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

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Minister of Finance, Nigeria

Washington D.C.
April 25, 2004

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DC2004-0009
May 13, 2004
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NOTE ON THE SIXTY-NINTH 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-ninth meeting on April 25, 2004, in the Preston Auditorium of the World Bank in Washington D.C. 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 these are part of this document; highlights of the members’ statements were circulated by the Chairperson a.i. and are also part of this volume. The session started at 9.05 a.m. and ended at 12:55 p.m. In the absence of the Chairman, Mr. Trevor Manuel, Minister of Finance of South Africa, the meeting was chaired by Mrs. Ngozi Okonjo-Iweala, Minister of Finance of Nigeria.

The Agenda (Annex B) was adopted at the beginning of the session, followed by the discussion of two topics: the first, “Achieving the MDGs – Global Monitoring Report 2004”, including “Education for All – Fast-Track Initiative Progress Report” as well as a joint “Progress Note on Financing Modalities Toward the Millennium Development Goals.” For the second topic, “Long-Term Sustainability in Low-Income Countries”, a joint “Note on Debt Sustainability” was prepared by the staff of the Bank and the Fund.

With respect to the first item, a report entitled “Global Monitoring Report 2004 – Policies and Actions for Achieving the MDGs and Related Outcomes” plus a companion background paper have been provided to the members. These reports address priorities for developing and developed countries as well as institutional partners regarding achievement of the MDGs as agreed at the Monterrey Conference in March 2002 and point to issues proposed for Ministerial consideration at this session.

On the second item (Long-Term Sustainability in Low-Income Countries) the Note on Debt Sustainability focuses on debt sustainability in these countries, particularly those where the external debt burden is already high and the economy is vulnerable to exogenous shocks. The note addresses two key elements: successful implementation of the HIPC Initiative; and a proposed framework for new concessional lending that tailors the terms of new lending to a country’s risk of debt distress.

The Communiqué (Annex A) was approved during the session and reflects the salient points of this session.
Note of the President of the World Bank, Mr. James D. Wolfensohn, to the Development Committee

At our meeting two years ago, shortly after the agreements reached at the Monterrey summit on actions needed to reduce global poverty and meet the Millennium Development Goals (MDGs), we decided the major challenge for all of us is to implement those agreements and turn commitments into action. The challenge is even more urgent than it was two years ago, given disappointing progress made in some respects. We also agreed that an important and continuing role for this Committee is to track progress and reinforce the mutual accountabilities of the parties to the Monterrey Consensus. I hope we can take the opportunity at our meeting to give new impetus, particularly to those actions where there has been least progress.

The first item we will be discussing at our meeting on April 25 is central to that task: the first of a planned annual series of reports monitoring global progress in implementing policies and actions for achieving the MDGs and related outcomes. The report and the assessment of progress by the Development Committee is timely. With a review of the goals of the Millennium Summit planned in 2005, this is an opportune time to impart urgency and resolve on the critical policy and actions needed to achieve these goals. We will also assess progress on debt reduction and discuss the ongoing Bank/Fund work on debt sustainability in low-income countries. This work is at an early stage and any broad guidance the Committee can provide about its future direction would be welcome. We will also have opportunities to discuss informally a range of other current policy issues, including some of those touched on, in this note.

As requested at the Development Committee’s last meeting, the Bank has also provided progress reports on the Education For All Fast Track Initiative and on policy options to mobilize additional finance for scaling up progress toward the MDGs. Both are very relevant to our discussion on monitoring progress in implementing the Monterrey agreements. In this note, I am also reporting on actions and progress in the World Bank Group on a range of other issues considered by the Committee in the past.

I would like to take this opportunity to express my appreciation and thanks to Horst Koehler for his support over the last few years and the contributions he has made to the work of the Development Committee. It has been a real pleasure to work with Horst. Early on in his tenure, we set out a joint vision for strengthened partnership and I believe that we have been very successful in implementing that vision, thanks in no small part to his commitment. His has been a strong voice for development and poverty reduction and we will all miss having him at the helm of the IMF.

Global Economy

Since we met last September, global recovery has gained momentum. Worldwide, GDP growth increased from 1.8 percent in 2002 to 2.6 percent in the past year and is forecast to rise to 3.7 percent in 2004. The medium-term global outlook remains highly uncertain given large macroeconomic imbalances in and between the major economies. Their unwinding is likely to bring about significant increases in interest rates (from their very low levels now) and possibly large fluctuations in exchange rates which could affect trade and capital flows.

As a group, developing countries have continued to grow more rapidly than the high income countries. Growth of GDP of developing countries this year is expected to surpass the record 5.2 percent growth achieved in 2000. East and South Asia have been at the forefront of the strong growth performance of developing countries. There has been a strengthening of growth in other regions as well; although growth remains subdued in many countries, particularly in Latin America. Sustaining the momentum on growth and ensuring that it extends to the poor, will be key to achieving the MDG’s.
Ensuring smooth adjustment of the large global imbalances is therefore an important collective challenge. Although some developing countries have improved their liquidity positions, others remain vulnerable to financial shocks and therefore setbacks. It will be important to use this period of buoyant growth and low interest rates to further reduce vulnerability. A third and key challenge is to accelerate growth in the poorest countries especially in Sub-Saharan Africa. Without a substantial increase in growth rates in the region, only 8 countries representing about 15 percent of the regional population in Sub-Saharan Africa are likely to achieve the goal of halving income poverty between 1990 and 2015.

