve the burden of more cumbersome standards particularly on countries with weaker capacity, thereby increasing compliance and improving output quality.

It is quite clear that there are risks involved in undertaking such an exercise. We would appreciate some discussion of these risks in the next review, as well as recommendations and suggestions for how to address them. It would be useful if the next report could outline specific achievements in more detail and provide a timetable for achieving them.

**Progress Toward Education for All**

The report presents a sobering picture of the progress since the Dakar World Education Forum. 100 million children remain out of school, mostly in Africa and South Asia. It is thus appropriate for the World Bank to prepare an action plan, which could augment efforts by other international institutions such as UNESCO and individual countries to reach the goal of education for all children by 2015.

Education is crucial for productivity, higher GDP growth, competitiveness, democracy, health, and many other aspects determining sustainable development and poverty reduction. The approach adopted in the report places education in the context of the needs of a dynamic economy, where production in all sectors is increasingly knowledge based. The report quotes interesting research showing that although both quantity and quality are important factors of GDP growth, quality is more important. As a corollary, in addition to the volume of spending, the effectiveness of spending needs to be considered, as do student performance and completion rates. It would be useful to have, in the broader document being prepared for the spring 2002 Development Committee meeting, further elaboration on quality targets, effectiveness of expenditures, and monitoring and evaluation of indicators, which are mentioned in passing in the progress report.
The events of September 11 were a terrible tragedy and we are outraged by the loss of so many innocent lives. The continuing threat of terrorism has changed the way we view the world and has created a climate of increased uncertainty. But it is clear that we cannot let these events deter us from moving our agenda forward. In today’s more difficult climate it is all the more crucial that we work together to ensure that the world’s poor have a better life in the future. Canada is particularly pleased to be able to host this Development Committee meeting today to further this goal.

The Impact of September 11

Governments throughout the world are grappling with a deeper than anticipated economic slowdown and the shrinking fiscal resources and higher demand on social services that it implies. The events of September 11 also have created greater uncertainties in the economic outlook. But there are still grounds for optimism. Strong fiscal and economic policies mean that developed country and emerging market economies are now better placed to withstand economic turbulence than they have been in many years. By working collectively—governments, multilateral institutions and the private sector—we can overcome our current difficulties.

While we are all suffering the impacts of September 11, let us be honest. Many of the hardest hit are the world’s poorest and most vulnerable economies, those that are least able to absorb the shocks of global economic turbulence and have the fewest resources to cushion the social impacts of recent developments. Lower commodity prices, falling tourism and declining investment levels are just a few of the problems facing these countries. Millions in the developing world will be denied opportunities that could lift them out of extreme poverty, and progress in such areas as health and reducing infant mortality is threatened. Economic reform programs in many of these countries will come under increasing strain. African countries, in particular, have been severely affected by falling commodity prices, and we look to the Bank to work closely with African leaders as they develop a framework for economic recovery and longer-term growth.

At the global level we have a responsibility to continue our work to maintain financial stability and to ensure that globalization can benefit us all. We have to be particularly sensitive to the needs of the poorest countries as we move forward. The situation of some of the Heavily Indebted Poor Countries (HIPCs) will need to be reassessed to ensure that debt levels are actually sustainable when they complete the HIPC process. For many countries that are highly dependent on tourism, particularly the small island states, the fallout has been immediate and will reverberate across the entire economic and social landscape. Additional assistance from the Bank will be needed in the short term. The Bank’s paper provides a number of good suggestions for addressing these and other problems facing the developing world through such means as additional fast-disbursing loans, greater technical assistance and more targeted policy advice. However, in transforming these suggestions into concrete action, the Bank will need to be

4 On behalf of Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Guyana, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St.Vincent and The Grenadines.
innovative and flexible in order to respond to the changed circumstances that many of its clients face and to maintain its strong focus on poverty reduction.

Following September 11, it is also clear that we will need to redouble our efforts to halt the financing of terrorism. Ongoing efforts to combat money laundering will now need to take specific account of the potential abuse of financial systems by terrorists, their agents and supporters. In this context, increased resources to address capacity-building concerns will be needed in many cases in order to help these countries meet new, internationally agreed upon commitments and standards.

Financing for Development

The increasingly integrated global economy and the challenges it brings demand increased cooperation. If we were not already convinced, this has been brought home to us by September 11. It therefore is particularly timely that we are discussing the UN Conference on Financing for Development at this Development Committee meeting. Bringing together the UN system, the Bretton Woods institutions and the WTO to work toward meeting the Millennium Development Goals (MDGs) is unprecedented, and we give this process our full support.

It is clear that each of these institutions has its own strengths and must work in accordance with its comparative advantage and mandate. The last thing we need is more overlap and duplication. No single institution can be all things to all people. New institutions are not the answer. We need to focus on strengthening existing institutions and improving cooperation and coordination. We would ask the international institutions to undertake a detailed analysis of ways to improve cooperation.

What our financing for development (FfD) discussions also show is that while developed countries have a vital partnership role to play, development is a process primarily driven by the people, resources and policies of developing countries themselves. Good governance, sound macroeconomic and financial policies and adherence to the rule of law are all key to ensuring that resources can be mobilized and used efficiently. We must ensure that developing countries participate effectively in international economic policymaking and decision-making forums.

Trade can also be a key vehicle for developing countries to enhance growth. It is particularly important that developing countries have the ability to participate fully and effectively in the WTO. At present, many developing countries are still unable to enjoy the full benefits of the multilateral trading system, mainly because they lack the necessary institutional capacity.

But it is not sufficient to focus solely on macroeconomic policy, nor only on the structural issues that are normally the domain of finance ministers. If we are to achieve our ambition of building a more sustainable world economy that shares the benefits of growth, then we must focus on strengthening social supports. At Montreal last fall, the G-20 underlined the importance of focusing on the human and social aspects of globalization and growth in parallel with implementing sound economic policies. The Montreal Consensus therefore seeks to bring together market-based economic policies with the political and social imperatives that are critical for ensuring poverty-reducing growth and an improved quality of life for hundreds of millions in the developing world.
Education

Education must be the cornerstone of our efforts to move forward with an agenda that fosters growth and addresses both the economic and the social underpinnings of a successful economy. People must have the skills to compete and prosper in the new, more technologically driven world. Knowledge increasingly drives the world economy, and those countries without access to this knowledge are often left behind. Exclusion from education has a profound and detrimental effect on the lives of the poor throughout the world by entrenching inequality and undermining the causes of democracy, justice, good governance and the sharing of economic opportunity.

We raised the issue of education at the last Development Committee when we underlined the importance of working together better to achieve the Dakar Framework goals, particularly achieving primary education for all by the year 2015 and eliminating gender disparities in basic education by 2005.

The Bank has prepared a very helpful background paper to get us started. It is clear from this paper that many countries are still far behind where they need to be to meet the 2015 goal of universal primary education. But what is most encouraging is that a number of countries—in fact, some of the poorest—have achieved remarkable success in expanding school enrollments and in reducing the gender gap in schools.

What this means is that developing countries committed to Education for All (EFA) have themselves developed successful models of education that fit their situation. And while there can be no single model for achieving EFA, we should be looking to these countries to share their lessons of success with other developing countries. The experience of Ireland is insightful. The country itself has benefited in the past from World Bank assistance to education. The country’s long-term focus on education has underpinned its strong recent economic growth. The availability of a young, well-educated workforce has been key to attracting investment into the economy, and Ireland provides an excellent example of the developmental dividends that accrue from a strong focus on the education sector.

At Dakar, ministers called on all countries to develop or strengthen national EFA plans by 2002. They stressed that no country with a strong education plan should be deprived of the opportunity to implement its EFA strategy because of a lack of resources. It is clear that the international community must stand ready to assist countries committed to EFA by placing a stronger emphasis on education in their bilateral assistance programs and by calling on international institutions to increase their focus on the education sector.

Education, which is essential to long-term poverty eradication and sustainable development, remains a high priority for Ireland’s development assistance, with as much as one-third of its bilateral aid budget devoted to assisting educational development in Africa. Ireland provides funding for multilateral education initiatives through the World Bank Institute, the Association for the Development of Education in Africa, and the International Institute for Educational Planning. Earlier this year Ireland announced increased support for education within the Irish development aid program. The Irish government recently established a Trust Fund for Education in Africa at the World Bank.
Canada also is moving in this direction. Education is a key component of the Canadian International Development Agency’s (CIDA) social development priorities. CIDA has made a commitment to quadruple education spending over five years to US$160 million. In line with the need to do more for those impacted by September 11, we also agreed on a debt swap for social sectors with Pakistan, whereby Canada will forgive their bilateral ODA debt if the freed-up resources are used to support social sector spending in such areas as education and health.

It is also clear that the international community has to apply the lessons of past experience and cooperate more closely with national and local education authorities in devising education assistance projects. Far too frequently in the past, foreign assistance produced results that were not integrated in the national system and therefore proved unsustainable. Going forward, international support must be driven by the overarching principles of developing country ownership and greater aid effectiveness through better donor coordination.

Achieving EFA takes commitment from all sides. Developing countries themselves need to carefully examine how to make education expenditures smarter and more efficient and determine the extent to which spending reallocations can be made. While increased spending levels do not necessarily correlate directly with increased school enrollment and educational quality (e.g. better trained teachers, more relevant curricula, measurably higher academic achievement), experience shows that progress toward EFA is lagging most in countries with the lowest education spending as a share of gross domestic product.

The lessons of studies of aid effectiveness remain valid for the education sector. International assistance is most effective when it is directed to those countries that are committed to good governance and good policies. In the education sector, assistance will be most effective when it reinforces well-designed and efficient education reform programs that aim to improve both the absolute number of students in the system (including from the ranks of those previously excluded) and the quality of education offered. Effectiveness is also enhanced when governments ensure that input from civil society is reflected in education sector reform plans. Broad-based partnerships within countries are an important means of ensuring the success of EFA.

We call upon the World Bank to increase its focus on education and to play a stronger role in helping coordinate the international assistance effort.

**HIPC Initiative and PRSPs**

The HIPC Initiative is one means of helping to generate increased funding for education. In the 23 countries now in or through the HIPC process, debt relief is freeing up an estimated US$1.1 billion annually. It is especially encouraging that social spending is now increasing in these countries. The World Bank estimates that their social spending has increased by roughly US$1.7 billion per annum, with an estimated 65 per cent of this spending targeted to health and education.

Education is a key part of the development strategy, but only one part. The rest of the development strategy must be designed to harness the potential embodied in an educated population. And we can point to the Poverty Reduction Strategy Papers (PRSPs) as potentially playing a critical role in supporting this process. Our meeting marks the second anniversary of the adoption of the PRSP approach.
It is true that there has been much criticism of the PRSPs. I would certainly agree with some of this criticism. The link between the HIPC Initiative and the PRSPs sometimes has resulted in too much conditionality. Moreover, there sometimes has been too much pressure on countries to complete PRSPs too quickly, which has worked to the detriment of the quality of a government’s development plans and its ability to undertake broad consultations with civil society. But the PRSP review background paper shows that shareholders and the Bank have taken steps to address these problems.

Clearly, the PRSP remains a work in progress, but it has already made several positive contributions to the development process.

- It has provided a vehicle to support country ownership, so that countries can set out their own development strategies and donors can respond to their priorities.
- It has provided a framework to ensure that freed-up resources go to the priority sectors of health and education.
- It has encouraged and in fact increased consultations between civil society and governments in many developing countries, providing, as the Bank’s study *Voices of the Poor* and anecdotal evidence suggest, the once disenfranchised with greater opportunities to shape national development plans and help monitor their implementation.

There will be a formal Bank-Fund PRSP review in 2002. The Bank has started a broad consultation process on this review. We strongly encourage interested members of the public and non-governmental organizations to make this process as broad and deep as possible. The Canadian, Irish, and Caribbean constituency will be taking this review very seriously. While recognizing the complexities of the PRSP process, we hope that the review exercise will allow us collectively to draw lessons and identify best practices in both the development and implementation of PRSPs. We also hope that this important exercise will provide a clearer picture of the capacity-building needs of countries undertaking PRSPs as well as provide insights into how countries might improve the PRSP process and better use development assistance in support of poverty reduction.

*Looking Forward*

Times of great uncertainty bring great challenges, but they also can bring out our individual and collective strengths to work together for the betterment of all. The potential benefits of increased cooperation have been brought out clearly in the discussions at the Development Committee today on FfD and on responding to the impact of September 11.

*Statement by Mr. Nangolo Mbumba, Minister of Finance (Namibia)*

*The Global Context*

When this committee met in Washington a little over a year ago, the global economic environment, so vital for economic growth in developing countries, was a lot stronger than it is today. The first half of this year saw sluggish performance in world markets. The growth forecast
for developing economies was adversely affected by the economic slowdown in the United States, Japan, and Europe. The fall in consumer spending, particularly in the United States where it accounts for nearly two-thirds of GDP, is bound to affect all global trade transactions, particularly in East Asia and Africa. Prospects for FDI flows to developing countries were modest in spite of a projected 5.5 percent growth rate in exports. With the September 11 events and their aftermath, the landscape has significantly changed.

Stock market activity since September 11 has been driven by a flight to quality, concentrating in blue chip stocks. Access to global capital markets by developing countries has ceased for a significant number of small players. Overall the number of debt instruments issued by emerging market sovereigns has declined. At the same time, the developing countries’ spreads over U.S. treasuries have increased. Long-term prospects remain favorable at this stage, but the current global economic environment is fragile.

Sub-Saharan Africa is likely to suffer more than other regions as a result of September 11 events. The spike in oil prices in 2000 had adversely affected several African non-oil commodity exporters. As a result of balance-of-payments constraints, severely affected African countries sought to adjust by shifting budget priorities and increasing currency reserves. The response also included a sharpened focus on poverty reduction strategies. However, the growth assumptions in these strategies were optimistic and in retrospect had ambitious export targets.

In most cases the forecasts assume a recovery in commodity markets, improved factor productivity, and increases in social sector spending. These forecasts may be realized only partially. The present low demand for non-oil commodity exports, compounded by falling commodity prices, will mean further terms-of-trade shocks, thus reducing the ability of African governments to plan and manage currency reserves in a period when there is a downward pressure on exchange rates.

Sub-Saharan Africa’s non-traditional exports will also be adversely affected by a global recession. Apart from low demand, industries will have to cope with higher transport, insurance and security costs. Planned privatizations in the transport sector are likely to be delayed as a result of unfavorable market conditions. This has a potential negative bearing on expected FDI flows. Travel and tourism sectors are likely to be hit most as a result of the September 11 terrorist attack. Given the current uncertainties, travel decisions are likely to be postponed or cancelled.

_The World Bank’s Response to the Impact of Recent Events on Low- and Middle Income Countries_

We welcome the World Bank’s response to the impact of recent events in low- and middle-income countries. Recognizing that the global economic system was already in a declining trend before September is a good starting point. The monetary stimulus packages that were injected in developed countries aimed at boosting business and consumer confidence are good policy response. The low- and middle-income countries, however, do not in general have the same leverage and could not implement similar measures. It is thus imperative for the World Bank Group, together with regional development institutions and the IMF, to ready itself for a rapid response to requests by developing countries. This will be necessary if the Bank is to cope with what will soon become an increased demand for its services and products in helping countries address the unanticipated shocks posed by the current conditions.
It is encouraging to note that the impact of this crisis will be somewhat less severe because countries have been undertaking structural reforms. The ability of developing country financial systems to withstand such shocks has grown with time as reforms have taken root. Nevertheless, it is paradoxical that it will be mainly those countries that are not well integrated into the international financial system that will fare better. Uncertainties about access to capital markets, both debt and equity finance, compels us to urge IFC and MIGA to be actively engaged in private sector-led growth in developing countries.

We would like to underscore the negative impact to be sustained by low-income countries as a result of a slowdown. The trade effects will be particularly acute as demand for exports falls. In countries with less diversified sources of growth that depend on primary commodities, price fluctuations have a disproportionately high impact on subsistence farmers, the rural poor and households with no foreign remittances. In this regard, we would welcome programs aimed at protecting or enhancing the social safety net of such groups. Further work on risk mitigation measures, including the commodity price insurance proposal, is also warranted.

In some African countries, as much as 30 percent of fiscal revenues derive from trade taxes. Exports are also heavily concentrated on primary commodities. A lot of effort is directed to participation in world trade since the loss of market share and declining commodity prices have gradually reduced Africa’s competitiveness. We would like to highlight the marginalization of Africa’s exports and urge the Bank and other multilateral institutions to work toward a more equitable international trade system. The trade round in Doha is of particular importance to African countries. Our concerns about the introduction of environmental issues in this round, and the negligible benefits from tariff reductions and market liberalization in the absence of reciprocal liberalization and elimination of agricultural subsidies by the developed countries, must be given due consideration.

The different emerging needs on a country and regional basis imply that the Bank’s response must be within the CAS framework. Should extraordinary measures be required, however, the Bank must be flexible enough to respond with frontloaded, quick-disbursing loans. Debt sustainability projections may not be achieved due to terms-of-trade losses, exchange-rate pressures, and other exogenous factors. Consequently, the possibility of topping up resources, particularly for heavily indebted poor countries (HIPCs) that have reached the completion point and for post-conflict countries, must also remain as an option.

The terms-of-trade losses and depreciating currencies result in a general fall in real incomes. Trade losses may also be felt through governments’ inability to contain imported inflationary pressures in spite of the commitment to sound macroeconomic policies. Consequently, the Bank’s advisory and analytical work continues to be an important non-lending instrument for assessing countries’ capacities to cope with the new environment. We would particularly encourage work on poverty assessments, public expenditure management, and poverty reduction programs.

We are in favor of supplemental credits and emergency recovery loans for countries with adequate macroeconomic frameworks that have an unanticipated financing gap and an increase in the number of displaced persons as a result of natural and civil disasters. Where reforms are on track, there is justification for using fast-disbursing adjustment lending and special structural adjustment loans. The Bank must also undertake an assessment of how poor-performing low-
income countries may cope with the impact of the September events. We thus commend Bank management for appointing a Task Force on Assistance to Poor-Performing Low-Income Countries. We urge that the outcome of the Task Force’s deliberations be tabled at the next Development Committee meeting.

*Financing for Development*

The Report of the UN Secretary-General to the Preparatory Committee for the High-Level International Intergovernmental Event on Financing for Development (SGR) set the stage for much of the work that has been completed so far. We commend the Bank for its close involvement in the deliberations at all stages. The themes identified in the report, namely, mobilizing domestic financial resources for development, mobilizing international resources for development trade, and increasing international financial cooperation, are part of the mandate of the IFIs. In addition to the SGR, the Zedillo report produced in June-July 2001 further crystallized the issues. We are also pleased with the Outcomes Report produced by the facilitator for the PrepCom. It shows that a lot of ground has been covered in getting consensus on these themes.

The events of September 11 provide a backdrop in which the discussions on the creation of a stable and a fairly equitable global trading and financial system will be discussed. For our part, we would like to stress the linkages between international trade and economic growth. If these linkages are strengthened, we believe that the seemingly intractable problems declining bilateral support will be easier to manage. We would like the Bank to continue to speak out on the issue of market access and the sustainability of trade deficits for developing countries.

Development, particularly in Africa, will not take place without increasing the volume of official and private resource flows. We note that all of the reports produced so far have recognized this fact. We have also noted the concerns about aid effectiveness. We, however, believe that much is being done to address this issue. Africa is seriously addressing governance issues, and some early successes have been recorded. On the aid effectiveness debate, we would also like to highlight the high transactions costs associated with uncoordinated aid delivery. It is now clear that much can be achieved through direct budgetary support. The independent evaluation of donor-supported programs must also be given priority, as donor accountability and transparency are important determinants of aid effectiveness.

With respect to private capital flows, we recognize the need for enabling environments for attracting FDI and portfolio flows. However, an improved environment in the absence of a well-developed capital market and well-established legal framework is not a sufficient inducement for investment. We therefore encourage the World Bank to look at the possibilities of developing African regional capital markets that could effectively compete with other international markets.

Progress with Poverty Reduction Strategy Papers (PRSPs), enhanced debt relief, the financing of global public goods, and strengthening the international financial architecture are evidence that IFIs have gone a long way in demonstrating that they are in line with their mandate. We commend the work done to render these institutions more transparent in their decision making. We believe that they are uniquely suited for their respective roles in helping countries achieve the International Development Goals. Work on further enhancing their accountability and transparency to ensure that there is no mandate creep is welcome.
Developing countries’ voices in international forums, including their effective representation in forums for international financial architecture, warrant urgent attention. Having a say in these institutions may obviate the need for the suggested high-level coordinating body. It will also ensure continuity and consistency in the ongoing work on combating money laundering, preventing financial crises, and observing standards and codes. In this regard, our message going forward is that work on financial sector assessments (FSAPs) should henceforth explicitly include good practices on preventing the flow of funds in support of criminal acts, methods, and practices of terrorism.

**Poverty Reduction Strategy Papers**

The progress report on the implementation of the PRSPs shows how much has been achieved in the short period since the implementation of the CDF principles. We particularly appreciate the efforts to work within the country’s own vision in setting the priorities in PRSP programs. Country-based institutions have done most of the analytical work underpinning PRSPs, thereby ensuring that local expertise is incorporated into the entire process.

An appropriate balance must be maintained between ensuring broad participation by civil society and all stakeholders in the process and the delays in preparing full PRSPs that this entails. Furthermore, the objective of early debt relief may have an impact on the quality of analytical work produced in a very limited time period. Added to these factors, countries and the Bank have little experience with the methodology applied in producing poverty and social impact assessments. Nevertheless, we are impressed by the extent of participation, the degree of consultation with stakeholders, and the quality of work produced under less than favorable conditions.

The excellent implementation of the Ugandan Poverty Eradication Action Plan gives African countries an example to emulate. We hope that the lessons on poverty trends, developing targets and indicators, monitoring and evaluating the priority public policies, and the identification of remedial measures will be properly reflected in the ongoing review process. While noting that the possibilities of conducting a credible PRSP exercise are real, we would like to stress the need for working with countries on defining and implementing pro-poor growth policies. Noting the shortcomings of growth strategies in the Joint Staff Assessment does not add value in the absence of critical discussions on the matter.

We commend the Government of the Netherlands for the support given to the Bank to establish a new trust fund for capacity building in PRSP countries. It is our view that slow progress is not a result of questionable commitment, but it is partly attributable to a lack of capacity in technical issues such as linking the medium-term expenditure frameworks to processes aligned with new priorities that emerge as a result of poverty and social impact analysis.

The progress made in tracking poverty-reducing expenditures deserves particular mention. We are especially pleased that the work done in collaboration with countries in this respect has the objective of strengthening public expenditure management systems. We urge that more work of this nature be done to eliminate parallel budget processes and make sure that national budgets can also account for donor-financed capital expenditures.
The limited experience with Poverty Reduction Support Credits (PRSCs) suggests that the partnership between the Bank and the Fund is yielding results. While it may be too early to comment on the effectiveness of the PRSC as an instrument, we expect that attention to priority programs from the PRSP will ensure that the design of PRSCs take into account measures that enhance country growth strategies. We are, however, cautiously optimistic that the PRSPs are appropriate tools for achieving the Millennium Development Goals (MDGs).

Looking ahead, we would like to stress the importance of the ongoing review of the PRSP process. We welcome the opportunity given to donors, NGOs, governments and the academia to express their views. We expect that the outcome will be candid and thorough. We particularly look forward to views on the challenges posed by consultation on policy issues, the time between the Interim PRSP and the full PRSP, the implementation of the full PRSP for a year before reaching the completion point, the production of yearly reports on PRSP implementation progress, and the updating of the PRSP every three years. Our view on implementing a full PRSP for a year before reaching the completion point is that this adds a layer of conditionality that stands in the way of further debt relief.

**HIPC Initiative**

We welcome the progress made so far in the Heavily Indebted Poor Countries (HIPC) Initiative. For us it is particularly gratifying to note that in September 2001, Mozambique successfully achieved the completion point under the Enhanced HIPC Initiative. Including the assistance provided under the original initiative, total debt service relief for Mozambique under the HIPC Initiative will amount to about US$3.8 billion. Mozambique is the third country after Uganda and Bolivia to benefit fully from debt relief measures. We urge that the process be expedited to cover the 21 countries that have reached their decision points.

However, we believe that the current pace of implementation could be improved by shortening the period between the decision and completion points. When the Enhanced HIPC was instituted in 1999, we indicated that deeper, faster, and broader debt relief was the only way to go forward. We would thus urge all creditors to minimize administrative delays in approving and providing relief.

We urge the Bank and the Fund to work on long-term debt sustainability for HIPCs. The debt management guidelines issued last year provide a good starting point but they do not cover issues of long-term economic growth. Equally important is the need to have low debt sustainability ratios after the delivery of debt relief at the completion point.

The challenges of conflict and post-conflict HIPCs deserve particular attention. We are particularly mindful of the challenges peculiar to these countries, among which are arrears to multilateral creditors and the lack of track records of successful implementation of structural and social reforms. In instances where HIPCs are creditors to other HIPCs, we urge that flexibility be exercised in a way that promotes burden sharing.

**Harmonization of Operational Procedures**

In the last Development Committee meeting we were apprised of progress made in the harmonization of operational procedures for both bilateral and multilateral donors. We appreciate the continued attention to this subject. Different donor procedures impose high transaction costs
on recipient countries and concentrate scarce human resources on the detailed administrative requirements of each donor. Consequently, strengthening the country’s capacity to effectively manage public expenditures, which should be a prime outcome of donor engagement, is minimized.

The establishment of MDB working groups on environmental assessment, financial management, and procurement is a welcome step. We believe that the outcome of these deliberations will simplify the processes and build partnership for accountability in donor-financed programs. The work of the OECD Development Assistance Committee (DAC) is also relevant in this respect. The focus on implementation issues at all stages of the project cycle by the bilateral donors is also welcome.

On the question of standards, we prefer a path that leads to the development of minimum standards while recognizing that the focus should be on the long-term building of financial management capacity at country level. This will provide the maximum benefit to recipients while ensuring that standards are not compromised. The work on compiling standards of good practice should give us guidance on how standards have been observed in different country circumstances. From that we can select appropriate standards commensurate with general standards practiced in each country. This process must also be used to explore the opportunity of using developing-country-appropriate technological solutions on issues such as e-procurement.

Statement by Mr. Affi N’Guessan, Prime Minister (Côte d’Ivoire)

On behalf of the group of countries that I represent on this Committee, I would first like to thank the Government and the people of Canada for their warm welcome and generous hospitality. I would also like to pay a tribute to our Chairman, Mr. Yashwant Sinha, Minister of Finance of India, who will lead our deliberations for the last time as he completes an outstanding term of office in difficult times. It is a privilege for me to welcome our new Chairman, Mr. Manuel Trévor, South African Minister of Finance. I would also like to pay a well-deserved tribute to our outgoing Executive Secretary, Mr. Alexander Shakow, whose energy and dedication to development have been outstanding. And I would like to take this opportunity to welcome our new Executive Secretary, Mr. Thomas Anthony Bernes, and express my best wishes for his success. Finally, I would like to thank the President of the World Bank, Mr. James D. Wolfensohn, and the Managing Director of the IMF, Mr. Horst Köhler, for their unwavering commitment in service of development.

I will limit my remarks to the five topics listed on the agenda for this session.

Impact of Recent Events on Low- and Middle-Income Countries: Response of the World Bank Group

This year our meeting is being held at an unusual time and location compared to the traditional arrangements for annual meetings. Indeed the international community is shocked by

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5 On behalf of Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Republic of the Congo, Democratic Republic of Congo, Côte d’Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, Sao Tome and Principe, Senegal, Togo and Somalia (informally).
the tragic events of September 11. We would like to take this opportunity to express our solidarity and sympathy to the American people and to all other countries whose citizens died in these attacks.

These tragic events have further weakened a world economy that was already showing signs of vulnerability. Even before September 11, the economies of the three main industrial regions of the world were either slowing down, as in the United States and Europe, or in recession, as in Japan, with negative repercussions on the global economy and developing countries. In industrial countries the demand for exports from developing countries has weakened substantially. As a result, commodity prices and the terms of trade in developing countries have deteriorated. This means that our economies will suffer a major loss of income. The most vulnerable populations will be affected first. Thus it is no surprise that Sub-Saharan Africa, which is heavily dependent on commodity markets, will be more seriously affected than other regions. The latest estimates are that Sub-Saharan Africa will have an additional 3.5 million poor people, beyond the 10 million projected earlier for 2002.

In this context, we applaud the efforts of the World Bank Group to provide firm support for programs that are already being implemented. Moreover, we welcome the commitment to provide additional assistance as a result of the events of September 11. We consider the close collaboration undertaken by the Bank with its development partners to be a wise approach, and we subscribe to the basic tenets of their common response, which emphasizes the importance of appropriate policies in different countries and the need for greater flexibility in assistance instruments. Although it is appropriate to continue to focus our attention on low-income countries, we also look favorably on targeted and commensurate assistance for middle-income countries.

United Nations Financing for Development Conference

We welcome the joint document of the Bretton Woods institutions on preparations for the summit-level conference to be held in Monterrey, Mexico, in March 2002. Overall, we approve of the contents of the draft final declaration of the conference prepared by the Mexican facilitator.

This conference offers a unique opportunity to raise the international community’s awareness of the relevant goal of resource mobilization. We are strongly committed to the success of the conference. As the facilitator’s declaration suggests, we are convinced that the adoption of sound economic policies and rules of governance is a prerequisite for sustainable development and a key to effective use of external aid.

Establishing a Strong Private Sector Development Environment for Poverty Reduction

The importance of the private sector as a central pillar of any strategy to accelerate development and reduce poverty is almost universally accepted. In order to create a favorable climate for investment, we are committed to strengthening and improving the functioning of public institutions, including judicial and banking systems, the macroeconomic framework and mechanisms for managing risks and preventing conflicts.
Integrating Developing Countries into the World Trading System

The role of trade and trade liberalization as a source of economic growth and poverty reduction has been amply demonstrated. History teaches us that countries that have tightened their links to the global economy have experienced more rapid growth than others. But trade liberalization needs to be accompanied by institutional reforms and investments in infrastructure and social programs. One obstacle to integration into the world trading system is the lack of access to the economies of developed countries for export products from developing countries. In our opinion, improved access to the markets of industrial countries should be treated as a priority in future trade negotiations. We find it paradoxical that the OECD countries spend more than $350 billion each year in subsidies. This is seven times as much as their entire official development assistance (ODA) budget.

Simply reducing tariffs in industrial countries is not enough. A parallel effort needs to be made to reduce tariff barriers in developing countries.

Operationalizing the Development Goals and ODA

The draft declaration of the Monterrey Summit rightly restates the importance of the Millennium Development Goals (MDGs) adopted by our Heads of State and Government in 2000. Achieving these goals does, however, have a cost, estimated at roughly US$100 billion per year above and beyond current concessional financing. The impact of the events of September 11 could cause this figure to go even higher. This is why we would like to make an urgent appeal for greater mobilization of ODA. For most of the countries of Sub-Saharan Africa, where access to capital markets is lacking, mobilization of ODA resources is crucial. For these countries, ODA is the sole complement to domestic resources for achieving the goals of growth and poverty reduction.

Encouraging Harmonization of Multilateral and Bilateral Donors’ Operational Policies and Procedures

With respect to harmonization of multilateral and bilateral donors’ policies and procedures, a subject to which I will return shortly, I would like to encourage the Bretton Woods institutions to continue supporting international efforts toward harmonization, to adapt their own structures at the same time, and to help build capacities in other countries.

Joint World Bank-IMF HIPC Initiative

We have noted with interest that the Boards of the Bank and the Fund have approved a growing number of countries for the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative. We are pleased to note that more than half of the countries involved have reached the decision point.

Although considerable progress has also been made in terms of contributions to the HIPC Trust Fund, additional financing is needed, not only to reach the level of resources required, but also to help finance the contributions of other multilateral development banks (MDBs). In this regard, we should reiterate that financing for the African Development Bank’s contribution to the trust fund is a constant source of concern for our countries. We are pleased with the progress
made on a number of conceptual issues, including the long-term viability of the debt status of HIPCs. Serious discussion of these matters should continue.

We are also pleased with the progress made in implementing Poverty Reduction Strategy Papers (PRSPs). The World Bank and the IMF should continue their efforts to develop and implement effective poverty reduction strategies and should attempt to process more quickly the documentation submitted by the remaining eligible HIPCs. Special attention should be given to national capacity-building efforts in the area of monitoring and evaluation, and also to the key role played by agricultural and rural development in poverty reduction strategies.

Harmonization of Operational Policies and Procedures

Multilateral and bilateral donors’ policies, procedures, and practices need to be harmonized in order to significantly improve the effectiveness of ODA. Unfortunately, there is still considerable progress to be made in this area.

We support harmonization that will help recipient countries master the actual tasks of managing ODA and that will improve its effectiveness, transparency, and sustainability.

Education for All

Despite broad consensus about the role of education in economic prosperity and poverty reduction, results in the field remain uneven and generally unsatisfactory. Millions of school-age children do not attend school, and close to a billion adults worldwide are illiterate.

We are pleased to see the education issue included on the agenda for the April 2002 meeting of the Development Committee. We hope that these discussions will lead to the implementation of concrete measures for achieving the goal of Education for All (EFA), as reaffirmed by the Dakar Forum. Universal access to primary education should remain an absolute priority.

In the education sector, World Bank Group assistance in IDA countries actually declined during the 1990s. To reverse this trend, a detailed analysis of World Bank Group performance should be conducted so that appropriate actions can be defined and implemented.

Statement by Mr. Paul O’Neill, Secretary of the Treasury (United States)

The United States is committed to increasing opportunities for people in the developing world to create a decent living for themselves and their families. As President George W. Bush has said: “A world where some live in comfort and plenty, while half of the human race lives on less than $2 a day, is neither just nor stable.” The international community does not have all the answers. But it can do a better job by learning from its successes and its failures. It must also think more innovatively about solutions to basic development problems.

Global terrorism is a serious threat to the very foundations of our economies and societies. We appreciate the commitment of the World Bank and its regional affiliates to support international efforts to prevent funds from inadvertently going to terrorists. However, more remains to be done to strengthen due diligence procedures for monitoring their own and
borrowers’ use of funds and to provide technical assistance to help countries put in place needed regulations and institutions. These crucial areas require priority attention and action.

Both the emerging economies and the poorest countries are enduring the adverse impact of the global slowdown. Their economic recovery will depend primarily on their following sound national policies. Rising productivity has been the driving force behind increases in economic growth and rising per capita income throughout history. Countries that have been successful consistently make wise policy choices that energize the private sector and prioritize human capital development to improve productivity and growth.

Prudent monetary and fiscal policies will lay the foundation for economic activity and a flourishing private sector. Good governance and a competent public administration that promotes the rule of law, enforceable contracts, and other conditions necessary to encourage an entrepreneurial culture are also necessary. Basic social services such as health and education are also vital to enabling any population to participate in and contribute to economic growth.

Many developing countries have already recognized that it is in their interest to implement these policies. In doing so, they discourage capital flight and nurture domestic savings and investment, the indispensable ingredients for development and growth. They also position themselves to attract resources from abroad when investor confidence rebounds. Without stronger private sector-led economies that can generate the employment and tax revenues needed to support crucial public expenditures, countries will never achieve the sustainable growth and poverty reduction they seek. This is the message that the Development Committee should send to the UN Financing for Development Conference, which will convene next year in Mexico.

The World Bank Group is well equipped to help its developing member countries to follow this path. To maximize the development effectiveness of its resources, the Bank must be more selective in focusing them on countries that demonstrate—not just commit to—sound policy actions and efforts to boost productivity and raise the living standards of their people.

We urge the Bank Group to focus its efforts on helping its clients to diversify the sources of their growth, promote accountable governance, raise human productivity, and expand the access of the poor to physical infrastructure, new productive technologies, and social services. The Bank must also be rigorous in measuring the results of its assistance.

The Bank should dramatically increase the share of its funding provided as performance-based grants to the poorest and least creditworthy countries for education, health, nutrition, water supply, sanitation and other human needs. Many development loans that have important long-term economic benefits will take years to generate the resources necessary to cover the resulting debt service. Low-income countries are also highly vulnerable to economic shocks and natural disasters over the repayment period of traditional loans. I believe that the economic impact of the global slowdown makes it even more imperative to move soft loan multilateral development bank lending toward grants. The financial implications of a switch to grants are relatively modest and phase in over time. Lost revenues to creditors, of course, directly translate into benefits for the poorest countries.

With regard to the three agenda items on which ministers are invited to comment:
**HIPC Initiative**

The ultimate success of the Heavily Indebted Poor Countries (HIPC) Initiative will depend not on the number of beneficiaries or the level of debt relief they receive, but rather on the extent to which such relief contributes to measurable gains in human development and poverty reduction. Quality of effort rather than speed in extending debt relief is of the essence. We should support ongoing debt sustainability by providing new assistance on appropriate terms, including the increased use of grants.

**Harmonization of Operational Policies and Procedures**

Multilateral development banks (MDBs) need to do a better job of coordinating among themselves and ensuring that their own internal governance and operations are transparent. The administrative overload on borrowers can be reduced by harmonizing donor policies to the highest appropriate standard. For MDBs the most immediate priority should be to adopt uniform but best practice standards to safeguard the use of MDB resources. And they should assist borrowing countries in strengthening their administrative capacity to adhere to these standards.

**Progress on Education for All**

Literacy and learning are the foundation of democracy and development. Quality education empowers the individual and will yield major dividends in terms of better health and greater productivity. The Bank’s progress report underscores the huge challenges entailed in expanding educational access. The situation is worsening as the developing countries, particularly in Africa, lose teachers to the HIV/AIDS epidemic at an alarming rate. Hopefully, the Global Fund for AIDS, TB and Malaria will soon begin to reverse the spread of AIDS. I look forward to discussing a coherent donor education plan and an expanded World Bank role in this area at our next Committee meeting.

**Statement by Mr. Hidehisa Otsuji, Senior Vice-Minister of Finance (Japan)**

**Impact of Recent Events and Response of the World Bank Group**

The events of September 11 reminded us of the importance of addressing development issues. At the same time they also made us realize how daunting is the World Bank’s mission to fight poverty.

It is not just the industrial economies that have felt the impact. The events have also adversely affected the developing economies through increased risk aversion in international capital markets, reduced tourism revenues, and other factors.

To cope with these difficulties, it is essential for international financial institutions (IFIs), particularly the World Bank and the IMF, to demonstrate strong leadership. Therefore, I believe it is extremely significant and timely for us to discuss this subject at this Joint Development Committee.
The World Bank is expected to provide developing countries with support lest their poverty reduction efforts be thwarted by the aftermath of recent events, such as social unrest associated with conflict. We encourage the World Bank to fully support affected countries, particularly those in South, Central, and Southeast Asia.

As for the private sectors in developing economies affected by the recent instability in capital markets, I recognize the increasing importance of support from IFC and MIGA.

That said, however, the resources and capacity of the World Bank Group are certainly not limitless. Accordingly, it is essential for the World Bank Group to collaborate even more closely with other international institutions and bilateral aid organizations, while taking into account their respective areas of expertise.

For effective collaboration among IFIs, in particular, due consideration must be given to each institution’s primary role: the World Bank’s role in the medium- to long-term development agenda; the IMF’s role in responding to short-term financial shocks; and the specific focuses of regional development banks such as the Asian Development Bank (ADB).

With regard to post-conflict reconstruction in Afghanistan, which has become an urgent priority, the United States and Japan will co-host the “Senior Official Meeting on Reconstruction Assistance to Afghanistan” in Washington, D.C. on November 20. We consider it imperative that, given these circumstances, donor countries and international organizations enhance their collaboration. In this regard, the participation of the ADB, as the regional development bank, is particularly important. The World Bank should cooperate closely with the ADB.

I would also like to announce that Japan has decided to contribute an additional US$1 billion to the Poverty Reduction Growth Facility (PRGF) in order to enable the IMF to respond in a timely and adequate manner to short-term difficulties that the poorest countries may have to overcome.

*United Nations Conference on Financing for Development*

The International Conference on Financing for Development in March next year will provide a good opportunity for us to discuss a broad range of issues on the development agenda, including achievement of the Millennium Development Goals (MDGs).

To make the most of this opportunity, we must all participate in the discussion with a sense of balance. While recognizing the importance of the efforts of industrial economies, continued and strengthened policy efforts of developing economies are indispensable. It is evident from the experience of the World Bank and IMF that both good governance and sound policy actions, coupled with strong ownership of developing countries, are crucial for sustainable growth and poverty reduction. This, I believe, should be our key message to be delivered to the Conference on Financing for Development.

In this context, I welcome the recent progress made in the Poverty Reduction Strategy (PRSP) approach. The whole idea that governments prepare PRSPs through a country-driven participatory process involving civil societies and other stakeholders seems to have started taking root in developing countries. The upcoming conference will be a good opportunity to share the significance of PRSPs with UN organizations.
It is commendable that the World Bank and the IMF have, through strenuous dialogue with UN organizations, introduced various measures to increase their operational accountability and accomplish their objectives. I believe that the pragmatic approach of making the most of existing frameworks, rather than creating new ones, is the most effective and useful way to address the issue of global governance in development.

**HIPC Initiative and PRSPs**

Under the Enhanced HIPC Initiative, 24 countries have reached decision points thus far and three countries have reached their completion points.

While I welcome steady progress in efforts towards poverty reduction, I would like to point out that debt relief is not a panacea for poverty reduction or economic development. From the medium- to long-term development perspective, I believe it is essential to implement a comprehensive approach to development that is country-driven and focuses on the promotion of private investments and the diversification of exports with the strong ownership and initiative of the low-income countries.

**Harmonization of Operational Policies and Procedures**

I share the view that the harmonization of operational policies and procedures by MDBs is an important challenge to enhancing development effectiveness, increasing efficiency, and reducing administrative burdens and costs for recipient countries. In promoting harmonization among MDBs, it is essential to respect the ownership of developing countries and the work of bilateral donors.

With regard to the work that has been done in response to the last Development Committee communiqué, I welcome the report that the first stage of the work focusing on situation analysis is nearly complete. Of all the findings, I believe that the analyses of why aid procedures differ from one institution to another are beneficial.

Regarding the second stage and thereafter, discussion must be carried on, taking into account the complex and sensitive nature of the issues that will emerge. Let me add that the World Bank’s decision to review its procedures in the areas of procurement and financial management, in cooperation with aid partners, certainly deserves our attention.

**Education for All**

Investing in human resources such as education is the key to reducing poverty and achieving sustainable growth, particularly in the medium to long term. In this regard, we need to pay attention not only to primary education enrollment but also to the quality of education including the completion rate and learning achievement. In addition to developing the primary education system, we also need to address post-primary education issues such as adult illiteracy, taking into account the needs of each country. Furthermore, eliminating gender disparities in education is one of the top priorities and requires continuous efforts.

In this area, both strong commitments by developing countries and donor supports are critical. In order to realize Education for All (EFA) effectively and efficiently, we need to
promote collaboration and cooperation among a number of the institutions engaged, while fully valuing their expertise. While we note that UNESCO has started a new drive to promote basic education, the World Bank is considered to have a comparative advantage among other institutions, including UNESCO, UNICEF, and UNDP, in building educational infrastructure. Thus, we expect the World Bank to address the issue from a broader perspective while utilizing their expertise. I look forward to a practical action plan, prepared through discussions with major partners, to be submitted at the next Development Committee meeting.

Further Contributions by Japan to World Bank Initiatives

In order to help developing countries address medium- to long-term challenges, we have supported the World Bank through contributions to the Policy and Human Resources Development Fund and the Japan Social Development Fund. In addition to these contributions, we have decided to contribute to the Critical Ecosystem Partnership Fund as well as the Development Gateway Initiative, as we recognize the importance of environmental considerations and the advancement of information technology in the context of global issues.

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

First, I would like to express my sincere gratitude to the Canadian authorities and the people of Canada for consenting to host the sixty-fourth meeting of the Development Committee at this difficult time following the tragic events of September 11, 2001.

In these difficult circumstances, I want to condemn, on behalf of the group that I represent, the terrorist acts perpetrated in New York and Washington, which run counter to the universal values of humanism, peace, and tolerance. I would also like to express our deep sorrow over the loss of human life caused by these acts.

In addition, I would like to take this opportunity to call upon the international community to provide greater humanitarian assistance to the people of Afghanistan.

This tragedy should prompt the international community to seriously consider ways and means to guarantee the rule of law and the principle of fairness throughout the world.

Respect for these basic principles also means restoring the rights of oppressed peoples and, in particular, the right of the Palestinian people to live in a sovereign, independent nation with Al-Qods Acharif as its capital.

In this context, it seems appropriate for our Committee to address the topic of the impact of the September 11 events and the World Bank Group’s response to these events. Indeed, the events of September 11 will have significant repercussions not only on how the world economy evolves but also on international relations in general.

Although it is hard to assess at this stage, the impact of these events on developing economies will likely be substantial because they come at a time of a sharp slowdown in global economic growth and a corresponding drop in total capital flows to developing countries. Accordingly, we support the Bank’s initiative to work with development partners...
and set in place a strategy to help low- and middle-income countries deal with the repercussions of these events on developing countries in order to provide adequate support for growth and poverty reduction tailored to their individual circumstances.

From this perspective, the Bank should pay special attention to the sectors most affected by the events of September 11, such as tourism, air transport and exports. In addition, the support strategy should strive to set in place financial instruments appropriate to the needs of developing countries and a targeted technical assistance program to build their institutional capacities. In our opinion, it would also be appropriate for the Bank to improve the financial terms attached to its resources, specifically by lowering the cost of its loans.

Parallel to these actions, the Bank and its partners should consider the implementation of debt-relief mechanisms for middle-income countries, similar to the debt-reduction initiative for heavily indebted poor countries (HIPC’s). Such mechanisms are all the more necessary because most middle-income countries carry a debt burden that inhibits their growth and their economic and social development.

In addition, to promote sustainable development in developing countries, the World Bank Group, particularly IFC, should pay special attention to private sector development in these countries whatever the region, insofar as this sector can stimulate growth and generate employment.

The industrial countries, for their part, have a special role to play in promoting global economic growth and mitigating the effects of the events of September 11. Specifically, the slowdown in growth in industrial countries should not translate into lower amounts of official development assistance (ODA). To the contrary, the events of September 11 call for expanding such assistance.

Along with increased ODA, greater efforts should be made to open the markets of developed countries to exports from developing countries, particularly agricultural products. To this end, the industrial countries should eliminate tariff and non-tariff barriers that entail annual costs of US$57 billion for developing countries, i.e. more than the amount of ODA that these countries receive.

In this regard, we are pleased with the agreement reached at the end of the WTO ministerial conference in Doha on a schedule of negotiations concerning agriculture and services. We hope that the next round of negotiations will reflect the interests of developing countries and lead to significant advances toward establishing a more equitable multilateral trading system.

In our view, establishing a fairer system is one of the prerequisites for sustainable development. As such, it also seems appropriate for our meeting to address the topic of preparation of the United Nations Financing for Development conference.

We all know that the United Nations system has played an important role in promoting sustainable development worldwide. We believe that this role needs to expand in order to meet the goals set by the international community at the Millennium Summit, particularly in the area of poverty reduction.
Achieving the goals of this Summit requires that adequate resources be made available to multilateral institutions for them to fulfill their mandate. These institutions will need to set in place innovative mechanisms for granting assistance to poor countries that allow the countries to take ownership of their development strategies.

Developing countries should also be able to benefit from foreign private investment flows by implementing appropriate policies that are supported by our institution and that aim to improve the investment environment.

**HIPCs and PRSPs**

We support the efforts of the Bank, the Fund, and contributing countries to implement the HIPC Initiative. These efforts have allowed 24 countries to reach their decision point. Overall, however, there has been limited success in meeting the goals of this Initiative. Only three countries have reached the completion point. In this regard, it would be appropriate to consider revising the initiative so that all eligible countries can benefit.

To achieve the HIPC Initiative’s goals, we call upon donors to provide necessary resources for multilateral development banks, particularly the African Development Bank, to contribute to the initiative.

We are also pleased with the progress made in implementing PRSPs. Thirty-eight countries have developed their interim strategy papers.

**Harmonization of Standards and Procedures**

In addition, we support the efforts of the World Bank and the Fund, along with other multilateral and bilateral institutions, to harmonize standards and procedures in line with internationally recognized practices.

**Education**

Finally, since education is one of the keys to sustainable development, we support the efforts of the Bank and all development partners to achieve the goals of universal primary education by 2015 and elimination of gender disparities in schools by 2005.

**Statement by Mr. Rodrigo de Rato Figaredo, Minister of Finance (Spain)**

**The HIPC Initiative and the PRSPs**

We are pleased to note that joint efforts by the Bank and the Fund have already enabled 24 countries to establish the necessary track record of sound economic performance and progress in preparing their own poverty reduction strategies, so as to enable them to start benefiting from the debt relief provided under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

We hope that additional countries will be able to reach their decision points shortly. We hope that those countries which have already done so will be in a position to fully comply with the requirements to get to the completion point. Yet, we believe it is critical to emphasize, once
again, that an accelerated pace towards debt relief must in no way be allowed to jeopardize the success of an Initiative that is a major undertaking for everyone.

Most countries that have not yet reached the decision point are currently involved in, or have recently ended, armed conflicts, have severe governance problems, and lack a proper track record of good economic performance. Efforts in these cases should be focused primarily on supporting the development of the necessary capacity building to enable them to build a track record of sound economic policies needed to seize full advantage of the debt relief.

The speed with which countries realize the benefits of the initiative must not be the driving force behind the exercise. Rather, the objective should be to strike the proper balance between access to accelerated debt relief and the need for countries to give sufficient guarantees that they have made a real commitment to stability, reform and poverty reduction. We know that attaining this balance is no easy task and that a certain level of flexibility is required when assessing progress. Nonetheless, this flexibility cannot allow any relaxation of the principle that countries must demonstrate a strong commitment to sound economic performance and poverty reduction before qualifying for debt relief.

By the same token, the flexibility that might be required when assessing the possibility of granting additional debt relief at the completion point should not compromise the essence of a framework designed to provide countries with a long-term exit from unsustainable debt. In our view, the need for ownership and commitment as the only way to fully reap the benefits of debt relief, coupled with the need to avoid the risk of moral hazard, clearly argues for a very cautious approach when considering additional debt relief at the completion point. These matters should never be subject of automatic consideration; rather, they should only be considered under exceptional circumstances, such as when there has been a fundamental change in a country’s economic conditions, due to factors beyond its control. They should be assessed on a case-by-case basis.

The prospect of providing additional debt relief also raises serious concerns regarding financing. Finding the means to pay for the HIPC Initiative remains elusive, yet its cost continues to increase and many creditors still have not assumed their share. Spain will contribute, according to our current estimates, over US$1.5 billion to the overall financing of the initiative. This total represents 4.6 percent of the total cost of the Initiative and almost three times our quota in the Bretton Woods institutions.

Moreover, even though there has been progress finding a way to resolve the participation of those creditors whose share constitutes too heavy a burden, an important effort still remains to be done. Spain is actively contributing to the search for pragmatic and creative solutions to increase the availability of resources; a solution for Guatemala has been worked out and we are trying to do the same for Costa Rica. We urge other countries to follow suit.

Regarding the PRSP preparation process, we are pleased to note that 38 countries have already outlined their own poverty reduction strategies in Interim Poverty Reduction Strategy Papers (PRSPs) and that eight countries not only have prepared full PRSPs but have already begun their implementation. We appreciate the vital support the Bank and the Fund are providing to countries by participating in the debates on policy issues and providing valuable analytical and technical support to enhance the necessary capacity building to carry out the process. We firmly believe that fostering cooperation among institutions and development partners is fundamental
for ensuring the success of the approach. Therefore, we should all commit ourselves to finding improved ways to strengthen it.

We concur that enhancing cooperation between the Bank and the Fund by means of a clear division of responsibilities, systematic information sharing and effective collaboration will bring about large benefits in terms of greater efficiency in resource utilization and impact on development. Moreover, streamlining conditionality under the Fund’s Poverty Reduction Grant Facility (PRGF) and the Bank’s Poverty Reduction Support Credit (PRSC) should be a fundamental component of this cooperation, since it will contribute to making each institution more focused and effective. Hence, no effort should be spared in building an efficient operating framework in which each institution’s areas of responsibility are precisely defined and solutions found in those areas where overlapping might occur. At the same time, we urge the Bank and the Fund to continue strengthening their collaboration with the UN system and other donors.

We expect that the review of the PRSP approach that will be undertaken in the next six months will adequately highlight the adjustments deemed necessary in light of experience, in order to lay the foundations for a more efficient approach to poverty reduction.

**Harmonization of Operational Procedures**

We sincerely appreciate having this key issue, once again, high on the agenda of the Development Committee. In our view, it is important to continue to emphasize our commitment to addressing the real problem that is reducing development effectiveness: the many differences among donors’ procedures when granting development assistance. The efforts we are all devoting to making the most of our resources are being seriously undermined by these differences. Therefore, we should remain steadfast in bringing about greater harmonization.

The message we sent at our last meeting in April helped create valuable momentum that should be maintained. We believe that the steps taken at the working group level, notably, the establishment of a prioritized agenda and the development of concrete time-bound action plans, will definitely contribute to guiding and advancing the work.

The World Bank should continue to play a major role, spearheading the debate and promoting consensus in the various forums where the work is being done. Yet, we are of the view that for this leading role to be effectively implemented, the Bank should conduct a thorough review of its own procedures. In this light, we sincerely appreciate how the Bank has recognized the importance of this process of self-examination and welcome the positive steps it is taking to this end.

Striving to advance harmonization is no easy task, as it involves dealing with such sensitive issues as the requirements each donor deems necessary to ensure an appropriate use of the resources it makes available and maximize development impact. In our view, the complexity of the process requires a pragmatic approach based on a phased, prioritized agenda. That is why we strongly support focusing the efforts primarily on those areas where the impact of harmonization would be most immediately felt: procurement, financial management, and environmental assessment. We encourage an acceleration of the work being done in each of these areas.
We welcome the fact that most working groups have now completed a first stage of consultation and have moved forward to a second, more complex stage, in which the work should be focused on developing acceptable standards of good practices. We believe that the development of acceptable standards which all donors can apply and which recipient countries can use to build upon their own procedures will play a critical role in enhancing effectiveness. Certainly, recipient countries should be directly involved in carrying out this task. The PRSPs can provide an appropriate framework for them to establish their harmonization priorities.

Together with the work at the institutional level, we attached the utmost importance to the initiatives at the country level. We share the view that they can play a fundamental role in accelerating the process towards harmonization and in the ultimate goal of achieving the highest impact on development. We encourage all donors, multilateral and bilateral, to enhance coordination at the country level, where the benefits of avoiding duplication of work and applying a common procedure can immediately be felt. Again, the PRSPs can be the most appropriate instrument for enhancing donor coordination.

*Education for Dynamic Economies: Accelerating Progress towards Education for All*

The benefits that will accrue from achieving the objectives of Education for All (EFA) are instantly recognizable. Above and beyond the empirical evidence pointing to the potential economic payback that result from greater investment in education—increased productivity, competitiveness and economic growth—it endows countries with personal and institutional benefits essential to democracy. Indeed, we firmly believe that universal access to education, within a context of strong policy implementation, constitutes a major driving force conducive to well-being and poverty reduction.

For this reason, we share the concern that despite the international community’s commitment to render EFA feasible for more than a decade now, progress has been uneven. More importantly, without a major push, the objectives of achieving universal primary education by 2015 and eliminating gender disparities by 2005, will not be achieved.

We believe that the Bank must reverse the trend of declining education lending and no increases in other non-lending products, such advisory and analytical services, which has emerged over the past decade. Failure to include education in the discussions of global public goods provides further evidence that the Bank has been leaving education somewhat on the sidelines. Consequently, we urge the Bank to give high priority to the elaboration of an action plan, including its financial implications, to step up its work in this area. The Bank’s work with countries in collaboration with its donor partners can contribute to expanding enrollments, improving school retention and completion rates, and reducing gender disparities. In this way, the Bank will be responding effectively to the renewed commitment that resulted from Dakar.

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

First, I would like to thank the Canadian authorities for organizing this meeting in these difficult circumstances. It is indeed important that the Development Committee meets now to

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6 On behalf of Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovakia, Slovenia and Turkey.
examine the Bank and the Fund’s assessment of the problems stemming from recent events, as well as to extend our support to the response they have prepared to confront these new needs. This meeting is also particularly timely for the preparation of the Financing for Development conference. I would also like to thank Minister Sinha for his effective leadership of the Committee.

Impact of Recent Events in Low- and Middle-Income Countries

In spite of high uncertainties still prevailing, it is manifest that low- and middle-income countries are adversely affected by the global slowdown in the developed countries. Some countries are also affected by a reduction in remittances or in tourism revenues, or even in oil prices. I am pleased to note that in their flight to quality, financial markets have recognized countries that follow sound economic policies complemented by solid structural reforms. The countries of Central and Eastern Europe in the process of accession to the European Union are a case in point.

Timely support by the Bank and other international financial institutions (IFIs) is crucial to prevent further deterioration of the situation in low- and middle-income countries. From this perspective, a genuine and efficient partnership among all the institutions is essential to provide a response that is commensurate to the needs of these countries. I share the Bank’s view that its support must be tailored to the specific needs of each particular country, and be primarily targeted on those countries that implement strong reform programs and achieve good performance. Indeed, the Bank group needs to differentiate its response between countries that have been affected despite their relatively sound policies and those that are more vulnerable due to weak policy choices.

I agree that the available instruments of the World Bank Group seem appropriate to respond to the demands, and that its financial capacity is commensurate with these needs as they have been assessed up to now. As to debt relief, we should avoid creating expectations that are hard to fulfill and should emphasize the importance of fully financing commitments under the Heavily Indebted Poor Countries (HIPC) Initiative. While it is important to deliver the necessary support, we should not create a moral hazard problem, nor should we minimize the crucial issue of how to support countries’ efforts to achieve debt sustainability in the longer term. To this end, maintaining sound economic policies, including strengthened debt management and rigorous efforts to address the underlying causes of the debt problem, is an important prerequisite. The assessment of debt sustainability levels should continue to be done on a country-by-country basis and with consideration of the long-term effects of exogenous shocks.

In its non-lending support, the Bank should enhance its participation in the effort against money-laundering activities and financing of terrorism. This can be done in the context of financial sector assessments (FSAPs) or Reports on the Observance of Standards and Codes (ROSCs), to which the Bank’s contribution has been essential, but more importantly by providing its expertise to the countries and by assisting them in improving their legal, judicial, and regulatory systems.

Globalization and Development

Recent events have only confirmed that we live in an interdependent world. Globalization is a powerful movement that brings both benefits and challenges. In particular, globalization has
the potential to contribute to poverty reduction and the achievement of the Millennium Development Goals (MDGs). However, if globalization cannot contribute to development progress for all, we will have to bear the consequences for peace, development, and social justice.

In this perspective, EU finance ministers have commissioned a study that will be available before the Financing for Development Conference. It should propose ways to deepen and accelerate efforts to improve effectiveness of the international financial system and to counter potential drawbacks or abuses of financial globalization. In this connection, it will study alternative initiatives in the fight against the financing of terrorism and against money laundering.

Existing instruments contributing to the development process and the reduction of inequalities will also be explored. They comprise an increase in ODA, debt reduction including the HIPC Initiative, and market access for developing countries. Recently proposed new sources for financing of development will also be explored, like a tax on currency transactions, or on carbon emissions, or on arms exports. I am confident that this initiative will provide a firm basis to help countries, and to devise promising tools to be presented to the Financing for Development Conference.

**Financing for Development**

The Financing for Development Conference provides an opportunity to bring together different actors with a view to consolidating international cooperation to fight world poverty. Its conclusions could help to create momentum in a number of key areas of development. The major Bank contribution to the conference should be to bring a solid operational perspective to its objectives.

**Operationalizing the Development Goals and ODA**

The conference should promote the MDGs as a focal point for development efforts. It also provides an opportunity to seek complementary commitments for a substantial increase in ODA to reach these goals, with the additional resources to be allocated to fund the needs of developing countries that have sound policies and governance. At its recent Goteborg summit, the European Union reconfirmed its commitment to attaining the UN target of devoting 0.7 percent of each industrial country’s GNP to development aid, as well as to developing a time path towards it. To be effective, such an increase in ODA must also be strongly complemented by recipient countries through sound economic and social policies and through the creation of an institutional and legal framework that is conducive to an improved mobilization of domestic resources and to long-term foreign direct investments.

**Mobilizing Domestic Resources**

Indeed, sound policies and governance are pre-requisites for the efficient mobilization and allocation of domestic resources. They are also the foundation for effective external assistance. The conference is an opportunity to further consolidate the consensus on the principle that national ownership of development strategies with wide participation and a sharp focus on poverty reduction should be at the center of external assistance programs. In low-income countries particularly, increased ownership of aid programs would bring these countries more in
line with the PRSP approach. In this respect, we highlight the importance of capacity building as a complement to ODA increasingly being delivered in the programmatic mode.

One particularly innovative way of mobilizing domestic resources, which could be taken up better during the conference, is public-private partnerships, as these aim at increasing the development impact of private investments. The public and the private sectors should together explore ways to pool resources with a view toward facilitating the attainment of development goals. Areas where public resources can leverage domestic private resources in an effective way should also be explored.

The Bank and the Fund are to be commended for bringing the need for aid effectiveness, i.e., sound domestic policies, to the forefront of the ODA debate within the conference framework. This should not imply, however, that countries in conflict and those with weak capacities and performance be left without aid, in particular technical assistance. Promoting the restoration of peace is also part of the development agenda, which the Bank and the Fund should support in their own ways, for instance in the Great Lakes region of Africa.

*Integrating Developing Countries into the World Trading System*

The conference will re-emphasize the constraints that trade barriers and subsidies impose on developing countries, and it will contribute to the momentum created by the Doha agreement on a new, development-oriented WTO trade round. The EU’s “Everything but Arms” initiative in favor of the least developed countries should be extended and replicated throughout the world. At the same time, international institutions and donors should make sure that resources are available to respond to the requests from developing countries for assistance in building capacity for trade negotiations.

Complementarily, it must be emphasized that enhancing the supply response of developing countries to market opportunities is critical for them to seize trade opportunities. Supported by technical assistance, developing countries need to focus on “behind the border” reforms. The Bank is in an excellent position to support these efforts.

Finally on trade, the conference may be used as an opportunity to identify a coherent approach to trade and development, as a complementary agenda to the trade agenda. The European Union believes that the contribution the international community can make to maximize the poverty reducing benefits of trade should be at the center of our concerns.

*Systemic Issues – International Financial Architecture*

I support the effort to enhance the influence of developing countries in international dialogues and decision-making processes. However, this must be done in a pragmatic way, which would not undermine the ability of the international community to provide assistance to developing countries. Hence, the governing bodies of the responsible and competent institutions should be the ones taking initiatives in the areas of their respective mandates.

With respect to the instruments for effective participation in the benefits of globalization, the European Union strongly supports regional initiatives, and, in particular the New African Initiative, emanating from African leaders themselves, which bodes well for strong ownership. I
would also like to highlight another arrangement at the regional level that involves stakeholders’ participation, i.e., the Cotonou Agreement.

It is critical to follow up on the Financing for Development Conference in an effective manner. The full realization of the potential for cooperation among already existing institutions and a clear understanding of the respective responsibilities are needed. Such an approach would provide an efficient, practical and immediate alternative to any new arrangement.

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

The global economic environment has certainly deteriorated since we last met, and our two institutions now face new challenges. As we mentioned last April, substantial uncertainties were then already on the horizon as projections for growth in industrial countries were being scaled down and economic prospects for many developing countries in the next few years were not encouraging. The tragic events of September 11 have now added new uncertainties and posed new policy challenges for both developed and developing countries as well as for international institutions. We therefore welcome this timely discussion of the immediate situation that confronts us all, while also giving due attention to the other important topic for discussion, relating to the longer-term issue of poverty reduction and development financing.

Impact of Recent Events and World Bank Response

In assessing the impact of recent events on developing countries, account should be taken of the serious ramifications of the global slowdown in 2001 that the economies of developing countries were already experiencing. As the documentation shows, all three major world economies were entering into a simultaneous slowdown, and the outlook for 2001 was deteriorating. World trade growth was projected to go down sharply from 13 percent to 2 percent; non-oil commodity prices were expected to fall by 7 percent; capital market flows to developing countries were being cut sharply, with no growth in foreign direct investment; and, most significantly, a large reduction was projected in the GDP growth of developing countries in 2001, from 5.5 percent to 2.9 percent. Such a reduction of 2.6 percent in the developing countries’ growth rate was bound to have a pervasive impact on developing country prospects, adversely affecting poverty.

On future prospects, and notwithstanding the uncertainties, the documentation shows that, despite the tragic events of September 11, the overall medium-term economic outlook remains favorable and that developing country economies will grow next year, though by somewhat less than previously expected, with more robust growth projected for 2003. This favorable outlook is rightly attributed in part to the aggressive policy response to the 2001 economic slowdown in the major economies and the policy reforms in many developing countries over recent years. This aggressive policy stance needs to continue in order to foster and sustain the expected recovery, while additional measures should be taken to address the specific needs of the countries and sectors most affected by the recent tragic events. This task will undoubtedly require concerted international action and an active and flexible response from international institutions.
In this respect we commend the managements of international institutions for moving ahead in contacting affected countries and coordinating their approaches. It is also heartening to see that the Bank Group recognizes the variety of country situations and the need for flexible response, especially given the rapidly evolving circumstances. The Bank’s paper provides a sound assessment of the direct and indirect impacts of recent events that the Bank might need to address, and rightly covers such specific areas as refugees, tourism, and remittances, as well as trade and commodity markets, including oil. The suggested instruments for Bank lending in response to the expected demand are sufficiently varied to be able to respond to different country situations. The Bank also has adequate capacity to deal with current circumstances, although monitoring is needed in order to ensure that demand for resources remains manageable as conditions change.

In looking forward, we note the increasing attention to be paid to anti-money-laundering (AML) measures, including the Bank’s expanded analytic and advisory services.

United Nations Financing for Development Conference

We welcome the active part that the Bank and Fund have taken in the preparatory work and discussions for this important conference, and for providing our Committee with the paper: this provides the basis for our contribution to addressing the substantive issues on the Financing for Development conference agenda. We strongly endorse the objectives of the conference that seek to lay down the means to reach the goals of the UN Millennium Declaration of halving poverty and achieving meaningful gains in education, health and other social goals over the coming fifteen years. As the paper has demonstrated, these goals are an integral part of the mandate of the Bank and the Fund, and the two institutions can make a substantial contribution in many of the major areas of the conference agenda.

The five themes suggested for conference attention are appropriate as they build upon sound policies and governance and are closely related to Bank’s and Fund’s experience and mandate. Achieving the core objective of the conference, mobilizing public and private capital for development, indeed depends upon improving the investment climate for private investment, expanding market access for developing countries, enhancing aid effectiveness through such means as harmonization, mobilizing additional resources for public goods that benefit both developed and developing countries and, most importantly, generating the political will to make available the required ODA to cover the costs of meeting the development goals.

As shown in the paper, these costs are substantial: the objective of halving poverty in the coming 15 years requires doubling the annual flow of ODA in real terms, and a further large amount is needed to achieve the education and health objectives. This certainly requires a major effort by the donor countries. We hope that the Financing for Development conference will provide the opportunity for a strong global political commitment to meet this challenge. Regarding the suggestions as to how to allocate the additional resources to the country categories mentioned in the paper, there is a need for more consideration. Further consideration is also needed in case difficult circumstances, including weak institutional capacity and the external environment, prevent recipient countries from satisfying the policy requirements for access to the additional assistance.

One issue that also merits attention is the developing countries’ level of input into the international decision-making process, which does not reflect the increasing importance of
developing countries in the world economy. More participation by developing countries should strengthen the partnership between donor and recipient countries and improve the policy dialogue.

**HIPC and PRSP Progress Reports**

The Bank Group has continued to improve its poverty-reduction focus with the widening use of Poverty Reduction Strategy Papers (PRSPs) and the ongoing efforts to improve their quality and address the implementation issues that have arisen. The report shows that good progress has been achieved since the introduction of these strategy documents. A large number of countries have completed their Interim PRSPs and some have completed full PRSPs. As rightly pointed out in the report, the general experience indicates that the timetable for developing full PRSPs may have been unrealistic.

This and other issues of implementation should be covered in the planned review of the PRSP approach to be provided at the upcoming spring meeting. This is important, not only for its relevance to the Bank Group’s poverty reduction strategy, but also for the increasing relevance of the full PRSPs to the pace of implementation of the HIPC Initiative.

We welcome the progress in the implementation of the initiative, which has contributed substantially to the reduction of both debt stock and debt service of an increasing number of poor countries. However, we are also concerned to note that, since we last met, fewer countries than expected have reached their completion points, owing to the more difficult circumstances and the longer time needed to develop the required poverty reduction strategies.

We look forward to seeing more countries reaching their decision and completion points in the coming months, as is now anticipated, and to more concerted efforts to face the challenges confronting the implementation of the initiative. These include maintaining long-term debt sustainability, ensuring that countries remain on track in their poverty reduction programs, covering the difficult cases of the post-conflict countries, and mobilizing the necessary resources to fund the rising costs of the initiative, as described in the report. In this respect, donor institutions in our region continue to make concerted efforts to alleviate the debt burden of their clients and to contribute to the HIPC Initiative while recognizing their own financial constraints arising from global market conditions, as well as the need to maintain financial integrity of the institutions and their ability to continue to provide other development assistance.

**Harmonization of Operational Policies Progress Report**

In contrast to the report submitted at our last spring meeting, this report does show progress. Working groups have identified differences among donor institutions and have moved towards the second stage of developing good practices at the country level. The report also shows better understanding of the various concerns and a clearer indication of what needs to be done, by whom and when. We welcome the efforts that have been undertaken by the Bank Group and other institutions in this regard. We look forward to a consensus being formed on how to implement common operational principles that will help ease the burden of recipient countries arising from the multiplicity of procedures that have been required by the donor community.

The task of adopting the right approach to harmonization and moving ahead is, however, far from easy and the report rightly points out that reaching full consensus among donors will be
a technically complex and sensitive process. There are numerous donors and clients with
different systems, cultures, objectives and historical backgrounds. The repercussions of adopting
the wrong approach or forcing the pace of implementation could be counterproductive.

As I mentioned during our last meeting, harmonization should therefore be based on what
is realistic and feasible, avoiding over-harmonization and over-standardization. We should pay
full regard to the views of different borrowers and different donor institutions, and steer away
from prescriptions beyond the capacity of many borrowers and donors. We continue to
underscore this balanced approach.

In looking forward, the report has provided a good basis for moving to the next steps in
developing good-practice principles that can be voluntarily mainstreamed in donor institutions’
work, and in adapting them for implementation in specific borrower country context. In this
respect, more effort should be made to ensure that a wider spectrum of regional and bilateral
institutions are involved in developing good practice principles, and more weight should be
given to the views of developing country partners. We also recall that, at our April meeting, we
encouraged all development partners to rely increasingly on the borrower governments’ own
planning and budgetary processes, helping to strengthen these systems and processes where
needed. The Bank Group can certainly play a vital role in this respect.

Progress Towards Education for All

We welcome this report that describes the progress achieved on education and the issues
that confront the achievement of the Education for All (EFA) targets of achieving universal
primary education and eliminating gender disparities. We also welcome the increasing
recognition by policy makers and international forums of the potential contribution of education
to income growth and poverty reduction, and of the need to do much more in this regard at both
the country and international levels. The task is certainly far from easy, with over 100 million
children out of school and one billion illiterate adults worldwide.

In order to reach the education targets, the report correctly notes that one cannot follow a
“business as usual” approach, and that there is a need for intensive and coordinated action. It
points to the need for additional financial resources, both domestic and external, and emphasizes
experience showing that success significantly depends upon establishing a sound policy
framework for the education and other related social sectors. Such a policy framework, however,
should not be used as a rigid requirement for external financing, especially for countries that
have inadequate capacity. The report also suggests moving from focusing on enrollment rates to
targeting primary education completion rates and quality and learning outcomes, suggestions that
research substantiates and which should be given serious consideration.

We look forward to the discussion of these issues at our next April meeting, and
particularly to an elaboration of Bank’s policy on education, especially in view of the sharp
decline in its lending over the past two years.
Statement by Mr. Shafie Mohamed Salleh, Deputy Minister of Finance (Malaysia)

Introduction and Global Prospect

May we express our sincere appreciation to the government and the people of Canada for hosting us at this very important meeting. The outlook for the global economy for the rest of this year and much of next year is bleak with growth of world trade expected to be less than 2 percent from more than 10 percent a year ago, and major commodity prices likely to reach new lows. Capital flows to developing countries aside from China are envisaged to decline, led by lower levels of foreign direct investment. Although the Asian financial crisis has abated, new financial crises are emerging elsewhere.

Impact on Southeast Asia Region

With the global slowdown accelerated by the tragic event of September 11, it is obvious that developing countries will face enormous challenges in the near future. It is also certain that the impact of this global downturn will vary from country to country depending on their linkages to industrial economies, their dependence on travel-related industries, and the nature and levels of development that will determine the choice of instruments of support by the Bank. In our constituency, exports and growth for the Southeast Asia region are already negatively affected, particularly those highly dependent on electronics exports, and the island economies dependent on tourism and primary commodities.

Growth in the region (including China) is expected to fall to 4.6 percent this year from over 7 percent last year. Worsening global conditions will mean that the timing of the growth rebound of the crisis-affected East Asia economies will be pushed back further. Economies that are dependent on high-tech exports, such as Singapore, Thailand and Malaysia, are experiencing slowdown or decline in growth, cutbacks in employment and retrenchment of electronic sector workers.

Transition economies like Vietnam and Lao PDR, although less affected by the high-tech recession, are also vulnerable to this global slowdown, being dependent on primary commodity exports and foreign investments. Island economies, like Fiji and Tonga, in the region, which rely heavily on commodity exports and tourism, are being hit by the slowdown and by the pullback in world tourism. In Indonesia, corporate restructuring efforts will be hampered by reduced foreign investor interest coupled with capital market inaccessibility. Painful as these developments are, with less growth, this prolonged downturn in the East Asia region will stall the pace at which poverty can be reduced.

Collaborative Efforts by the International Community

The status of global economy warrants our collective efforts among nations and institutions in formulating the appropriate policies to restore confidence and stability to secure recovery. Relationships between developing and the developed countries will need to be strengthened with noble objectives and genuine partnership. Collaborative efforts and

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7 On behalf of Brunei Darussalam, Fiji, Indonesia, Lao PDR, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga and Vietnam.
partnerships among multilateral development banks (MDBs) and donor communities will be crucial to ensure effective utilization of scarce resources at minimum cost through effective harmonization of operational policies and procedures to make aid more effective. We need to move ahead on implementation. We need to focus on outcomes and results. These two-day meetings of the IMFC and Development Committee are all the more relevant and important than ever, in our resolve to mitigate the impact of the global slowdown on the poorest and most vulnerable in our society.

Stability will require response measures to protect the most vulnerable in our society. In times of crises, we need to ensure that social safety nets are in place. Each society needs some form of social protection to tide the newly unemployed, take care of the elderly, the disabled and the children of those who cannot find work.

With this in mind, the importance and urgency of the Bank Group’s poverty reduction mission has never been greater and more challenging than it is today. With the Bank’s comparative advantage, we see it right for the Bank to be at the heart of the response along with our partners. However, we must resist a one-size-fits-all approach.

**Poverty Reduction**

In a time of economic difficulties around the globe, poverty reduction efforts will be even more challenging. We have no illusion that it will be easy or that it can be done quickly. Those in poverty in the low-income countries are the most vulnerable. Unless we achieve significant poverty reduction, the world will become a more unstable place to live. In this context, we must encourage and assist the poor countries to choose reform paths to economic and social development that are known to work. We must pay attention to the people whom poverty reduction is intended to benefit. We have to assist them, invest in them, and empower them.

**World Bank Group Instruments and Support**

In our view, the World Bank Group is well equipped to help its client countries respond to these difficult times, stay the course of reforms, raise productivity, and promote growth for poverty reduction. There will be unprecedented demand for financial support in the wake of the slowdown, and we must ensure the Bank is ready and has the necessary resources to assist. The Bank has a wide array of instruments such as the Special Structural Adjustment Loan (SSAL) and Supplemental and Emergency Recovery loans, among others, to employ for meeting assistance requirement. We also welcome initiatives by the Bank to develop alternative lending instruments such as the forthcoming deferred draw-down options and possibility of topping up of HIPC assistance to meet the urgent needs of our clients, and assistance by IFC to assist the private sector, particularly the small- and medium-scale enterprises (SMEs). We expect that much of the additional demand for resources will be related to fiscal expenditure difficulties. This should be dealt with on a case-by-case basis without straining the risk-capacity level of the Bank to an unsustainable level.

It is obvious that with the increased uncertainty around the globe, foreign direct investment to developing countries will decline, slowing the pace of privatizations, increasing the difficulty of access to capital market, and further constraining development. IDA and the Heavily Indebted Poor Countries (HIPC) Initiative will have an important role to play in
assisting client countries in these difficult times, and we urge the Bank to be flexible in the use of these instruments for countries that are in need. To this end, we welcome the setting up of a Task Force on World Bank Assistance to poor performing low-income countries and we look forward to the progress on this front. We are happy that Singapore in our constituency will be making contributions to the IDA 13 fund to assist poor countries. We also welcome IFC’s role in supporting corporate entities, including leveraging fund mobilization from the market, and MIGA for stepping up its effort in compensating for the contraction in private insurance market.

United Nations Conference

We are pleased to note the progress made so far at the UN in the preparation leading up to the Financing for Development conference in Monterey, Mexico next year. Today’s meeting provides a unique opportunity for us to guide further the financing for development (FfD) process.

The conference will have five themes: establishing a conducive environment for the private sector investment; integrating developing countries into the world trading system; operationalizing the International Development Goals (IDG) and ODA requirements to reach them; harmonizing the MDBs and bilateral donor policies and procedures; and financing for global public goods.

Establishing a Conducive Environment for the Private Sector

The private sector is the engine of growth and prime mover of development while progress in tackling the challenges of globalization, development and poverty alleviation requires an appropriate blend of public and private cooperation. An enabling climate for investment remains critical to successful private sector-led growth and FfD could promote this process. The role of the state is to build this enabling environment to catalyze the markets and encourage inflows of foreign direct investments to supplement domestic investments in the financing of growth. Developing countries need a greater flow of foreign investments not only for economic growth but also to provide them the means and the capacity to service their debts. Needless to say, stability requires nurturing domestic investments through deepening of the financial and capital markets.

Integrating Developing Countries into the Global Trade

Free trade is vital for growth and poverty reduction and hence a key component of the FfD agenda. The growth of unfettered trade will create employment, income, wealth, prosperity and economic development.

While the global growth in trade has increased significantly during the last two decades, developing countries continue to face high levels of protection in developed countries, particularly non-tariff barriers and delayed implementation of trade access for their export products such as agriculture, clothing and textiles. The best way for the international community to support poverty reduction strategies of the low-income countries is by opening their markets to the exports of poor countries. In this regard, we note the launching of a new round of trade negotiation at the 4th WTO Ministerial Conference in Doha last week and we welcome their intent to ensure that the needs and interests of developing countries are at the heart of their work.
program. The new trade round would be meaningful if developed countries address the market access issues and implement promises made to developing countries in the Uruguay Round.

On mitigating impacts of volatility of commodity markets, we urge the Bank to redouble its efforts on commodity risk management work, which began two years ago. This is vital for economies that are dependent on a few export commodities.

**Operationalizing the International Development Goals and ODA Requirements**

It has been two years since the Millennium Declaration was issued but progress is not fast enough in many areas. We agree the two main factors of prime importance for development are a sound policy and governance framework and external financing. But while countries with reasonably good policies and governance should be the prime recipients of aid, we feel every effort should all the more be made to assist countries currently with poor policies to undertake the proper reforms, rather than to shun them. It is important to ensure that they receive adequate official development assistance (ODA) flows, with appropriate level of flexibility and concessionality and for some debt relief to resolve a high percentage of their GNP being spent on debt service at the expense of economic and social expenditures.

**Financing of Global Public Goods**

The Financing for Development Conference should also address the financing needs for global public goods (GPGs), which requires a global response and sharing of financial responsibility. We would like to renew our support for the World Bank’s continued involvement in support of GPGs, in particular the environment, communicable diseases, and international financial architecture, which are affecting the global social and economic landscape.

**HIPC and PRSP Progress Reports**

We need to refocus on the HIPC Initiative. Its objective is not merely to provide debt relief, but more importantly to achieve growth and maintain debt sustainability. Both HIPC countries and the international community have a collective obligation to address poverty. It involves the whole spectrum of development, focusing on the sources of growth and competitiveness. It requires macroeconomic management and effective utilization of resources and ensuring a steady stream of future revenues. For HIPC countries, it is important that savings from debt relief are appropriately channeled toward programs that facilitate economic and social progress for poverty reduction.

Since our last meeting, another four Interim-Poverty Reduction Strategy Papers (I-PRSPs) and one Full PRSP have been considered, bringing the total to 38 I-PRSPs and five full PRSPs covering countries beyond Africa. The delay in developing full PRSPs, however, underscores the need to assist I-PRSP countries in capacity building to formulate a comprehensive reform strategy that is built on poverty and social impact analysis based on reliable data. We look forward to the comprehensive review of the PRSP approach by the end of 2001. As a dynamic, living document with a long-term horizon, the PRSP needs to be evaluated periodically and adjusted accordingly.
Progress Towards Education for All

Human capital development is the key to poverty alleviation. The World Education Forum in Dakar, two years ago, called for universal primary school enrolment, with gender equality in primary and secondary enrollment, and reduced adult illiteracy levels by half, all by 2015. We must ensure that no country should fail for lack of resources. Thirty-two countries are at risk of failing to reach the Education for All (EFA) goals by 2015. One out of every five school-age children in developing countries does not attend school. In Sub-Saharan Africa, South Asia and the Arab states, nearly 100 million children, more than 60 percent of them girls, are not in school. The task is simply too large for UNESCO alone to undertake. Government and private sector organizations, as well as bilateral and multilateral donors, are equal partners in building effective strategies for educating the poor. We welcome the heightened interest of the Bank in education and to reverse the declining trend of Bank lending for the sector, which had declined precipitously from US$1.8 billion annually in the 1990s to under US$1 billion in 2001. We also see the important role that IFC can play in promoting the provision of education services by the private sector.

Countering Terrorism

In tandem with efforts to address the current slowdown, we also urge concerted action to counter terrorism. We are deeply concerned over the formidable challenge posed by terrorism to international peace and security, as well as to economic development. We view all acts of terrorism as crimes against humanity and profound threats to international economic stability. We also reject any attempt to link terrorism with any religion or race. We firmly believe that military assaults alone will not solve the problem. War will only worsen the already weak world economy.

It is important for the international community to strengthen cooperation to counter terrorism. We need to accord serious attention to solving problems that lead to terrorism. Such efforts should be carried out in an impartial and objective manner in accordance with the United Nations Charter and other international laws.

Finally, our Constituency would like to express our appreciation to the Canadian authorities as host, and for your leadership and valuable contributions as Chairman of the Development Committee. As the chairmanship moves in traditional fashion from Asia to Africa, I would like to welcome our new Chairman, H.E. Trevor Manuel and we look forward to working together to strengthen the role of this Committee in meeting future challenges.

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

Our meeting takes place against the backdrop of serious concerns about a global economic slowdown, and the aftermath of the tragic events of 11 September. It would be easy, at a time like this, for each of us to turn inwards and focus on our own country’s domestic concerns. However, one of the clear lessons of the current crisis is that, wherever we live on this planet, we cannot insulate ourselves from events in other countries; from the effects of conflict, insecurity and poverty. There are 1.2 billion people living in extreme poverty, and many more at
risk. Unfortunately, the impact of recent events is likely to hit these individuals the hardest. We need to work together to respond to these issues.

The agenda for our meeting has been well chosen. It is important that we discuss our common response to recent events, including how we can mitigate the negative impact for low- and middle-income countries; and our shared priorities for the UN Financing for Development Conference in Mexico next March.

Priorities for the UN Financing for Development Conference

Today, we have an unprecedented international consensus on poverty reduction as the central objective of development, and a set of ambitious related targets in the form of the Millennium Development Goals (MDGs). It is appropriate that the UN Financing for Development Conference should focus on the means to achieve these goals, which will require a coherent approach to development in all its elements. We congratulate Bank staff on the work they have done alongside staff from other agencies to set specific targets and indicators. This is a crucial step in operationalizing the goals.

The Financing for Development Conference will be an important opportunity to address key issues around the mobilization and effectiveness of all forms of development financing—domestic, private and official—enhancing policy coherence and exploiting the synergies between them to the full. To make the best use of the event, we need to focus our attention now on a few priority issues where we are likely to be able to reach agreement at the conference, and which will produce results on the ground in developing countries. We also need to ensure practical, joined-up action to take forward the conclusions of the conference. We endorse the priorities for action given in the Development Committee paper. We would like to suggest that we focus, in particular, on the enabling environment and aid effectiveness issues.

The conference must begin by agreeing on the vital ingredients of the domestic enabling environment—the good economic and fiscal governance—needed for developing countries to mobilize domestic resources, attract foreign direct investment, realize the potential benefits of trade integration and make best use of official development assistance (ODA). We will turn in a moment to areas in which donors can support the efforts of governments better. Equally, we hope we can build on the progress already made to ensure that these efforts are supported by an international architecture that is responsive to the needs to developing countries and in which their voices are clearly heard.

Aid Effectiveness

There are three key ways in which we can improve the impact of our assistance: by increasing the flow of funds to the poorest countries, by targeting resources more effectively, and by addressing problems with donor policies and procedures.

Aid Volumes and Targeting of Resources:

We support a significant increase in ODA. We hope that, at the UN conference, all countries will be able to commit to substantial increases in their aid programs and improvements in their ODA/GNP ratio towards the UN’s 0.7 percent target.
We very much welcome the World Bank’s recognition of the importance of directing aid resources towards countries with sound policies, with large numbers of poor people and their own strategies for poverty eradication. This is not just an issue for IDA allocations but must underpin the global allocation of all development resources, including in our response to the slowdown in world growth. We agree with the Bank’s conclusions that our approach to resource allocation is a central tenet to increasing the effectiveness of all our efforts, but we can and should go further.

*Donor Policies and Procedures:*

In order to improve the quality and effectiveness of aid, it is essential that the financing for development (FfD) process lead to significant progress on untying aid. We believe that the conference represents an opportunity to show our commitment by agreeing to untie financial aid to all developing countries and to adopt a position on the untying of food aid in the negotiations for a successor to the Food Aid Convention.

We must also move more quickly to harmonize the glut of procedures and policies that burden developing countries. Donor procedures, including the World Bank’s, put a heavy strain on countries’ public expenditure management systems; they can also distort processes for expenditure setting and divert attention from tackling system wide issues. We welcome the work of the OECD DAC Task Force and the joint multilateral development bank (MDB) efforts on harmonization. The guiding principle underpinning all this work must be movement towards harmonizing around countries’ own systems.

We also support further progress to ensure that export credits to the poorest countries are not used for unproductive purposes.

There is further work to be done in bringing together the bilateral and multilateral efforts. Most importantly, we need to see early agreements on practical changes that can allow the MDBs to pool resources with bilateral donors in support of sector programs for poverty reduction. We shall certainly be looking for concrete action before the end of next year and look forward to the World Bank’s review of investment lending in this context.

*Poverty Reduction Strategies*

Aid effectiveness issues are particularly essential in ensuring that the shift to a new approach to development, embodied in the Poverty Reduction Strategy (PRSP) process and the Comprehensive Development Framework (CDF), is a success.

We thank staff for their report on Progress in Implementing the Poverty Reduction Strategy Process. We agree that progress is good and we remain impressed with the energy and commitment which developing countries are devoting to this process. We also agree with the Boards of the IMF and the Bank that the quality of full poverty reduction strategies should not be sacrificed to speed. Country ownership is the most important principle and countries must take the steps they need to move from interim to full poverty reduction strategies. The priority must be to develop strategies that contain strong analysis of the links between policies and poverty and genuinely enable a prioritization of efforts, including from donors. In this context, we remain concerned that countries are still not receiving sufficient support in the development of longer-term macro strategies for growth. We urge the Bank to pay closer attention to this.
We welcome the World Bank and IMF’s recent efforts on Poverty and Social Impact Analysis. The UK is pleased to be supporting work in six countries. This work must remain the highest priority as countries work through their policy responses to commodity price shocks. We agree that the approach taken must be realistic and must target priority reforms. We look forward to a review of progress in mid 2002. While work continues on refining methods and approaches, key policy changes must continue to be analyzed for their likely poverty impact.

We continue to urge all partners to support the implementation of poverty strategies. The Bank must continue to give a strong lead through its CAS process and careful choice of instruments to provide support for the poverty strategy. Looking ahead we need to think carefully about how to deliver support to countries with weaker poverty strategies, and we look forward to addressing this through the new task force on poor performers.

Negotiations are taking place at present on the replenishment of a number of major international development facilities, including IDA, the African Development Fund, and the Global Environment Facility. It is our responsibility to ensure these facilities can provide sufficient and appropriate assistance to their clients, both now and in the future. As the Development Committee paper on the impact of recent events makes clear, it is now more important than ever to ensure a generous replenishment of IDA. We are concerned that calls to radically change IDA’s structure by converting a large percentage of its resources into grants would not only undermine IDA’s future sustainability, but also undo the good work that has been done in recent years to promote a stronger strategic focus and greater coordination between donor agencies. A coherent international development architecture is vital for the success of the Poverty Reduction Strategy approach.

Private Sector Development

The Financing for Development Conference is a valuable opportunity to build a consensus on how best foreign private investment and other private flows can be promoted, particularly to Africa. Despite the recent forecasts of low growth and lower private flows to developing countries, we must not lose sight of the importance of building a sound business climate where firms of all sizes, both domestic and foreign, can flourish.

In this context, we recognize the importance of ongoing work on a new Private Sector Development Strategy for the World Bank Group. For the strategy to be successful in reducing poverty, it must be operationalized in a way that builds on and complements the PRSP process. We must ensure that the poor benefit from, and participate in, the development of the private sector. We want to see the public and private sectors working together, each playing their part in improving growth, and increasing access to services for the poorest. Looking to the year ahead, there will be an increasing demand for the Bank group, including IFC and MIGA, to help mobilize funding for firms suffering from the global downturn. It is imperative that, during this process, the underlying commitment to focus on the poorest countries, and the poorest people is not lost.

World Trading System

The UK is a strong advocate of a “development round” of multilateral trade talks. Therefore, we welcome the agreement at the 4th WTO Ministerial to launch negotiations for a new trade round. We strongly advocate that it be a “development round” that allows all countries
to benefit from, and contribute to, the multilateral trading system. This should deliver significantly improved access to the markets of rich countries, particularly in areas of comparative advantage for developing countries, such as agriculture and textiles.

We must guard against the erection of new barriers against poor producers, such as unjustifiably strict product standards and excessive use of trade remedy measures. We must also ensure that WTO rules are developed with appropriate flexibility to allow for developing country circumstances and development priorities to be taken into account. The effective delivery of trade-related capacity building is essential to making the global trade architecture more supportive of development. We urge WTO members to signal their commitment to bringing the trade and development agendas closer together by endorsing the Millennium Development Goals (MDGs). The World Bank and IMF should continue to work with other agencies to implement the Integrated Framework and explore avenues for extending the approach to other countries that require it.

Global Public Goods

As with all aspects of FfD, global public goods require increased and more efficient use of resources if we are to make real progress. We welcome the World Bank’s advocacy for additional financing in the field of global public goods, rather than the diversion of ODA—particularly as the benefits can also accrue to developed countries. In this context, we would urge those who have not already made a commitment to support the Global Health Fund launched earlier this year to consider doing so.

A rigorous approach is required - both to the definition of global public goods and to the means of supporting access to different public goods. It will be difficult to quantify financing needs while there is still disagreement about our detailed priorities in this area. At our Development Committee meeting in Prague in September 2000, we agreed on four priority areas for intervention. We also agreed on a set of fundamental principles to guide the World Bank’s activities, including that it should focus its efforts where it could have the greatest impact on poverty reduction and where it had a comparative advantage, and that it should work in close partnerships with other agencies. In the run up to the Financing for Development Conference, we need to take stock of what is already being done in each of the agreed areas, by the Bank and others, to identify and prioritize gaps that need to be addressed. We should also look at how existing instruments can be used effectively and collaboratively, before we start inventing new ones. A multitude of mechanisms will only increase the potential for inefficiency. To be most effective, global and regional public goods initiatives need to complement, rather than compete with, mainstream development programs. They also need broad ownership in developed and developing countries.

HIPC Initiative

We thank staff for their useful report on the status of implementation of the HIPC debt initiative, which gives a balanced summary of progress.

We would like to stress, as we have before, the importance of a thorough and realistic assessment of countries’ debt sustainability when they reach completion point. At our last Development Committee meeting in March, we agreed on the need to provide extra relief to Heavily Indebted Poor Countries (HIPC) countries affected by shocks, in order to bring their
debt levels down to sustainable levels. We must recognize that there are many different kinds of shocks that can affect countries, and that countries that have pursued sound economic policies should not be left with unsustainable debt burdens.

This is particularly important in the context of the global economic slowdown. As staff have noted, the falls in commodity prices will have serious consequences for the sustainability of many HIPCs. It should be a priority for the Bank and Fund to analyze the impact of commodity price falls on HIPCs and on all commodity dependent low-income countries; and follow this up with a coordinated and systematic response.

We would also like to encourage staff to look again at the debt sustainability of other IDA-only countries, with a view to identifying which, if any, should be considered for debt relief under the HIPC initiative. HIPC has always been an open list, and all IDA-only countries with unsustainable debt burdens should be considered.

We note with concern that many non-Paris Club creditors, and commercial creditors, have yet to offer any debt relief to HIPCs, even when they have reached decision point. This is deplorable. The HIPC Initiative is meant to deliver coherent, comprehensive debt relief, and this needs everyone to play their part. We urge all creditors that have not yet done so to deliver their share of debt relief, and we will support the on-going efforts of staffs to achieve this.

We are pleased to announce that the UK has made the first contribution to the IMF’s new subsidy account to provide poor countries emerging from conflict with access to IMF assistance on concessional terms. This includes some HIPC-eligible countries. We urge other countries to support this important initiative.

Education for All

Education is essential for development and poverty reduction. Achieving the target of Universal Primary Education by 2015 is a key priority. But we will not be able to achieve this without improvements in the wider education and development environment. Policies must be set within well-defined, country-owned strategies for the sector. The World Education Forum in Dakar called for commitment and action at the country level and mobilization of sufficient resources to provide effective support to national efforts. Progress in taking forward the Dakar Framework for Action has been slow.

The World Bank has a crucial role to play. The Education for Dynamic Economies paper is a helpful and constructive response to the challenge. We endorse its conclusion that universal primary education can be achieved by 2015 if national governments and the international community have the necessary commitment and will to work together more effectively. There are many players in the education arena, and we urge the World Bank to be proactive in bringing these agencies together to work in a collaborative manner at the country level.

We welcome the proposals for greater flexibility in World Bank operations and look forward to the detail of how this will work in practice. A focus on country-level analysis to support and facilitate national efforts to give priority to Education for All (EFA) is right. We welcome the Bank’s intention to put forward proposals for our Development Committee meeting next spring on how to assist those countries facing the greatest challenges in achieving Universal Primary Education.
The New Partnership for African Development

The New Partnership for African Development (NEPAD) offers a great opportunity for the international community to work together with African leaders to improve the condition of Africa. Unlike some earlier attempts, it is genuinely an African-led and African-owned strategy. Its value lies in the political and policy leadership it can bring, in particular through standard setting, peer review and the sharing of good practice. We welcome the outcome of the first Implementation Committee meeting in Abuja; in particular, the decision to focus in the short-term on a small number of priority areas (including conflict and governance). It is important to ensure a coherent response to this initiative from the international community as a whole, including the World Bank and IMF. The donor community must avoid imposing conflicting or duplicatory requirements on NEPAD members. Instead, we must work to ensure that each of our responses is informed by, and made with the knowledge of, what others are doing.

Conclusion

As never before, it is possible to remove extreme poverty from the human condition. Recent events have highlighted, even more vividly, the importance of this task. We have a clear framework for our efforts, in the MDGs. And we know many of the changes needed to ensure that we reach these goals, such as improvements in the enabling environment and aid effectiveness. Working together, on the basis of our shared commitment to these aims, we can make progress. The UK is firmly committed to this.

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

We are meeting today under exceptionally difficult circumstances. The worries over a gradually broadening global slowdown and the likelihood of recovery have been compounded by the tragic developments of September 11. It is now clear that global economic activity will take considerable time to revive.

While slowing down of the world growth momentum has led to difficulties almost everywhere, the outlook is particularly grim for developing countries. The synchronized global slowdown has resulted in sharp decline in the volume of world trade. Commodity prices have been falling steeply and capital flows to developing country markets are being squeezed to a bare minimum. Given the ominous downside risks to global recovery, in the form of large macroeconomic imbalances among the G-3 and the vulnerability of emerging country markets to shocks in both capital and current accounts, the days ahead are going to be more critical than expected. It is imperative that a collective effort aimed at assisting the developing world for successfully coping with the challenges that it encounters should be put in place. The thrust of this initiative should be on the provision of expanded development finance for bridging the vacuum being created by declining private capital flows.

The disturbing consequences of the global slowdown extend far beyond the realm of short-term difficulties. The low growth of global output would have serious impact upon global poverty. This, in turn, can create various social and political disruptions. Accentuated poverty, combined with the lack of education, health and other basic facilities, creates a deep sense of frustration and deprivation among the affected citizens. The mounting discontent can lead to growth of serious grievances against functioning institutions and can find expression in violent
activities or acts of terrorism. After September 11, the destructive consequences of cross-border terrorism hardly require reiteration. It is therefore, extremely timely and pertinent to discuss issues like financing for development (FfD), the Heavily Indebted Poor Countries (HIPC) Initiative and Education for All (EFA) in this forum. Apart from all these subjects, this meeting should take serious note of the events of September 11 and their ramifications and figure out effective ways for preventing their occurrence in future.

**Impact of Recent Events on Low- and Middle-Income Countries: Response of the World Bank Group**

The unique and deeply disturbing aspect of the current global slowdown is the absence of even remotely encouraging growth signals from anywhere in the G-3. The complete lack of growth impulses in the G-3 and in the rest of the world underline serious difficulties for Asian emerging markets, which have strong linkages with the U.S. economy and are competitive in both information technology exports and other manufacturing goods. Subdued demand conditions and declining commodity prices would severely handicap primary product exporters, which include several poor countries from Africa. Tourist traffic all over the world is threatening to touch an all-time low after the tragic events of September 11. The depressed trends of equity prices in mature markets have rubbed off on sentiments in emerging country markets. For these economies, net capital flows are projected to turn negative for the first time since the mid-1980s.

Going by historical experience, the outbreak of a global recession (a conviction increasingly gaining currency) is likely to have its worst effect upon the poor of the world. Given the disturbing dimensions of the current scenario and the attendant heavy human costs, there is need for increased cooperation for ensuring generation of strong and sustainable growth impulses. In this regard, I would go a step beyond and emphasize the need for real partnership, more than cooperation. The industrial countries have to work together with the developing world for addressing the problems of the latter and arriving at lasting and effective solutions.

Notwithstanding the recent outbreak of crises in Argentina and Turkey, the global spread of contagions has, until now, fortunately been limited. However, this doesn’t provide us with any room for complacency. The increasing integration experienced by the world economy over the last decade or so has increased its vulnerability to widespread ramifications from sporadic regional disturbances. Notwithstanding the undisputed benefits of globalization in accelerating growth and productivity, its onset has thrown up a variety of fresh challenges. The declining trends of commodity prices, shrinking exports, and volatile equity markets leave the largely integrated but vulnerable developing world exposed to the worst effects of the deepening slowdown.

Given the predicaments of the developing countries, it is essential for international institutions to come forward and collaborate with the developing world in fighting its difficulties. The momentous changes in the last couple of decades of the past century have limited the domain of autonomous policy actions for the developing countries. Capital controls have by and large been abolished. Foreign capital has been accepted and welcomed as an essential resource for development. Protectionist measures, once considered effective for rapid, broad-based industrialization, have given way to outward-oriented, liberal policies in the new development paradigm. We therefore have a collective responsibility for locating new policy initiatives that would help the developing world in warding off the challenges of global slowdown.
As the leading development institution in the world, the World Bank has an important responsibility to discharge in this context. As I mentioned earlier, capital flows to developing country markets have dried up to an alarming extent. Spreads on emerging market debt have widened, making it difficult to approach international capital markets. It is essential for the Bank to develop a strategy similar to what it adopted in the aftermath of the Asian-Russian-Brazilian crisis, which witnessed a doubling of its annual commitments. In this regard, we welcome IFC’s efforts in sustaining private investment flows. However, shoring up of public investment flows is the only immediate option for helping emerging country markets in resolving their financial difficulties.

Negotiations for IDA 13 replenishment are at the final stage. Reflows from borrowing countries now account for around 40 percent of IDA resources. It is heartening to note that the rate of return on IDA investments is 41 percent, far higher than official development assistance (ODA) in general, and that IDA is more effective in countries with good policies. The evidence should encourage IDA donors to expand their support by making fresh commitments. Normal phasing of IDA commitments may be a case of doing too little too late. Frontloaded commitments and disbursements, as experienced after the debacles in 1997, have to be seriously considered.

I firmly believe that the Bank should build up its risk-bearing capacity in a systematic manner for meeting the stress of non-accrual shock. Initiation of a dialogue with shareholders on a general capital increase (GCI) for the Bank can be a useful step in this regard. Such a GCI should aim to achieve an efficient and equitable capital structure for the Bank. Though the Bank’s capital base draws more from the industrial world, its reserves have been built on the strength of interest earnings from the developing countries. It is time to consider innovative solutions such as treating a part of the spread charged by the Bank on loans as the capital contribution of the borrowers and then use the same for increasing the voting powers of such developing countries. Another way to make the capital structure more equitable is to design the general increase in such a way that the contributions of industrial nations are treated as non-voting, whereas the contributions provided by the developing countries carry voting powers.

We have noted with considerable concern that the IBRD’s lending commitments in real terms are plateauing at a level less than half of that in 1985. Serious thought needs to be given to ways and means of boosting IBRD lending levels. This is imperative both from the borrowing countries’ need for financing as well as the financial health of the Bank. We commend the Bank’s decentralization process over the past few years. This has served to lower operational costs while at the same time promoting country ownership and focus.

Financing for Development

The World Bank’s mission of a world free of poverty is completely in line with the Millennium Development Goals endorsed by all the heads of state under the aegis of the UN. We are encouraged by the World Bank’s continued engagement with the UN agencies in developing the Agenda and the Outcome documents. The Bank has acquired considerable experience and analytic skills in the sectors, which the Monterrey conference would be concerned with.

We see a strong complementary role between what we in the developing world have to do internally, and what the global community has to do to help developing countries achieve the objectives of poverty reduction. Official development finance in 2000 was around a fourth lower
than in 1985 at constant prices. There has been a marginal increase in concessional flows, largely on account of grants. During the same period, interest payments have gone up by 50 percent. If we are to change the situation in favor of increased development effectiveness and poverty reduction, then changes are required and the Financing for Development conference comes at an opportune moment.

There are two ways of going about this. First, ODA has to be stepped up in a manner which links flows to recipient countries improving their policy environments. Simultaneously, transaction costs must come down, and aid unbundled from other unlinked concerns. The second area of action points relates to improved access for our goods and services in the markets of developed countries. Sectors where poor countries have a comparative advantage should be liberalized in an open and upfront manner. Negotiated tariff reductions are negated by the imposition of non-tariff, and worse, non-trade barriers. Onerous obligations like TRIPS, as Canada and the United States have discovered, burden countries with weak capacities and limit their policy options. The Financing for Development conference has both these issues on the agenda. We would like these efforts to get a boost.

The world community must demonstrate that global systems are still functional and our intention is to make them function better. The current slowdown should strengthen our common resolve to meet the challenge of the MDGs, and to find the resources to do so. The war on terror can only be won when the war on poverty has been won.

Education for Dynamic Economies: Accelerating Progress towards Education for All

Our constituency as a whole is committed to achieving the goals of Education for All (EFA), both in terms of universal enrollment and retention and in eliminating gender disparity. In India last year, we launched a nationwide campaign involving not only the national and state governments, but also civil society at large in order to generate sufficient momentum and capacity required to achieve this. In addition to substantially increased funding from the national government, we have involved local communities in order to make the school system more efficient and accountable. Flexible approaches are encouraged to ensure relevance and full utilization of capacity. We appreciate the support of the Bank and other development partners in this.

We are happy to note that the Bank understands the need to step up its financial involvement with education programs in its member countries and intends to reverse the discouraging trend of falling investments. Mr. Wolfensohn’s statement at Dakar that money would not be a constraint and that the Bank was prepared to match dollar to dollar increased expenditure on elementary education was very encouraging. The clarification that the Bank did not think that user charges in elementary education were a good idea will both encourage members to approach the Bank to work with them and signal to the outside world that the Bank believes in taking a holistic view of development.

HIPC and PRSP

We commend the progress made on the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative. More attention needs to be focused on the issue of tracking of poverty-reducing expenditures. We must not lose sight of the danger of HIPC countries sliding back into unsustainable debt. Incremental concessional flows need to be targeted at countries and
regions with the greatest concentration of the poor and with a consistent track record of reform. Debt relief, however, needs to be delivered faster. The current framework is quite slow. The amounts involved are not very large if looked at from the capacity point of the industrialized world. Comparisons may not be very pleasant, but it is quite important to note that the cost of bailouts of certain airline and insurance companies in countries affected by terrorist attacks is far larger than the entire gamut of relief under HIPC.

The progress so far on developing Poverty Reduction Strategy Papers (PRSPs) has been quite encouraging. This should, however, not be seen as a “magic bullet” which will somehow magically short-circuit the difficult path of economic reform and growth. We must guard against building up unrealistic expectations from the PRSP process. More work clearly needs to be done in promoting greater country ownership of the PRSPs being developed.

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

Impact of Recent Events on Low- and Middle-Income Countries

Even today, over two months after the terrorist attacks on New York and Washington, we are still feeling the impact of these dreadful events. What happened on September 11 made us realize that no part of the world can be safe if other parts are not. No part of the world can cut itself off and shield itself from what is happening in the rest of the world. In many parts of the world, human security and development, stability and peace are under threat from a loss of political order, from crises and from the resultant economic decline, violence and terrorism.

We must back up the international community’s determined campaign against terrorists and the destruction of their networks, thereby depriving terrorism of its breeding ground. We need measures at the global level and a development policy response that also addresses the regional level. The aim is to enhance security for the people in developing countries through economic and social development and counteract marginalization and exclusion.

That is why the people of the South must have greater opportunities to participate in the process of globalization and development being experienced in the international economy. The challenge now is to establish a lasting basis for worldwide solidarity against terrorism by establishing a global alliance for justice. We need a broad reform alliance that is made up of developing and industrial countries, of civil society and business and that also includes the critics of globalization. What is crucial is that, through the closer involvement of the developing countries, responsibility will be shouldered jointly. It is not only in the interests of political credibility but it also makes good political sense for a fair and sustainable balance to be achieved between the interests of industrial and developing countries at the ongoing and forthcoming international negotiations within the WTO, on financing for development (FfD), and on sustainable development (Rio + 10 in Johannesburg).

A strong regulatory framework is needed for the international financial markets. Partly because uncontrolled movements of capital can threaten the stability of developing economies but also because, as has been shown in such an alarming way, international terrorist groups
exploit the loopholes and weaknesses in the international financial system to finance their criminal activities. Within this context, development cooperation is also concerned with stabilizing the financial sectors in the developing countries and supporting an effective regulation of financial flows. We greatly welcome the World Bank’s proposals on intensifying measures to combat abuses of the financial systems, prevent money laundering, and strengthen and reform the national financial markets. This will also require close international co-operation that extends beyond the OECD countries and is aimed at integrating the developing countries more closely into the international financial system and ongoing efforts to improve it. The stability of the international financial system is contingent upon the developing countries being greater involved in debates and decision-making at the various international forums. It is only out of active involvement that a sense of responsibility can grow.

It is difficult to assess how serious the negative impact on growth, poverty and development will be and how long it will last. It is therefore vital to observe further developments closely and maintain close contact between the institutions (World Bank, IMF, regional development banks). In addition, countries have been affected by the attacks in very different ways. The Bank will have to assess each concrete situation individually by engaging in dialogue with the government to identify the necessary measures and, if needed, to adapt or expand the existing program.

Additional financial demands will be made on the Bank and on the other international financial institutions. At present, the Bank is well placed to meet that demand, both in terms of the flexibility and suitability of its instruments and of available resources. What is vital, in our view, is that the principles of Bank policy be maintained, particularly the central role of good governance and the established quality standards for programs and measures. By upholding agreed Bank policies and standards, we will avoid categorizing countries as either friend or foe, as was common practice during the Cold War.

In the short term, we are supplying emergency aid to help cope with the immediate impact of the war in Afghanistan on the civilian population. We have mobilized a considerable amount of additional aid for emergency measures in Afghanistan and support for Afghan refugees in Pakistan. Further measures are being planned. We welcome the fact that the World Bank has joined with other organizations, particularly the UN, to develop strategies for rebuilding Afghanistan so that reconstruction work can be initiated without delay once circumstances allow to do so.

In the medium and long term, the task is to tackle the breeding ground for crises, violence and terrorism using also such means as development cooperation. Development policy efforts in this field must be diverse and should not be limited to preventive measures. The central prerequisites and objectives of sustainable development are functioning and democratic public institutions and structures, an open civil society and cultural identity and tolerance. When embedded within a comprehensive prevention strategy, these factors are also instrumental in eliminating the structural causes of conflict in the political and social field and in fostering a capacity to resolve crises and conflicts peacefully. Thus, they are also vital elements in a peaceful world order.
**UN Conference on Financing for Development**

By formulating the millennium goals, the international community has established a common framework for national and international development efforts. This common framework is an important precondition for the formulation, within both the national and the international context, of concrete strategies geared towards achieving the Millennium Development Goals (MDGs) as well as efforts to effectively support their implementation. Progress towards the MDGs in this framework requires not only a clear political commitment but also continuous financing. Against this background, the aim of the Financing for Development conference is to achieve international agreement on some of the most important national and international efforts and measures that are a prerequisite for achieving the millennium goals in the long term.

Considering this broad international political consensus, the international financial institutions (IFIs) and other donors are faced with the challenge of tailoring their strategies and policies towards the millennium goals and the respective medium-term national strategies and coordinating and monitoring them accordingly. This will lay the groundwork for a new type and quality of partnership and more effective support for national efforts. Here, the World Bank and other multilateral development banks can build on the experience that has already been gained through the PRSPs and the CDF but that undoubtedly needs to be further refined. The current PRSP review offers a welcome opportunity for this.

Germany has begun tailoring its development cooperation in line with the millennium goals. The explicit goal of our bilateral "Program of Action 2015" is to contribute towards halving the proportion of people living in extreme poverty worldwide by 2015. As part of a new partnership that places greater emphasis on the principle of ownership, we aim to undertake an overhaul both of the nature and the volume of our cooperation with our partners. Germany is committed to gradually increase its ODA to 0.7 percent of GNP and, to this end, will elaborate a concrete schedule.

The Financing for Development Conference will address a broad range of issues relevant to financing. Private capital, both domestic and foreign, is vital for the financing of the development process. The priority concern, therefore, is to establish an appropriate environment that offers incentives for domestic capital to be invested and that attracts foreign capital. Since investments only generate a return at some point in the future, maximum stability of legal, political and macroeconomic conditions is crucial to the continuity of investments and their financing. Country strategies must give top priority to examining what macroeconomic strategies are needed to generate satisfactory growth. This question could usefully be addressed by means of a joint initiative involving the Bank and the Fund.

In view also of the desired aim of greater integration of the developing countries in the world economy and the further liberalization of capital and commodities markets, it should be ensured that any such measures do not have a destabilizing impact. The liberalization of economic structures should therefore be a sequenced process and should take account of the institutional and economic capacity of the respective country. One aspect of vital importance is to establish and strengthen appropriate market institutions and the regulatory capacity of the public administration.
In the long term, the greater integration of the developing countries into the world economy will enhance their prosperity. This depends, however, on an international trade regime being in place that combines liberalization with a realistic opportunity for countries to realize these potential benefits through trade and, in particular, enhanced access to the markets of the industrial countries. Therefore, we welcome the international community’s agreement in Doha to stage a new world trade round. In view of the present global political and economic situation, this is an important signal underlining the commitment of all member states to find multilateral solutions to current problems. Now the task is to make the new WTO round a “development round”, in particular by:

- substantially improving market access for the main export products of the developing countries,
- providing adequate technical and financial support to the developing countries in implementing WTO standards,
- taking a generous attitude towards the difficulties experienced by developing countries in implementing commitments from the Uruguay Round.

The financing of global public goods, which include a stable international financial system, presents us with a particular challenge. The Zedillo report estimates that around US$20 billion are required annually to meet the need for global public goods; only a small proportion of this is currently being provided through the classic forms of development cooperation. The financing of global public goods is therefore an important question for the conference to address. All suggestions for new financing mechanisms should therefore be examined with an open mind. The German government has, for example, commissioned a study to examine the effectiveness, modalities and consequences of a tax on international currency transactions.

**Progress Reports on the HIPC Initiative and PRSPs**

While recent events have prompted a wide variety of expressions of support for development cooperation to be stepped up so as to reduce the massive disparities in living conditions between wealthy and poor countries, they have detracted attention from the concrete measures that are already being implemented, such as debt relief for the poor countries. Since poverty and social deprivation continue to be at their worst in these countries and have, indeed, been aggravated by the impact of September 11 on the world economy and by the continued recession, what is needed instead is a reiteration of our determination to go ahead with debt relief for the poor countries. We should take the opportunity to do so presented by this meeting of the Development Committee.

The progress currently being made on implementation of the Heavily Indebted Poor Countries (HIPC) Initiative, particularly Bolivia and Mozambique’s attainment of their completion points and Ethiopia’s attainment of its decision point, is therefore particularly gratifying.
The current poor state of the world economy, with economic growth forecasts being revised downwards almost monthly, underlines the need to continually monitor the debt situation of the poorest countries using annual debt sustainability analyses to prevent the build-up of new levels of unsustainable debt. The World Bank and the IMF’s suggestion that the debt sustainability of the HIPC’s and the financing needs of all Poverty Reduction Growth Facility (PRGF) countries be reviewed in light of recent events should be put into practice as soon as possible. Flexible use should also be made of the option of re-examining and, if need be, adjusting the extent of debt relief at completion point in response to serious external shocks. Surely, there can be no question that current events constitute such a shock.

The coherence of macroeconomic policies and poverty reduction programs is also an important factor in the cooperation between the World Bank and the IMF on the Poverty Reduction Strategy Papers (PRSPs). We welcome the progress achieved so far, which has been manifested, for example, in the mutual complementarity of the two instruments, the PRGF and the PRSC. We are also anticipating that tangible progress will be made on the ex-ante evaluations of the social impact of macroeconomic policies. It should be a standard feature of responsible external assistance that appropriate analyses, however many uncertainties they may inevitably contain, are available before far-reaching macroeconomic or structural policy recommendations are formulated.

Experience so far with the implementation of the PRSP initiative is encouraging. The close cooperation between the BWIs and the partner countries has so far had a particularly successful impact on pro-poor budgeting. The visible incorporation of poverty reduction measures into the partner countries’ budgets is a concrete indication that the partners also view the PRSP initiative as constructive. We are also observing a welcome increase in civil society participation in most PRSP countries. Regardless of the specific form that participation takes, taking the specific situation in the country into consideration, it must be noted and welcomed that in many countries a great deal of public attention is for the first time being focused on the problem of poverty and on measures to combat it.

The PRSP initiative is still in its early days and so it is hardly surprising that shortcomings and problems are emerging both at the level of individual countries and at a more general level. The PRSP review process will provide an opportunity to discuss these in detail and we will contribute our own experience of supporting the process to the discussion. One of the shortcomings is undoubtedly that the PRSPs have so far taken an all-embracing rather than a strategic approach. In the quest for social consensus, which is an entirely desirable aim, there can be a tendency to skirt around sensitive issues, despite the fact that they are of critical importance to poverty reduction. Furthermore, many PRSPs limit themselves to planning public expenditure without focusing enough attention on the question of how to generate private investment. However important it may be that public expenditure should be pro-poor, it should not be forgotten that sustainable poverty reduction cannot be achieved without the continuous growth of the economy and of employment. The PRSPs should devote greater attention to the question of what measures will lead to greater private investment.
Harmonizing Guidelines and Procedures – Progress Report

The report provides a good description of current activities and discussions on the harmonization of procedures in the bilateral and multilateral field. Annexes A and B of the report also provide a good overview of the activities of the players involved in the process of harmonization.

The harmonization process is, however, far from being only concerned with the technical aspects of procedures and gradually bringing them into line. Harmonization is, first and foremost, an essential element in enhancing the efficiency of assistance by making coordination within the donor community easier and by relieving the partners of the additional costs associated with complying with a variety of procedural requirements. On the whole, there is a consensus on the importance of ownership for the success of development efforts and thus for poverty reduction and also on the fact that the PRSPs elaborated by the recipient countries must be taken as the binding framework for cooperation with all donors. However, it becomes harder to achieve the necessary pooling of efforts and a coordinated and complementary approach within the strategies laid down in the PRSPs if the procedures and guidelines applied by the individual players are incompatible with each other. The considerably greater priority now accorded to the aim of improved harmonization can therefore be attributed to the CDF and PRSP processes.

Germany is willing to make the necessary changes to its procedures in compliance with international agreements. What is vital is that the room for maneuver available to the various different donors be taken into account when identifying best practices and benchmarks, thus enabling as many donors as possible to participate.

Active efforts must be made to forge ahead with the linking of bilateral and multilateral harmonization efforts. The need for networking and cooperation between bilateral and multilateral donors is becoming ever clearer. The World Bank’s involvement in the Development Assistance Committee (DAC) Task Force is very helpful. We welcome the World Bank’s efforts to work on its own procedures so as to achieve greater compatibility and harmonization between the donors.

The preferred option must be the harmonization of procedures at the level of the development agencies, using procedural standards that have been agreed on between the donors (both bilateral and multilateral) following consultations with the developing countries. Any attempt to harmonize procedures primarily on a country-by-country basis would only shift the problem of varying procedural requirements from the recipient countries to the donors. This does not mean to say, however, that it might not make sense in individual cases for the donors to agree among themselves on country-specific procedures, provided they comply with recognized minimum international standards.

Progress towards Education for All

Education is vital in allowing individuals to participate in social and economic life, in facilitating sustainable development and in fighting poverty. Knowledge and human capital are
important factors of production and help to facilitate lasting economic growth. Investments in education, training and research are therefore key in determining the sustainable economic development of a country.

Yet education not only builds human capabilities; it is also an important building block in creating social capital. This social capital is of increasing importance in tackling complex tasks in the developing countries and is part of the promotion of pluralistic approaches (civil society, participation). If people are to be able to participate constructively in social developments and to contribute to decision-making processes, they must receive an education that integrates such aspects of democratic practices and non-violent approaches to conflicts and that enables them to experience what an active engagement to social cohesion means in practice.

We welcome the Development Committee paper’s clear statement of the importance of quality education as a factor in development. An analysis of schooling retention and completion rates shows that this aspect must be given a greater role in strategies for promoting education.

The quality of the analysis on which the paper is based is undisputed. Yet in offering solutions, the paper very quickly turns to demand-increasing expenditure on education. This cannot be the sole criterion for the success of an international campaign for education. Such a view fails to take account of important factors, such as the absorptive capacity of our partner countries. The question is not simply how much funding the donors provide for the education sector in any one country but rather what capacity the countries concerned have to implement the planned measures efficiently and effectively.

Regarding the question of additional resources, the role of domestic resources that a country can mobilize will play a decisive role. This means in particular that the promotion of education must be made an integral part of national development and poverty reduction strategies. Furthermore, national plans to promote education must be accompanied and supported by the appropriate macroeconomic environment and the necessary political reforms. In this context, the PRSP processes are of great importance. The fundamental prerequisite is that the partner country show a clear commitment to achieving Education for All (EFA), as agreed in Dakar.

Basic education of adequate quality is of fundamental strategic importance in a comprehensive education strategy. The other levels of education (secondary and tertiary) have a value and role of their own in terms of the aim of raising education standards and the allocation of investments in education. The different initiatives for promoting education in a developing country must therefore take a diversified approach and take into account the national enabling environment and the existing standard of education. Isolated investments to promote individual levels of education are not helpful.

In order to help countries meet the Dakar goals we have to sharpen our focus on education. A number of challenges are ahead. We are looking to address these and forthcoming issues at our next meeting in the spring.
Statement by Mr. Xiang Huaicheng, Minister of Finance (People's Republic of China)

Impact of Recent Events and Response of the World Bank Group

We agree with the World Bank’s analysis on the impact of the tragic events of September 11 and their aftermath on developing countries. Almost all countries have been adversely affected by the events, directly or indirectly, to an unprecedented degree not seen in recent years. In the short run, the September 11 terrorist attacks and the aftermath will lead to further slowdown of the world economy, worsening the prospects of recovery. Developing countries, which are more vulnerable to external shocks, are most affected and will face more difficulties in exports, foreign capital inflows, poverty alleviation and external debt service. From a medium- and long-term point of view, the tragic events and their aftermath have increased uncertainties to the prospects of world economic growth, and developing countries will face tremendous challenges in achieving sustained economic and social development in the future.

With the rapid progress in globalization that the world has made today, the economy of one country is closely linked with that of another. All countries, being confronted with the shocks from the September 11 events and their aftermath, should enhance their cooperation and solidarity with better coordination in macroeconomic policies. The industrial countries, when formulating their macroeconomic policies, including fiscal, monetary and trade policies, should give due considerations to the implications these policies may have for developing countries. Developed countries should not only adopt stimulus measures to prevent their economies from further slowdown, but also increase their international assistance to the developing countries affected by the September 11 events and help them tide over the difficulties, which would contribute to an early recovery of the world economy.

We support the World Bank’s response to the tragic events of September 11 and their aftermath and welcome its efforts in providing assistance to developing countries through various lending and non-lending instruments. We hope the Bank will work closely with member countries to formulate feasible assistance programs. We welcome the efforts the Bank has made in strengthening cooperation with other international agencies to increase the scale and effectiveness of assistance. In order to enhance the ability of the Bank to assist developing countries, developed countries should give more support to the Bank’s window of concessional resources. It is also our view that under the new circumstances the Bank should take a close look at how to adjust its own development strategy and how to provide more effective assistance to developing countries in finding the right balance between overcoming short-term difficulties and achieving the objective of long-term development with a view to increasing fundamentally their ability to deal with external shocks.

While dealing with the present shocks, we should also realize that a fundamental approach to ensure peace and development is to establish a fair and equitable international economic order. We call on the Bank to play a greater role as a development institution to promote the transfer of financial, technological, and human resources to developing countries, making the 21st century a century of justice, harmony and common prosperity.
We welcome the involvement of the Bank and the Fund in the financing for development (FfD) process, and appreciate the recommendations they have made regarding the UN conference. The theme of the conference is exactly what the Development Committee is working for under its mandate, i.e., to promote the transfer of real resources to developing countries.

In the process of economic globalization, the unbalanced distribution of global income has become an apparent issue we are now facing in the world development. Whether the world will be able to attain a sustained development in future depends largely on how well this issue can be addressed. And in this regard, official development assistance (ODA) plays a crucial role that cannot be replaced by the private capital. We support the Bank-Fund joint paper’s emphasis on the International Development Goals (IDGs) as the common ground for international cooperation, and we once again call upon the major developed countries to make concrete efforts to increase their ODA to reach the UN target of 0.7 percent of GNP as early as possible. Efforts should also be made to ensure concessionality in ODA flows. We encourage the Bank and Fund to make further efforts to carry out, on the theoretical front, an in-depth study of the relationship between development assistance and the sustainability of economic globalization, and adopt necessary binding measures, in practice, to urge developed countries to ensure a real increase of ODA.

We support the Bank and the Fund’s efforts to help developing countries improve their investment climate and the Bank Group’s use of lending and guarantee instruments to help developing countries attract more foreign private capital. But the improvement of domestic investment environment alone is not sufficient. It is equally important to create a favorable international environment conducive to a sustained inflow of external resources to developing countries. Therefore, while developing countries are making efforts to improve investment environment, developed countries should adjust their policies accordingly to induce more long-term capital flows to developing countries. Given the fact that the volatility of short-term private capital flows increases the financial risk of developing countries, it is also important for them to improve the regulation of short-term capital flows in addition to their efforts to attract foreign private capital. The liberalization of the capital account should be pursued through a step-by-step approach based on the establishment of a sound macroeconomic management mechanism. Developed countries should help developing countries in strengthening the surveillance of international private capital flows.

Trade is not only a critical source for FfD, but also an important channel for integration into the global economic system. We appreciate the basic assessment of the joint paper on the trade issue. We are of the view that the tariff and non-tariff barriers imposed by developed countries have put developing countries in a more disadvantaged position in the world trade system, and have impeded the development of developing countries. As indicated in the paper, the trade barriers imposed by rich countries, together with the agricultural subsidies, cost developing countries much more than the US$58 billion that they currently receive in foreign aid every year. This will undoubtedly have significant implications. We support the efforts of the two institutions in helping developing countries to become integrated into the global economic system. And we strongly urge the developed countries to eliminate various trade barriers and expand market access for developing countries. Developed countries should give due
consideration to the concerns of developing members and honor their commitments made during the Uruguay Round.

We support the launching of a new trade round in Doha. We stand for a balanced, broad and feasible trade agenda in the hope that WTO will build a stronger world trading system capable of providing more opportunities for all, particularly the developing and least developed members. We also support the Bank and the Fund in their efforts to assist developing countries with institutional capacity building, to realize the gains from the expansion of market access.

With regard to the global public goods, we welcome the World Bank’s efforts in providing support to developing countries in five areas as previously defined. It is our view that ODA should play a major role in addressing these issues, and industrial countries should provide additional funds on concessional terms rather than reallocating already limited existing resources.

To promote the common prosperity and development of the world economy and establish a new international economic order with justice and fairness, we call on the international community to work together to push ahead with reforms of the current international financial system and increasing the voice and participation of developing countries in global economic affairs and decision-making processes.

**HIPC and PRSP**

The Chinese Government will as always continue to support the Heavily Indebted Poor Countries (HIPC) Initiatives. We appreciate all the efforts the Bank and the Fund have made so far in this regard. We also noted, however, that some work needs to be accelerated in institutional arrangements, the design of legal instruments, and financing arrangements so that more countries can benefit from the program.

Though still a developing country with low per capita income, China will do as much as it can for HIPC. The Chinese Government has committed to providing debt relief worth 10 billion RMB for African HIPC countries.

We are pleased to see the progress achieved in Poverty Reduction Strategy Papers (PRSPs) and we hope the PRSP will become a basis for the international community to expand assistance to HIPC countries. We are concerned, however, about the complicated procedures of PRSP, which very often exceed the capacity of countries to implement them, leaving the notion of “ownership” only in words. It is our hope that the Bank and the Fund can streamline the procedures and speed up the implementation of PRSP, providing actual support to the countries concerned as early as possible.

**Harmonization of Operational Policies and Procedures**

We welcome the efforts of the World Bank and other multilateral development banks (MDBs) in harmonizing their operational policies and procedures in the areas of financial management, procurement, and environmental assessment, so as to reduce the transaction cost and increase the project implementation ability of borrowers. Harmonization means mutual coordination among MDBs, rather than expanding the Bank’s policies and criteria to others; it should aim at streamlining over-complicated procedures, modifying unrealistic criteria and
reducing cost; and it should also be conducive to the coordination between donors and recipients. We hope the Bank can adjust its policies and procedures in light of the above objective for further improvement of the quality and effectiveness of its assistance program.

*Education for All*

We share the Bank’s view on the importance of Education for All (EFA). We are pleased to note that the governments of developing countries are focusing more and more attention on education. With increased investment, they have made considerable progress in this area.

We must, of course, also realize that many developing countries, particularly the low-income countries, are still facing enormous challenges. The lack of adequate resources, for instance, is a key factor that constrains the education program in developing countries. Given the low level of aggregated economic development in many developing countries, it is difficult for them to change the current education status in the short run. This therefore calls for intensified assistance from the international community, particularly the developed countries, to the education sector in developing countries. We hope that, with the joint efforts of the international community, the education development goals as reaffirmed at the Dakar World Education Forum will be realized in the near future.

The Chinese Government always attaches great importance to education. To revitalize the nation through science and education is our principal national policy. In addition to the increased inputs from governments at various levels in the country, the whole society has been mobilized to develop basic education, helping children, particularly girls, from poor areas and poor families to receive a better education.

Development is the overriding priority. To find a fundamental solution to address the issue of EFA in developing countries, the international community must help them achieve sustained economic growth. China is willing to work with other nations to make its own contribution to the development of global education.

*Prepared Statements Circulated by Observers*

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

**Statement by Mr. Lennart Båge, President, International Fund for Agricultural Development (IFAD)**

The terrible events of September 11 and their aftermath have cast a deep shadow over global economic prospects. These events threaten to aggravate further the vulnerability of poor countries and poor peoples and intensify poverty in many parts of the world. In the face of recessionary conditions, industrial countries are responding by a combination of lower interest rates and a more expansionary fiscal policy in the hope of stimulating recovery and maintaining demand and employment.
These steps are welcome and indeed essential to avoid a global recession. On the other hand, in the current global circumstances developing countries face the prospect of lower commodity prices and exports, falling revenues and economic growth, leading to severe pressure on government budgets. As a consequence, they are being forced to undertake fiscal tightening, which will aggravate recessionary pressures within their economies.

If poor countries are forced to tighten their belts further while rich ones adopt expansionary fiscal and monetary policies to sustain employment and demand, this will reflect badly on both the strength and character of international development cooperation. Working together, we must undertake effective measures to ensure that the brunt of global economic adjustment does not have to be carried by poor countries. A sustained effort, including improved market access and increased debt relief, is warranted. A renewed commitment to the official development assistance (ODA) target of 0.7 percent of GNP to development cooperation and a timetable to achieve it would be a strong signal of global solidarity in the face of economic downturn and hardship.

We should not forget that just over a year ago, world leaders at the Millennium Summit declared their commitment to the goal of reducing by half the proportion of humanity that lives in extreme poverty, on less than a dollar a day by the year 2015.

Achieving these goals will require not only significantly greater resources but also channeling those resources to reach the poor where they live, to support their own efforts to earn a viable livelihood. The Financing for Development conference has the challenging task of promoting a consensus on mobilizing the resources required to achieve the Millennium Summit goals and target these resources effectively so that they make a real difference in the daily lives of the poor.

Earlier this year, the IFAD brought out the Rural Poverty Report 2001. After reviewing carefully the present trend and distribution of poverty, the report highlighted that three-quarters of the world’s 1.2 billion extreme poor, some 900 million people, live in rural areas and depend on agriculture and related rural crafts, trade, and services for their livelihood. The Poverty Report also highlighted that the rate of poverty reduction declined in the 1990s and that the present rate is far below the rate required to achieve the Millennium Summit poverty goal. In Africa, it is barely one-sixth the rate required, and in some African countries, social and poverty indicators are actually getting worse under the assault of civil strife and the AIDS pandemic.

Paradoxically, even as the focus on poverty has sharpened, ODA to agriculture and the rural sector, where the bulk of the poor live, has declined by an estimated 40 percent over the past decade. At the same time, domestic resources for agriculture and other productive activities of the rural poor have dropped in most developing countries. It is hardly surprising that the 1990s saw a substantial fall in the rate of poverty reduction compared to the previous two decades. One example of this erosion of support is the reduction of public financing for agricultural research, which we can all agree is a crucial global public good. This reduction is especially damaging at a time when growth in agricultural yields, particularly for staple crops, has slowed.

Achieving the Millennium Summit poverty and hunger goals requires a sharp increase in economic growth. An estimated rate of growth of 7 percent a year is needed in the case of Africa. Since agricultural and rural activities provide the bulk of employment as well as a large share of the exports in poor countries, the best—and perhaps the only—sustainable way to increase
overall growth for them is to help accelerate the pace of rural development and agricultural production. This will require higher investment for productive activities, rural finance, research and extension as well as in rural health, education, infrastructure, and institution building. Creating new opportunities in the countryside will also reduce migration into urban areas, thus slowing the growth of urban slums.

The Mexico conference agenda focuses on a number of key themes: domestic resources, international private resources, trade, and development assistance as well as the systemic issues of the international financial architecture and global governance. All of these have a critical part in accelerating development, especially rural development.

We recognize that domestic resources must play the pre-dominant role in the efforts of developing countries to accelerate their pace of poverty reduction and development. At the same time we need also to recognize that ODA plays a crucial role in support investment directly and in building institutions, including microfinance institutions, that can mobilize substantial volumes of domestic resources to support the productive activities of the poor. Such institutions can also serve as cost-effective mechanisms through which to channel external resources to the poor. Development assistance through public-private partnerships can also help create the physical and social infrastructure necessary to attract direct private investment into rural areas.

Trade issues are equally important. Many estimates show that the US$324 billion annual OECD agricultural subsidies and the trade barriers against agricultural products and textiles from developing countries severely affect their overall export earnings and growth possibilities. This is accentuated by export subsidies for developed country agricultural products that render local production in developing countries unprofitable and jeopardizes agricultural development efforts that are often supported by development assistance from the same countries.

Strengthening global governance and the international financial architecture to foster greater financial stability and an open trading system as well as enhancing the supply of global public goods will facilitate the efforts that developing countries themselves are making to reform their economic policy and institutional structures.

The member states of IFAD have agreed that its next Governing Council, in February 2002, will focus on the theme of Financing Development – The Rural Dimension. IFAD, with its resources provided by OECD countries and OPEC countries, together with a large number of other developing countries, represents an unusually strong North-South partnership for the common goal of eradicating poverty. Such collaboration is all the more important in today’s world where global collaboration and partnership need to be nurtured and strengthened and polarization and divisiveness urgently counteracted.

The Governing Council theme has been selected in the light of the fact that three-quarters of the poor live in rural areas. To achieve the Millennium Summit poverty goal, a higher priority and more resources must be given to the rural sector. Higher agricultural growth, especially in the smallholder farm economy, will directly help reduce rural poverty and improve nutrition. It will also create employment for landless workers and raise non-farm incomes for rural artisans and traders.

At the same time, more rapid agricultural growth will generate resources for better primary health and education services. AIDS in Africa is now affecting rural populations more
profoundly than urban ones and has become a major economic, social, and development issue. We must recognize that dealing with the poverty of rural peoples is a prerequisite for an effective long-term approach for dealing with the AIDS pandemic.

A higher rate of agricultural and rural development thus holds the key to achieving a wide range of the Millennium Summit targets. Rural development is not just another sector. It is at the heart of poverty.

The tragic events of September have underlined in a clear way the linkages in our global society. But at the same time, they should lead us to a better and clearer understanding of our common heritage of values and our shared respect for human beings. Today, for far too many people, life continues to be in the same state as that described by a 17th century philosopher: “Poor, nasty, brutish and short.” Yet we now have the resources and knowledge to open opportunities by which even the poorest groups can build secure and productive lives for themselves and their families. We must not fail them.

The quest for realizing this noble goal will be long and complex. The Development Committee and its member states can help ensure that a decisive step towards this goal will be taken at the Mexico Financing for Development conference. In that spirit may I express to you my best wishes for fruitful and productive discussions.

Statement by Mr. Juan Somavía, Director-General, International Labour Office (ILO)

We meet in Ottawa with a sense or urgency. A chain of events is unfolding, posing threats to the livelihood and security of many people and their families throughout the world. Moments of crisis need a steady political hand and creative leadership. As never before, the need for good governance of the global economy is starkly before us. The ILO welcomes Managing Director Kohler’s call for a “coordinated international response” and President Wolfensohn’s appeal to the international community for “real collaboration aimed at averting global recession.”

The ILO stands ready as a team player in that effort. We believe that agreement on a global stimulus package is necessary to expand demand and reanimate economies.

My constituents, and very particularly representatives of employer and worker organizations, live in the daily rough and tumble of the real economy. Labor and social ministries are in the forefront of public action to deal with the human consequences of economic problems. They are now staring into the face of a possible global recession in a period of unprecedented interdependence. Whether from advanced, emerging, developing or transition countries, their message is clear: we need a productive response out of the crisis. It is difficult to see this happening unless the relevant international organizations in the economic and social policy fields work together.

They are feeling the impact of closures and layoffs, of the credit squeeze on companies and the income squeeze on workers. All of this is particularly crushing on small businesses. While absent from most headlines, the truth is that small firms—the economic backbone of most communities—are in trouble. ILO constituents want to see and support responsible economic and social policies that help enterprises and people and their families get through hard times. From their perspective, investors are waiting for consumers to start spending again. And
consumers are worried about losing their jobs and incomes. Thus, employment creation and social protection need to be at the core of policy responses.

The ILO has estimated that there will be at least 24 million fewer jobs over the next year as a result of the projected decline in growth. This reflects the combined effects of layoffs and jobs that will now not be created. In the global hotel and tourism industry alone nearly 9 million jobs are at risk. These are but projections. The challenge before us is to prevent them from happening.

Many industrial countries have already embarked on prompt counter-cyclical measures. They have the means to do so. A number of developing countries are also in a position to adopt expansionary macroeconomic policies to counteract the effects of the global downturn. They should be allowed and encouraged to do so. As the Fund itself has noted, “economic fundamentals in many countries have in many respects improved in recent years and from an economic perspective, this leaves the world somewhat less vulnerable than it might otherwise be.”

The developing world as a whole needs a supportive environment to follow the same path as advanced countries. That means access to the resource base that makes expansionary policy options viable. Debt relief and rescheduling, increased liquidity, ODA and other external flows all have key roles. Governance issues are critical to stimulating virtuous circles of increased investment. All of these considerations make the success of the International Conference on Financing for Development crucial.

The biggest danger in the current context would be to apply expansionary policies in the North and more austerity and restrictive structural adjustment in the South. There is no political space for belt-tightening in many developing countries. Avoiding this danger is as much a matter of self-interest for the North as of solidarity with the people of the South.

We propose working together on a global stimulus package that, through coordinated international action, exploits all potential avenues to support global effective demand. This is essential for shoring up investor and business confidence worldwide and for preventing a downward spiral in trade and investment flows from which all would lose. And this must be done without compromising sound macroeconomic policies, in the context of each country’s realities.

From the perspective of ILO constituents, this package should be governed by the overriding objective of preserving the highest possible level of real economic activity, employment and social protection. This is vital for minimizing the social cost of the current global downturn. All existing multilateral and bilateral assistance facilities should be fully mobilized and additional innovative sources of funding seriously considered. Action has to be taken to restore confidence in private international capital markets and to engage them in reviving the supply of funds to developing countries. Additional financing would be necessary to tide over shocks to both current and capital accounts.

We need an integrated socio-economic policy response that does not destroy valuable productive capacity through unnecessarily sacrificing viable enterprises facing temporary difficulties. And those suffering layoffs or living in the abyss of the informal economy need proper social protection mechanisms and safety nets. The full potential of stimulating domestic
demand and developing internal markets should be tapped. In this connection, government expenditures should give high priority to quick-disbursing programs with a high impact on job creation for the most needy, to supporting women and men’s entrepreneurial initiatives, to creating a supportive environment for small firms to thrive, and to increasing domestic consumption.

Urgent, immediate measures need to be put in a larger development context. We are suffering the combined effect of the unresolved problems of persistent poverty, widening inequality, and a process of globalization whose benefits are not reaching enough people. This week the Governing Body of the ILO decided to establish a World Commission on the Social Dimension of Globalization to address these issues.

Even before recent events we were already facing a major global deficit in decent work. In the course of the prosperous 1990s, global unemployment grew from 100 to 160 million people in official statistics. Today, there are about one billion women and men who are unemployed, underemployed, or working poor. Some 80 percent of the working-age population does not have access to basic social protection. For the three billion women and men living on less than US$2 a day before September 11, life was already fairly miserable.

All of this represents a major crisis of human security. And the biggest security risks affecting the largest numbers of people worldwide are unemployment and the resulting poverty. We have not yet found the right mix of policy prescriptions to meet the demands of so many people for opportunities to earn a living and take care of themselves and their families.

If we manage to deal creatively with the present challenge we would also be laying down the foundations of a much-improved system for governance of globalization, one that is inclusive and responsive to the preoccupations and aspirations of multiple constituents. The goal of decent work for all encompasses employment, social protection, fundamental rights at work, and social dialogue. It is key to poverty reduction. It maximizes the linkages between global economic growth and the generation of decent livelihoods and promotes the empowerment that fundamental rights at work provide. The present recessionary conjuncture reminds us that social protection and safety nets constitute much-needed automatic stabilizers in the global economy. The stronger capacity to implement employment generation policies in both good and bad times also contributes significantly to dampening macroeconomic uncertainty and individual income insecurity. Similarly, the extension of social dialogue will unlock the door to more equitable and creative ways of coping with economic crises and stave off social instability.

Decent work is an agenda that responds to the Millennium Development Goals (MDGs) of making our world fairer, safer, and better. And it is one of the most important strategies we have to enhance human security and to provide a sustainable long-term foundation for peace.

Statement by Mr. Y. Seyyid Abdulai, Director General, OPEC Fund for International Development

The OPEC Fund for International Development welcomes this annual opportunity to discuss issues of vital importance to development cooperation. The topics earmarked for this 64th Meeting of the Development Committee adequately reflect the current concerns of the global community, especially in the light of the recent events and the exceptional circumstances under
which we are meeting. It certainly is pertinent to examine, at this point in time, the impact of these recent and unfolding events on low- and middle-income countries.

Each slump or uncertainty in global economic outlook generally bodes ill for the weaker member countries of the international community. There usually is a contagion effect, which impacts dramatically on their economies. Since the poorest members of the developing world are the primary development cooperation partners of the OPEC Fund, their concerns are ours as well.

Clearly, the impact of the present slowdown, with its spate of job losses and company closures, will be dramatic for the South. It will manifest itself in, among others, low and/or negative growth rates in gross domestic product and fewer employment opportunities for teeming populations. Globally, it will have major implications for official development assistance (ODA) and, more generally, for financing for development (FfD), which is the main topic examined in this note.

The United Nations Conference on Financing for Development scheduled to take place in Monterrey, Mexico, in March 2002, follows on the heels of the UN Conference on the Least Developed Countries (LDC III) held in Brussels, Belgium, in May 2001. At LDC III, many issues of relevance to the situation of the world’s poorest countries were reviewed, including the issue of FfD. Participants agreed that there is very limited scope in the foreseeable future to meet the multiple development finance requirements of LDCs with domestic resources because of sluggish growth or economic stagnation, widespread poverty, and a weak corporate sector. They also agreed that the large investment requirements of LDCs imply a need for new and additional resources, including the need to enhance ODA.

However, LDC III did not result in new commitments by the donor community to increase ODA, which continues to be the largest component of resource flows into LDCs and which will remain critical if the Millennium Development Goals (MDGs) are to be reached. This commitment notwithstanding, ODA by the member countries of the OECD DAC fell back to its 1997 level in 2000, dropping to US$53.1 billion from US$56.4 billion in the previous year. Only five out of the 23 DAC member countries reached the ODA target of 0.7 percent of GNP, despite their collective agreement to secure an expansion of the aggregate volume of resources made available to the developing countries. The decline in ODA in 2000 and during most of the 1990s can be attributed to various factors, including the end of the Cold War, budget cuts in donor countries, and perceptions that past aid had been ineffective.

Clearly, there is a need to stabilize or reinvigorate development assistance from the developed nations for particularly the world’s poorest countries, an issue that only OECD governments and parliaments can and should resolve. More effort ought to be made by DAC members to reach the 0.7 percent ODA target or perhaps surpass it. Such improvements are critical if the international target of reducing absolute poverty by half by 2015 is to be achieved.

A more efficient use of scarce resources for development has become increasingly important to alleviate poverty and help LDCs face the challenges of the 21st century. The April 2001 DAC Recommendation to untie ODA to the LDCs is to be welcomed as a contribution to improving aid effectiveness. The recommendation entails that about US$5 billion out of the US$8 billion provided by DAC countries in bilateral aid will now be provided as untied aid.
In addition to looking into ways to increase the volume of ODA and improve its effectiveness, the Financing for Development conference will review how trade and private capital flows could be made to work better for poor countries and poor people. Although developing countries have increased somewhat their share of world trade in the global market in the last three decades, many of them have not been able to share in the globalization-related expansion of trade, and hence to participate in the growth-inducing, and potentially poverty-reducing benefits of trade. The overwhelming gains of trade liberalization for the world economy as a whole masks losses for the LDCs, which account for an insignificant share in world trade.

This is due in part to persistent biases existing in the international trading system against the sectors in which many poor countries have a comparative advantage. On the one hand, the implementation of trade liberalization agreements in sectors that are most relevant to LDCs has been slow, and many countries of the South continue to face protectionist mechanisms in advanced economies such as subsidies and anti-dumping and countervailing duties, which inhibit developing country exports and competitiveness. On the other hand, structural transformations such as the gradual disappearance of international systems for commodity price stabilization and export earnings compensatory mechanisms are fuelling volatility in international commodity markets. The impact of these structural transformations is felt most by the world’s poorest countries.

At LDC III, the LDCs were encouraged by the North to agree with the launch of a new round of trade liberalization negotiations in conjunction with the Ministerial Conference of the WTO of November 2001, in Doha, Qatar. However, LDCs officials expressed concerns that they will be forced to open up their markets while the North will not reciprocate.

LDCs have made various attempts to bring their case to the attention of the WTO. However, their bargaining power is limited, and WTO membership has become increasingly conditional on opening up the domestic economy to foreign competition. These countries often find it difficult in accession negotiations to gain recognition of their status as developing countries and thus entitlement to special and differential treatment, and no LDC has been able to accede to the WTO since its establishment in 1995. The LDCs are disturbed by the exclusion caused by current WTO rules, and have stressed that they cannot enter a new round of trade negotiations until past commitments made by the North are honored, including those embodied in the Uruguay Round agreements. They also argue that “the scope of future multilateral trade negotiations will have to take into account the inability of LDCs to participate effectively in negotiations on a broad agenda and implement new obligations due to the well-known limited capacity of the LDCs."

Thus, LDCs appear to be trapped in a corner: neither trade nor aid seems to offer long-term prospects to accelerate their economic growth. If LDCs are to integrate into the world economy and become more active participants in the international trading system, strong policy coherence will be required between the proposed new round of international trade liberalization and the millennium development targets. In addition, support for LDCs should be strengthened by the designated agencies in the areas of trade policy advice and human and institutional capacity building, export expansion and diversification, regional integration, and the improvement of national and regional infrastructure to promote intra-regional trade and investment flows.
Nevertheless, some progress has been made over market access for LDCs, such as the European Union’s “Everything But Arms” initiative, which is to be lauded. Under the initiative, approved in March 2001, immediate duty- and quota-free access is granted to EU markets for essentially all LDC products except arms and ammunition. The government of New Zealand has taken a similar initiative and other developed countries are encouraged to follow suit. The provision of free access to developed country markets for export products that matter most to LDCs still remains an effective way to integrate these countries into the international trading system and alleviate poverty by allowing them to generate revenues from external trade and share in world prosperity.

Elsewhere, free market access should not be seen as a substitute for providing ODA, as is suggested by the motto “trade, not aid.” Trade and aid are mutually reinforcing and could together constitute a powerful combination to enhance resources for development.

Besides discussing the role of aid and trade in development, the Financing for Development Conference will provide opportunities to discuss means to arrive at a better distribution and expansion of private external capital inflows to developing countries, including the poorest. In discussing private external capital flows, a distinction should be made between foreign direct investment (FDI) and portfolio investment, which are motivated by rather distinct incentives.

All countries today recognize the important role in economic growth and development played by FDI, which has constituted the single largest source of external financing in developing countries in the 1990s. A number of determinants influence an investor’s decision to invest, the most critical of which are profitability, or the rate of return on investment, and risk. Several economic, legal, regulatory, and judicial factors also influence investment decisions. In addition, investors differentiate between countries on the basis of market size, economic potential, credit profiles, and stability. Consequently, FDI to the developing countries tends to be relatively concentrated: FDI inflows to the South have benefited only a few host countries, with the top ten developing country recipients receiving more than two-thirds of the total. The LDCs account for only a small share in total FDI inflows to the developing countries, although they have taken multiple measures to create an enabling environment for FDI.

As for portfolio investment, these flows depend largely, though not exclusively, on countries adopting open capital accounts and establishing free capital markets. Here the possible benefits that a country might derive from portfolio investment must be weighted against the costs of surges and sudden reversals of short-term financial flows. Issues of financial integration, capital account liberalization and exchange rate regimes are central to this discussion. There are dangers to premature capital account liberalization, and it is difficult to determine what the best exchange-rate policy could be for a country in the process of financial integration into the world economy. This is because developing countries are particularly prone to sudden shifts in investor expectations and subsequent large-scale reversals of short-term inflows, as has become clear by a series of financial crises that occurred during the last quarter century, the most recent of which was the 1997-98 Asian crisis. The Asian crisis revealed the weakness of financial sectors and the lack of proper financial sector supervision in these countries, as well as general problems inherent in today’s international financial system.

In the light of the foregoing, the conference will also seek to assess means to strengthen the international financial architecture in order to allow it to better deal with financial crises and
add stability and prosperity to the international economy. There remains a need to address the existing weaknesses in the regulatory frameworks of the financial sectors of advanced economies in order to better regulate private capital flows to developing countries.

The LDCs have failed to attract long-term international bank finance, and they have largely been bypassed by portfolio equity flows. Multilateral development finance institutions have an important role to play in mobilizing private capital flows particularly to the poorest developing countries by acting as financial intermediaries, by helping to develop domestic capital markets, and by facilitating the integration of developing countries into the financial market system.

Finally, LDCs have not sufficiently participated in the debate on the need for reform of the international financial architecture. The time has undoubtedly come to ascertain that the needs and concerns of these poor countries are incorporated in the discussions. LDCs should have a greater say in the functioning of international financial institutions, among which the World Bank and the IMF. To this end, the Financing for Development Conference would need to look into means to enhance the voice and representation of particularly the poorest developing countries in the decision-making processes.

**Statement by Mr. Nitin Desai, Under Secretary-General for Economic and Social Affairs (United Nations)**

*International Conference on Financing for Development*

The United Nations is grateful to the Development Committee for deciding to focus on financing for development (FiD) at this meeting and to the Bank and Fund staff for the useful documentation they have prepared for the Committee. The United Nations Secretariat looks forward to the discussions in the Committee on this subject. At the same time, we should like to reiterate and underline our appreciation for the very active support that both the staff and the Executive Boards of both the World Bank and the IMF have provided to the FfD process at the United Nations.

At its third meeting in October, the Preparatory Committee for the International Conference on Financing for Development pointed to the particular need for a re-commitment to multilateralism at this time—particularly after September 11—by reaffirming its earlier decision to convene the conference in Monterrey, Mexico, in March 2002. This decision reflected recognition that the terrorist attacks pose a wide range of new threats and challenges and that, as the first United Nations global conference to follow them, the Financing for Development event could be an immediate and important element in the overall multilateral response to present global circumstances.

Other developments underline the timeliness as well as the underlying importance of the forthcoming gathering. The global economic slowdown is proving to be deeper, more widespread, and more resilient than anticipated and has fully enveloped the developing countries, adding to the weaknesses that remained from the disruptions of the late 1990s, though the clear and universal commitment to a new round of trade negotiations at Doha this past week should
immediately bolster confidence in international trade and in the international trading system and thereby reduce some of the uncertainty that is currently plaguing the world economy.

A similar success on the financial front in Monterrey would contribute significantly to restoring momentum to international financial flows to developing countries and economies in transition. On the one hand, there is a need to restore the confidence of private agents so that middle income and other developing countries can once again tap international financial markets for resources to foster their own development. On the other hand, it is necessary to restore the credibility of the aid process in order for the lower income countries to accelerate their growth. Monterrey provides an opportunity for a new understanding between donors and recipients on the mutual commitments necessary to enhance both the quantity and the quality of official development assistance in future. The prospect of revitalized financial flows to developing countries over the longer term should provide an immediate boost to international confidence in these countries and therefore to their short term growth.

The heightened current pertinence of the Monterrey conference in no way detracts from an underlying raison d’être for the meeting that has become increasingly apparent as the preparatory process has progressed. Development is a multi-faceted process that involves a variety of agents at the national and international levels. Policy coherence and active cooperation among these various agents at both levels is indispensable if development efforts are to yield their full potential. One of the strengths of the FfD process to date has been the active involvement of and dialogue among all of the wide range of stakeholders involved. These include not only the private and public sectors but also subgroups within each. Similarly, it became apparent at an early stage that a global meeting on FfD could not achieve meaningful results without the active engagement of all the international organizations concerned. It could not be restricted to the United Nations with its particular appreciation of the political, social, and environmental considerations but also had to embrace the development finance perspective of the World Bank, the macroeconomic perspective of the IMF and the trade perspective of the WTO.

The process to date has made an important step forward in engaging all these actors at the international level in an unprecedented cooperative effort at the United Nations. Of late, the process has also increasingly fostered a cooperative approach at the national level and it was particularly gratifying to see representatives of ministries of finance and development cooperation, as well as foreign affairs, in many of the delegations at the Preparatory Committee in October. The result is that the conference has before it not only a very comprehensive agenda but also one that is internally coherent and consistent.

This newfound spirit of cooperation in the area of development is particularly timely in that it has coincided with the elaboration of the international consensus on the Millennium Development Goals (MDGs). Achieving these goals will require a new partnership among all development stakeholders and, in that sense, the FfD process has already made an initial contribution to their attainment. However, meeting the targets we have set ourselves for 2015 will also require additional financial resources and new approaches in some areas. One of the goals of Monterrey is to make progress on both these fronts. On the basis of progress to date, we are optimistic that, on the one hand, it will be possible to agree on a number of national policies and institutional changes that will improve the mobilization of domestic resources within developing countries. On the other hand, and as a necessary complement, it should also be possible to agree on the parameters of future international support for developing countries in their development efforts—on the policies and institutions necessary to mobilize additional
international resources. Within the agenda for the conference, there are complementary measures to be considered in many related areas, such as the financing of global public goods, innovative sources of finance, debt alleviation, and enhanced international cooperation on tax matters.

Finally, there is a third level—the so-called “systemic” one—at which member states of the United Nations, in General Assembly resolution 54/196, have also committed themselves to act in connection with this conference. They have decided to include in their consideration at the conference matters ranging from issues related to the international financial architecture, to global economic governance, and to the role of the United Nations and the UN system (of which the Bretton Woods institutions are a part) in ensuring general policy coherence and coordination. Much can also be accomplished in this field without jeopardizing in any way the independence, mandates or jurisdictions of the institutions concerned. The key point is that developing countries expect an enhanced voice in international economic matters that deeply affect them and they have a very legitimate right to be afforded that.

Of interest to us all is the related wish to strive for an international economic system which is not only more supportive of development but where there is more coherence and policy coordination between its financial, monetary, trade, developmental, environmental, and social components. Therefore, at the national and international levels alike, the nature and magnitude of the challenge means that all concerned must contribute actively to these renewed efforts at international cooperation. Unless we are successful not only in Monterrey but in following through on the undertakings that are made there, the world at large will fail in the commitment it has made to the people of the developing countries, above all the poorest among them.

Statement by Mr. Rubens Ricupero, Secretary-General, United Nations Commission for Trade and Development (UNCTAD)

There can no longer be any doubt that the world economy is facing an exceptionally serious downturn. Still, the fact that so few pundits or policy makers were, until very recently, willing to contemplate this possibility stands as a testament to the need for fresh thinking on the workings of the global economy and its future direction.

UNCTAD has consistently offered a perspective that looks closely at systemic dangers arising from serious imbalances and biases in the global economy. That perspective reflects our concern that many developing countries have not been enjoying the promised benefits from an increasingly open global economy at the same time as they have become ever more vulnerable to shocks and crises originating from abroad. In the run-up to the WTO Ministerial meeting in Doha, developing countries have been taking a very hard look at the international trading system. They should also pay attention to the international financial system. Indeed, in today’s interdependent world, developing-country policy makers need to address trade and financial matters together.

Since the Asian crisis the discussion of reforming the international financial system has been ad hoc and governed to a large extent by attempts to discipline debtors. How to bring greater balance and coherence to that discussion will be one of the main challenges to be faced at the forthcoming UN Conference on Financing for Development in Monterrey.
The global economic turnaround has been dramatic. In 2000 the world economy attained its highest growth rate for more than a decade. The United States continued to lead, entering its 9th year of expansion. Europe was also showing signs of stronger growth amidst expectations that it would at last begin to pull its weight in the global economy. Japan also seemed poised to tackle the structural obstacles that had held back growth for much of the 1990s. In the developing world, recovery continued apace in the crisis-hit Asian countries with growth figures in some cases back in familiar territory. Latin America also posted one of its strongest performances since the debt crisis of the early 1980s despite the continued decline of the Argentine economy, while growth optimism infused China and India. A marked improvement in the Russian economy also helped the transition economies register their highest growth since the collapse of the Berlin Wall. Only Africa continued to disappoint.

We now know that the unraveling of the technology-led boom in the United States was already well under way by the third quarter of 2000. Investment in machinery and business construction collapsed and manufacturing activity slackened. Labor markets remained firm, however, and consumption stayed buoyant into the first quarter of this year, holding out the hope of a soft landing. This has not happened: with a marked deterioration in consumer confidence over the summer the economy was edging towards outright recession, even prior to the events of 11 September.

The extent to which a strong global economic performance has depended on the expansion in the United States is now becoming apparent. The Eurozone, led by Germany, has been hit much harder than expected both by slowing export demand and by sharply lower sales from their U.S.-based affiliates. With unemployment again rising from the second quarter of 2001, any lingering hopes that spending by European consumers could compensate for falling investment have been dashed. Japan has also been unable to replace declining exports with demand from other sources and with unemployment exceeding 5 percent, confidence in both the household and business is again flagging.

The three leading industrial economies (the United States, Japan, and Germany) are now heading for recession simultaneously. Overall growth for the developed countries is likely to be as little as 0.5 to 1 per cent this year. The hope of a quick recovery rests on a strong turnaround in the United States in the second half of next year, driven by the determined efforts of policy makers to use monetary and fiscal policy to stimulate domestic demand and by a revival of investment in the new economy. However, while there can be no doubting the commitment of policy makers in the United States, it would be wrong to underestimate the gravity of the situation they are facing. Private savings have dropped to historic lows and debt levels are at unprecedented levels for many households. Corporate debt is also very high and balance-sheet restructuring after the bursting of the technology bubble is by no means complete. At the same time sharp declines in consumer confidence are having a significant impact on spending. UNCTAD’s assessment made at the beginning of this year was that a prolonged period of sluggish growth seemed the most likely scenario. Recent events have not changed that assessment.

At that time we also expressed our hope that economic policy makers would adopt a bolder stance and begin to test the limits of Europe’s potential growth. Circumstances were favorable: risk premiums in financial markets were low, consumers were not unduly exposed to volatile stock prices, and the external balance was in a healthy shape. However, the threat of contagion from the slowdown in the United States has been underestimated in Europe. Perhaps
more troubling still, the policy response since 11 September (notwithstanding an immediate
gesture of coordinated solidarity with the U.S. Federal Reserve which saw the European Central
Bank cut interest rates by 50 basis points) has been one of caution. Despite an improving
inflation outlook and the likelihood that growth in Continental Europe will drop well below 2 per
cent this year, with prospects little brighter for next year, monetary policy has remained fixated
on inflationary risks, and the fiscal stance is determined by strict deficit targets irrespective of
cyclical conditions. While we welcome the recent cut in interest rates, much more expansionary
macroeconomic policies may be needed to combat deflationary threats and to contribute to a
revival of the global economy.

Developing countries are looking at recent events “through a glass darkly.” Many were
already anticipating a heavy economic toll in the form of declining export earnings and reduced
capital inflows from the downturn in the United States, and their anxieties have been mounting
since the events of 11 September. The slowdown in international trade has been particularly
sharp this year; and its growth is expected to be no more than 2 percent, down from the 13
percent reached last year. The collapse in U.S. demand has already hurt East and Southeast Asia
where a sharp drop in exports from the electronics sector has led to declining growth rates and
deterioration in current account positions. The recession in Japan has further compounded their
problems. The economies of Taiwan, Singapore, and Malaysia have already entered recession.
Mexico, with an even higher concentration of its exports in U.S. markets, is also experiencing
stagnant growth and declining employment.

Commodity exporters are also bracing for the worst. Prices which last year had shown
some tentative signs of recovering from a prolonged period of decline have begun to drop again.
Demand for agricultural raw materials and minerals, ores, and metals has been hit by declines in
global industrial production. The declines have been strongly felt across Latin America where
fiscal revenues as well as export receipts are sensitive to movements in such prices. Oil prices
have also dropped by a third since September 11.

Private capital flows are also expected to fall sharply this year, dashing any lingering
hopes in some emerging markets that they might see an easing of their debt burden with falls in
US interest rates. Declining flows have already been especially severe for Argentina and Turkey.
Foreign investors facing increased uncertainty in emerging markets have chosen to accept lower
rates of return rather than run the risk of increasing or maintaining their exposure, while
domestic investors are moving funds to safer havens abroad. Foreign direct investment to
developing countries, which had remained stable in the aftermath of the Asian financial crisis, is
also expected to fall this year.

There can be little doubt that since the events of 11 September, the downside risks for all
developing countries have increased considerably. The dependence of many on a quick recovery
in industrial countries serves to further heighten those risks. This is a situation all too familiar to
policy makers in Africa. Many African economies remain dependent on the export of a few basic
commodities. Over the past two decades, their export earnings have been severely damaged by
secular price declines. Indeed, had the terms of trade of Sub-Saharan Africa (SSA) stayed at the
level of 1980, its share in world exports would now be almost twice as high and its income per
capita 50 per cent above the current level. And further damage has been inflicted by price
volatility for these commodities that further complicates macroeconomic management and
discourages investment.
Financial markets have not been any kinder to African growth performance. In per capita terms, real capital inflows to SSA have declined by about two-thirds since their peak in 1981. Moreover, declining private capital flows have been accompanied by declining official flows: in per capita terms, real official flows at the end of the 1990s were less than half the figure of the early 1980s.

The toll has been a heavy one for Africa. UNCTAD has estimated that for each dollar of net capital inflow to SSA some 25 cents went out as interest payments and profit remittances, 30 cents leaked into capital outflows and reserve build-up, while 51 cents made up for terms of trade losses. On these calculations, SSA has actually been transferring resources to the rest of the world over the past two decades.

Africa’s predicament highlights the challenges likely to face many developing countries over the coming years. With liberal trading regimes in place throughout much of the developing world, growth has been sucking in a greater volume of imports than in the past. Hot money helped fill the gap in some countries in the 1990s. But with slower growth prospects in the North, more cautious investor sentiment towards developing countries, declining commodity prices, and uncertain prospects for many labor-intensive manufactured exports, the external constraint on development is tightening.

Since austerity and import retrenchment now constitute a threat to growth in the developing world, provision of liquidity to these countries could constitute a major source of global expansion and stability. This would require mobilization of the full resources of the Bretton Woods institutions, including the facilities established at the IMF for emergency and contingency financing. Consideration could also be given to the use of reversible SDR allocation as and when needed. In addition, other measures needed to handle the consequences for developing countries of the disruptions of international markets could include write-offs as well as deferral payments on official debt. Private creditors could also be encouraged to provide some breathing space for debtors experiencing serious payments difficulties.

From this perspective, the upcoming Conference on Financing for Development in Monterrey is particularly important in two respects. In the first place, and coming as it does at a time of global downturn, the conference will provide an opportunity to rethink how the international financial system can be better organized to address the problem arising from the tendency of private capital flows to decline precisely when they are most needed. But systemic issues must also be addressed if reforms by developing countries at home are to hold out any hope of success. Making headway on both fronts will require a judicious mixture of boldness and compromise.

Statement by Mr. Mike Moore, Director-General (World Trade Organization – WTO)

It would be difficult to exaggerate the significance of the WTO’s 4th Ministerial Conference, which ended in Doha, Qatar on Wednesday. Just two years ago in Seattle, similar talks failed amid doubts about the future of the multilateral system. Success in Doha has put many of those doubts to rest. China and Chinese Taipei formally acceded to the WTO, adding some 1.3 billion consumers to the global trading system, and moving the WTO a crucial step closer to the goal of universal membership. At the same time, the WTO’s 142 Members also agreed to launch an ambitious new round of global trade negotiations aimed at strengthening the
rules of the system and liberalizing trade in a wider range of sectors, from services to agriculture
to industrial goods.

Success owed much to important changes to the WTO since Seattle. The extraordinary
process of consultation and debate which has dominated the work of the WTO throughout the
past two years showed that the WTO had learned an important lesson from Seattle—namely, that
the system had to be made more inclusive of all its Members if consensus decision-making was
to have any meaning. In Geneva, thousands of hours were spent in plenary discussions and in
meetings of heads of delegations. Every issue and every national position had been fully
explored before Doha. At the conference itself, every effort was made to keep ministers and
delegations fully involved in the negotiations, and all representatives approved the final text. The
transparency and inclusiveness—which is to say the legitimacy—of the process helps to explain
why Members were more prepared and more willing to reach agreement.

The most important change since Seattle is the growing influence of developing
countries. Developing countries now make up 80 per cent of the WTO’s membership, and with
China’s accession their influence will only increase. Their share of world trade and output has
risen steadily since 1986, reaching 30 per cent in 2000. In dollar terms, merchandise exports
from developing countries rose 24 per cent last year—twice the world rate—largely as a result of
the huge import demand of the United States. It has been estimated that two-thirds of the benefits
of further cuts in industrial tariffs would go to developing countries. It is also clear that
developing-country exporters of agricultural and primary products would make significant gains
from new liberalization and disciplines on subsidies. That is another major reason why the
launch of a new round of negotiations was so important. Increasingly no one has a greater stake
in strong multilateral rules and open world trade than developing countries.

This explains why “development” issues have risen to the top of the WTO’s agenda.
From being a fringe issue a generation ago, the debate over how to better integrate development
priorities into the trading system moved to the center of the preparatory process for Doha—and
its resolution was key to the agreement to launch new negotiations. Developing countries such as
India, Brazil, Pakistan, and South Africa were in the forefront of countries shaping a positive
outcome in Doha, and their ministers, ambassadors and officials stand among the most effective
and influential trade-policy practitioners in the world today.

If Seattle raised doubts about the future of the multilateral trading system, Doha gives it
new hope. We must not squander it. The need to assist developing countries—especially the
least developed—to take advantage of open world markets and secure trade rules has never been
greater. The scope, complexity, and value of the WTO’s legal system continue to expand. Much
of the recent controversy about the implementation of Uruguay Round commitments stemmed
from the human and resources constraints faced by developing countries in adapting legislation
to new obligations and building the infrastructure needed to implement them. These constraints
should concern every Member, not just the countries subject to them. As the WTO embarks on
new negotiations and rule making, and as its membership continues to widen, the multilateral
trading system’s future success will hinge directly on the ability of all countries to participate
fully in the process and to feel “ownership” of the outcome.

Thanks to the generosity of Members, who have financed our activities through trust
funds and other donations, we have been able to do far more than would have been possible on
the basis of the regular WTO budget. But we are far from meeting current needs, let alone future
demands. In Doha ministers were asked to endorse long-term funding for WTO technical assistance. Immediately following the Ministerial, we will be presenting the Members with a fully detailed plan, for adoption, that will complement the ministers’ decision and ensure a secure and predictable approach to funding for the ambitious program of work which the WTO has now embarked upon. I use this opportunity to appeal to finance and development ministers, as well as our sister organizations, the IMF and the World Bank, to support these goals and to give substance to our repeated calls to mainstream trade into development.

Doha has delivered an important message of hope. It underlines in the most concrete terms the commitment of 142 governments to open markets and international cooperation, at a time of global economic uncertainty. It signifies, above all, a new commitment to making trade work for development and the willingness of developing countries to give the WTO a second chance. But the launch of new negotiations is just that: a launch, the beginning of a long and difficult process, not an end in itself. We need the coherent support of all international organizations, all ministries, if the promise Doha is to become a reality.
ANNEX 1

Ottawa, November 18, 2001

1. The 64th meeting of the Development Committee was held in Ottawa, Canada, on November 18, 2001 under the chairmanship of Mr. Yashwant Sinha, Minister of Finance of India. Ministers expressed their great appreciation to the Canadian Government for facilitating the holding of this meeting under unusual circumstances.

2. Impact of Recent Events in Low- and Middle-Income Countries: Response of the World Bank Group. Ministers reviewed the impact of the September 11 terrorist attacks and their aftermath on developing countries. They recognized that poverty in many developing countries was likely to worsen as these events have deepened the pre-existing global economic slowdown, which had already led to weaker exports and commodity prices, and have other more specific impacts: e.g., increased refugee movements within countries and across borders; reduced private investment flows due to increased risk aversion in financial markets; reduced tourism revenues; and increased trade transaction costs. Ministers called for further enhancing the collaboration among the Bank Group, the IMF, the regional development banks and UN agencies, in their actions to help member countries address these additional challenges and to strengthen social safety nets. Ministers underlined the importance of renewed growth in industrialized countries to the improvement of prospects for poverty reduction in developing countries.

3. Ministers reviewed the response of the World Bank Group. They stressed the importance of the Group using its financial capacity and the flexibility in its available instruments to respond effectively and promptly to current circumstances and emerging needs. They emphasized that financial support should continue to be linked to strong country performance and reform programs in support of poverty reduction. Ministers agreed that, from a financial standpoint, the magnitude of likely incremental demands on the Bank Group currently appears manageable, but they urged that the Board and Management keep under close review the Bank Group’s capacity to respond in more challenging circumstances. Ministers agreed that IDA had a particularly critical role in helping the poorest countries manage the adverse impact of recent events on their economies and people, and emphasized that timely agreement on a substantial IDA 13 replenishment was essential. They encouraged all member governments to complete their subscription to MIGA’s general capital increase.
4. Ministers considered improved governance to be an important element in generating the conditions for investment, private-sector-led growth, improved productivity, job creation, and trade, and, as a result, for poverty reduction. Thus, they highlighted the need for the Bank and the Fund, in accordance with their respective mandates and comparative advantage, to pay more attention to governance-related issues, including public expenditure management, diagnostic (e.g., through the Financial Sector Assessment Program) and capacity-building work to help countries identify and address abuses such as money laundering and terrorist financing. In light of this, they also stressed the importance of working to strengthen further country procurement and financial management systems. They also recognized the need to allocate increased resources to address capacity building concerns in many countries to help them meet new internationally agreed commitments and standards.

5. **United Nations Financing for Development Conference.** Ministers expressed appreciation to United Nations Secretary-General Kofi Annan for the opportunity to discuss with him, at the joint IMFC/Development Committee dinner on November 17, issues related to the March 2002 International Conference on Financing for Development (FiD). They expressed strong interest in contributing to the Conference’s success, which they saw as an important milestone in the effort to halve the incidence of poverty by 2015 and to reach the other Millennium Development Goals (MDGs) (endorsed by Heads of State and Government in the UN General Assembly on September 8, 2000), and other agreed targets. They urged governments to involve all relevant ministries in preparing for the Conference to enhance coherence of policies with impact on development. (The Committee’s views on Conference issues are attached.)

6. **Poverty Reduction Strategies.** Ministers welcomed the significant progress made in implementing the PRSP approach, noting that 38 countries had completed interim PRSPs and eight countries their first full PRSPs. They appreciated the extent to which poverty reduction strategies build on existing national strategies and processes, with a focus on broadening participation and sharpening poverty diagnosis and monitoring, as well as on prioritizing and costing policies and programs for poverty reduction. Ministers welcomed the Bank and Fund’s efforts to work with countries to analyze the poverty and social impact of programs and to help them to build their own capacity. Ministers noted that the joint Bank/Fund staff review of the PRSP approach was underway. They called for a broad-based inclusive process that would draw upon the experience of other stakeholders and development partners, and looked forward to considering the report at their next meeting.

7. **HIPC.** Ministers welcome the continued progress made in implementing the HIPC Initiative, noting that twenty-four countries have now reached their decision points under the enhanced HIPC framework, qualifying for debt service relief amounting to some $36 billion; three countries have now reached their completion points and are receiving their full relief under the enhanced Initiative. There has also been a significant reduction in debt stock and debt service in these countries, and the commitment of qualifying HIPC’s to increased poverty reduction spending has been encouraging. Ministers urged the Bank and the Fund to work with remaining eligible countries to bring them to their decision and completion points, as quickly as circumstances permit.
8. Ministers reiterated their commitment to the enhanced HIPC Initiative as a means for achieving a lasting exit from unsustainable debt for eligible countries. They stressed that long term debt sustainability will depend upon the maintenance of sound economic policies, strengthened debt management and the provision of appropriate financing. With regard to recent events, they noted that the enhanced HIPC initiative framework provides for the consideration of additional assistance at the completion point if there has been a fundamental change in a country’s economic circumstances due to exceptional exogenous shocks. The Committee recognized the need to take into account worsening global growth prospects and declines in terms of trade, when updating HIPC initiative debt sustainability analysis at completion point. Ministers noted that the relevant operational procedures for exercising such an option were recently approved by the Bank and Fund Boards. Ministers also reiterated the importance of fully financing the enhanced HIPC Initiative and urged bilateral donors to fulfill this commitment. They welcomed the agreement among donors to continue their regular consultations on the financial requirements of HIPC. They also urged those creditors that had yet to confirm their participation in the Initiative to do so as soon as possible.

9. **Education for All (EFA).** Ministers consider education as one of the most powerful instruments for reducing poverty and laying the basis for sustained growth. They welcomed the World Bank’s background paper on this subject and noted the efforts of the Bank and its partners to help ensure that quality primary education is available to all children worldwide as a necessary first step towards strengthening overall education systems. Ministers looked forward to full consideration of this subject at their next meeting, based on an action plan that will address, inter alia, the policy and resource requirements needed to ensure that EFA goals are reached by 2015 through the development of sustainable and high quality EFA programs at the country level.

10. The Committee expressed its great appreciation to Mr. Yashwant Sinha for his valuable leadership and guidance to the Committee as its Chairman during the last fifteen months, and welcomed his successor, Mr. Trevor Manuel, Finance Minister of South Africa. The Ministers also expressed their warm thanks to Mr. Alexander Shakow upon his retirement as the Committee’s Executive Secretary, and welcomed his successor, Mr. Thomas A. Bernes.

11. The Committee’s next meeting is scheduled for April 22, 2002 in Washington, D.C.

**Attachment (Financing for Development Conference)**
FINANCING FOR DEVELOPMENT CONFERENCE (FfD)

1. **Building Development Partnerships on a Foundation of Sound Policies and Good Governance.** Ministers reaffirmed the critical importance of sound national policies and good governance as prerequisites for poverty reduction and sustained growth. They noted that the Millennium Development Goals (endorsed by Heads of State and Government in the UN General Assembly on September 8, 2000) and other internationally agreed development targets can help guide country-owned short- and medium-term national priorities on which external partnerships of support could be based. They noted that the Comprehensive Development Framework principles and Poverty Reduction Strategy Papers provide a vehicle for structuring partnerships with donors; they also provide a framework for the interventions of donors and other partners - such as through country assistance strategies and UN Development Assistance Frameworks - to ensure that external support is well integrated into national programs. An important contribution by the international community would be the strengthened provision of technical assistance to help developing countries - particularly low-income countries and those emerging from conflict - improve their capacity for sound economic management and efficient use of resources.

2. **Strengthening the Conditions for Investment and Growth.** Ministers stressed that, in addition to a stable and conducive international framework, a sound national policy environment, essential infrastructure and good governance are needed to allow the private sector to invest efficiently and create employment. They recognized that in many countries major reforms of the policy and regulatory framework will be required to encourage domestic investment and job creation. Such reforms can also help to promote foreign investment and contribute to productivity growth and the additional resources needed for sustainable development. Ministers underlined the need for coherent and comprehensive support to private sector development. They emphasized the important role that IFC, MIGA and other agencies working directly with the private sector can play in this regard.

3. **Promoting Integration into the International Trading System.** Trade is an important source of growth and poverty reduction, and developing countries need to be able to take greater advantage of the opportunities it offers. In this connection, the Committee warmly welcomed the decision reached by the WTO last week in Doha to launch a new round of trade negotiations. They endorsed the WTO Ministerial Declaration’s aim to place the needs and interests of developing countries at the heart of their Work Programme. Ministers emphasized the importance of countries integrating trade into their development strategies and improving their investment regulations, standards and technical regulations, removing obstacles to efficient transport of goods and materials, and strengthening telecommunications and business services. Ministers noted that greater access to markets would provide a major boost to development. They also stressed the priority they attach to helping developing countries strengthen their capacity to respond to market opportunities and to implement trade-related agreements.

4. **Importance of Enhancing ODA Flows.** Ministers recognized that for most low-income countries the availability of Official Development Assistance (ODA) remains an essential supplement to domestic resource mobilization and foreign investment if growth and poverty
reduction goals are to be achieved. Ministers agreed that special emphasis should be placed on ensuring that adequate resources are directed to countries implementing sound policies and exercising good governance. They recognized that a substantial increase in current ODA levels would be required if the opportunities emerging from policy improvements in low-income countries are to be realized and the MDGs to be met. In this context, a number of Ministers referred to the need to reach the 0.7 percent ODA/GNP target. It would also require that, among countries with sound policies and governance, ODA be allocated with greater emphasis on countries with the greatest need (in part based on the difficulties they face in the achievement of their MDGs) and with capacity to make the most effective and efficient use of the resources. Ministers also emphasized the importance of appropriate concessionality in ODA flows.

5. **Harmonization - Reducing the Transaction Costs of Aid.** Ministers noted that major improvements in development effectiveness and efficiency, as well as reduced administrative burdens and costs on recipient governments, would be gained from eliminating rigidities in aid delivery mechanisms. In this regard, they highlighted the critical importance of harmonization of operational policies and procedures by the Bank, other multilateral agencies and bilateral aid donors. Ministers welcomed the World Bank’s report on progress achieved to date in this area and commended the action programs set forth in this report. The Committee urged that the Bank and its partners continue vigorously to pursue these programs, and that the FfD Conference be encouraged to recognize the importance of, and provide broad-based support for, further progress in such harmonization and its implementation at the country level.

6. **Debt and Other Instruments.** Ministers underscored the need to deploy a flexible mix of instruments so as to respond appropriately to the needs of developing countries in a manner consistent with their economic circumstances and public expenditure management capacities. While urging that the HIPC Initiative continue to be implemented expeditiously to achieve debt sustainability for the poorest countries, they noted that debt relief is only one of many possible actions and instruments to support country poverty reduction strategies.

7. **Global Public Goods.** Ministers noted that FfD provides an opportunity for enhancing a common approach to global public goods and accelerating progress on the coordination of priority global public goods areas, such as those addressing HIV/AIDS and other major infectious diseases. They agreed on the importance of focusing on specific priority activities, while consolidating initiatives to achieve efficient use of resources. They stressed the need to ensure that activities are anchored in national as well as global strategies. In some cases this would require ensuring additionality in funding, while in others flexibility and reinforcement of existing mechanisms would be needed to help countries own and implement global public goods-related national programs.

8. **Making the Most of Existing Institutions.** Ministers noted that FfD offers an opportunity to establish a broad international consensus - among governments, institutions, the private sector, and civil society - for action on the basis of common objectives and for the identification of specific gaps that may require enhanced international action. This would provide a platform for individual institutions to use their respective mandates, governance structures and strengths to undertake high priority initiatives as well as to promote more focused and coherent action among bilateral and multilateral agencies. Ministers strongly believe in making the most of existing institutions.
9. **Integration into the Global System.** Ministers agreed on the importance of promoting the greater integration of developing countries into the global financial system. They noted that progress is being achieved through the efforts of, inter alia, the international financial institutions, including in areas of crisis prevention, standards and codes, legal and regulatory frameworks, transparency, financial sector strengthening, combating terrorist financing and other abuses, debt management, and private sector participation in the resolution of financial crises. Ministers also agreed that it is important to find pragmatic and innovative ways to continue to enhance the effective participation of developing countries in international dialogues and decision-making processes.

10. **Staying Engaged.** Ministers noted that the FfD Conference should be seen as part of ongoing efforts to intensify concerted international action for development and poverty reduction, to expand growth opportunities for developing countries, and to improve the effectiveness and responsiveness of development cooperation. They urged that the follow-up to the Conference be seen in this context. They believe that the dialogue among the ECOSOC and the Bretton Woods Institutions offers unrealized potential, as does further progress within the framework of the coordinating committee of the heads of United Nations agencies (ACC). Greater cooperation among existing institutions is needed, based on a clear understanding and respect for their respective responsibilities and governance structures. For example, a combined effort by the Bretton Woods institutions and the United Nations, along with the OECD, to check periodically on progress towards the MDGs, would provide an efficient and practical approach for improved cooperation.

11. Ministers requested their Chairman to convey these conclusions to the President of the United Nations General Assembly.
NOTICE OF MEETING

The 64th meeting of the Development Committee will be held on Sunday, November 18, 2001, commencing at 9:00 a.m. in the Main Hall of the Government Conference Center (GCC) in Ottawa, Canada.

SECOND REVISED PROVISIONAL AGENDA

I. Topics for Discussion
   A. Impact of Recent Events on Low- and Middle-Income Countries: Response of the World Bank Group
   B. United Nations Financing for Development Conference

II. Items for Comment in Circulated Ministerial Statements
   A. HIPC/PRSP Progress Reports
   B. Harmonization of Operational Policies and Procedures – Progress Report
   C. Progress Towards Education for All

III. Other Business

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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 (DC2001-0022) provides background information relevant to the Committee’s work. Ministers are invited to provide their prepared statements, as far in advance of the meeting as possible, for circulation to all delegations.

On this occasion there will be only one session of the Committee – from 9:00 a.m. until 12:30 p.m., during which the two agenda items under I. above will be discussed. There will also be a Chairman’s lunch for Members (12:45 p.m. – 2:30 p.m.) in the Gatineau Room on the fourth floor of the GCC.
A paper prepared by World Bank staff will be provided as background for the ministers’ discussion. The Fund’s Managing Director will brief the Development Committee on the conclusions of the previous day’s IMFC discussion of implications for the Fund.

Requested in Paragraph 12 of the April 30, 2001 Development Committee Communiqué. The discussion will be guided by a joint World Bank/IMF staff paper (Financing for Development, DC2001-0024, September 18, 2001) that focuses on five themes suggested for ministerial attention in connection with the March 2002 United Nations Conference on Financing for Development. These five are: i) establishing a strong private sector development environment for poverty reduction; ii) strengthened efforts to integrate developing countries into the international trading system, including increased attention to capacity building, achieving greater market access for developing countries, and initiating a new round of international trade negotiations; iii) operational implications of the millennium development goals, including the interrelationship of policies, analysis and resources; iv) encouragement of more rapid progress in the harmonization of MDB and bilateral donor policies and procedures; and v) financing for global public goods, including the role of grant financing and of new public/private partnerships. A short note updating the Committee on developments since the background paper was issued will also be made available.


The Committee noted in paragraph 12 of its April 30, 2001 communiqué that “at a future meeting, the subject of education, including implementation of the Dakar commitments on Education for All”, should be considered. In anticipation of this, World Bank staff have provided a background paper for this session of the Committee (Education for Dynamic Economies: Accelerating Progress Towards Education for All, DC2001-0025, September 18, 2001).

At the Chairman’s lunch for Members, the President and the Managing Director, Mr. Wolfensohn will invite Members’ views on a number of major issues facing the World Bank Group. Members will also be asked to approve the Communiqué at the close of the lunch.
# Annex 3

**Development Committee**

November 18, 2001
Ottawa, Canada

Yashwant Sinha, Chairman
James D. Wolfensohn, President, World Bank
Horst Köhler, Managing Director, International Monetary Fund

Thomas A. Bernes, Executive Secretary
Alexander Shakow, Outgoing Executive Secretary

## Members

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<td>Hamad Al-Sayari</td>
<td>Yahya Abdullah Alyahya (Bank)</td>
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<td>Governor for the Saudi Arabian</td>
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<td>Michael J. Callaghan (Fund)</td>
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<td>Ahmed Sadoudi (Bank)</td>
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<td>Stephen Pickford&lt;br&gt;(Bank and Fund)</td>
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<td>Balmiki Prasad Singh&lt;br&gt;(Bank)&lt;br&gt;Vijay L. Kelkar&lt;br&gt;(Fund)</td>
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<td>Helmut Schaffer (Bank)&lt;br&gt; Karlheinz Bischofberger (Fund)</td>
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<td>Giulio Tremonti&lt;br&gt; Minister of the Treasury&lt;br&gt; Italy&lt;br&gt; <em>Alternate Member</em>&lt;br&gt; Antonio Fazio&lt;br&gt; Governor of the Bank of Italy</td>
<td>Franco Passacantando (Bank)&lt;br&gt; Pier Carlo Padoan (Fund)</td>
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<td>ZHU Guangyao (Bank)&lt;br&gt; WEI Benhua (Fund)</td>
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<td>Pieter Stek (Bank)&lt;br&gt; J. de Beaufort Wijnholds (Fund)</td>
<td>Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, former Yugoslav Republic of Macedonia, Moldova, Netherlands, Romania, Ukraine</td>
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<td>African Development Bank</td>
<td>Omar Kabbaj</td>
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<td>Arab Bank for Economic Development in Africa</td>
<td>Medhat S. Lotfy</td>
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<td>Arab Fund for Economic and Social Development</td>
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<td>Arab Monetary Fund</td>
<td>Jassim Al-Mannai</td>
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<td>Winston Cox, Deputy Secretary-General</td>
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<td>European Bank for Reconstruction and Development</td>
<td>Willem Buiter, Chief Economist</td>
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<td>Charles Riemenschneider</td>
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<td>International Fund for Agricultural Development</td>
<td>Lennart Bage</td>
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<td>International Labour Organisation</td>
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<td>Nordic Development Fund*</td>
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<tr>
<td>Nordic Investment Bank</td>
<td>Lars-Åke Olsson</td>
<td>Sr. Vice President</td>
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<tr>
<td>OPEC Fund for International Development*</td>
<td>Y. Seyyid Abdulai</td>
<td>Director-General and CEO</td>
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<tr>
<td>Organisation for Economic Co-operation and Development (OECD)</td>
<td>Michael Roeskau, Director Development Co-operation Directorate</td>
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<tr>
<td>United Nations</td>
<td>Nitin Desai, Under Secretary-General for Economic and Social Affairs</td>
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<td>UNCTAD</td>
<td>Jan Kregel, High-Level Expert on International Financing Division on Globalization and Development Strategies</td>
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<td>United Nations Development Programme</td>
<td>Michael Marek, UNDP Representative in Washington DC</td>
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<td>West African Development Bank</td>
<td>Not attending</td>
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<tr>
<td>World Trade Organization</td>
<td>John Hancock</td>
<td>Counsellor, Trade and Finance Division</td>
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