Supporting Development and Reducing Poverty: Implementing the Monterrey Consensus

Two years ago, just after the Monterrey meeting, this Committee asked the Bank and Fund to report regularly on progress on policies and actions of developing and developed countries and international institutions for meeting the MDGs and related outcomes. A year ago we discussed and agreed on a framework for such reporting. We now have the first full Global Monitoring Report (GMR), prepared jointly by Bank and Fund staff in close collaboration with partner agencies – DAC/OECD, other MDBs, the UN and the WTO.

It is particularly encouraging that we now have such a broad based partnership underpinning this effort. I am hopeful that this first report will spur a virtuous cycle of a shared results framework on policies and actions to meet our agreed development goals. I also believe that beyond good analysis we need good communications so that we can mobilize support not just of the official community but of all stakeholders including the general public in all our countries.

This first monitoring report is, in my view, an important and credible step in putting in place a results framework so that Ministers can discuss where and how much progress we are making, individually and collectively and where more needs to be done. I believe that the Development Committee has an important role in reinforcing mutual accountabilities by systematically and rigorously taking stock and giving impetus to implementation the Monterrey agenda. I hope that the Global Monitoring Report will become an integral and regular feature of our work, and believe that it will complement and reinforce deliberations in other fora including the United Nations and the OECD Development Assistance Committee.

The findings of the report provide a sobering assessment of progress towards the MDGs and progress in meeting the commitments made at Monterrey. As the report makes clear, on current trends, most MDGs will not be met by most countries. This is not to downplay the impressive progress made in many countries, particularly large ones such as China and India. But there are just as many who are falling behind especially in sub-Saharan Africa. And we can do better even in countries where progress has been good. It will take a significant and immediate scaling up of actions on the part of all parties to avoid falling far short of meeting our aspirations on the MDGs. There has been no better time to scale up actions given the foundations laid by past successes and lessons learned from past mistakes. The report identifies where the need for action is most urgent.

The report also provides a range of evidence on the improvement of policies and institutional frameworks in developing countries. I have seen evidence of this improvement directly, through my own visits and interactions with people in countries in all parts of the developing world. In Africa for instance, NEPAD has asserted a new accountability, and there are now many countries which have taken credible steps to strengthen their policies and governance with a clear sense that there is now an unprecedented opportunity for accelerating progress on development results. More needs to be done in deepening and sustaining reforms, but I believe that we have the basis for scaling up in most countries.

As the report shows, in contrast to the improving performance in developing countries, the developed countries are falling behind on two critical fronts that are vital to accelerating progress and scaling up results – trade and aid. I hope that the Committee will stress the importance and urgency of
reinvigorating the Doha round, including market access for agriculture and labor intensive manufactures that are so critical to the prospects for the poorest countries. The other area for priority attention is the quantity and quality of aid. We have all agreed, and are on record as having agreed, that no country truly committed to poverty reduction and to meeting the MDGs should be denied the chance to achieve those goals due to the lack of resources. Yet that is precisely what we are now witnessing. There has been a nominal increase in ODA flows since Monterrey, but this is to a large extent accounted for by debt relief and technical cooperation grants, and there are pressures to accommodate other special new needs within the envelope, such as finance for Afghanistan and Iraq. I hope you will agree that it is of the utmost importance and urgency to increase the quantity of development assistance in support of countries implementing sound policies to accelerate progress towards the MDGs. As I discuss below, in parallel we need political commitment on the agenda to improve the quality of aid – to align it better with country priorities, to make it more predictable and flexible, to focus it on results and to harmonize aid practices and procedures.

The report also highlights the need for continued attention to how international agencies can strengthen their support at the country and global levels. There is clear recognition of the importance of a strong results orientation in what we do individually and collectively. In the Bank we are acting to build our management and budget systems around a results and objectives based framework. And the action plan that the MDBs committed to in February in Marrakech will, I believe, help ensure that we all do our part in meeting the challenge on the MDGs.

Supporting Sound Policies with Adequate and Appropriate Financing

There is a clear need for more and better quality development assistance to support countries implementing sound policies, to strengthen progress towards meeting the MDGs. At our last meeting the Committee asked the Bank, working with the Fund, to examine various options to mobilize the extra resources needed to achieve development results. The background paper we have produced gives an overview of possible ways by which the needed financing can be mobilized. But I should emphasize that this is only a progress report at this stage, aimed at encouraging discussion, seeking to identify the main options that have been suggested, and making a brief assessment of their characteristics and related policy considerations. I was pleased to have been able to participate in the conference on aid hosted by Minister Sarkozy and Gordon Brown in Paris on April 8, where there was a broad commitment to move forward on the aid and aid effectiveness agenda, and to consider innovative financing mechanisms such as the International Finance Facility. We will be taking this work forward in the context of broader ongoing work on the architecture of development aid that was also requested at the Dubai meetings, and which will be reported at the Annual Meetings.

Enhancing Aid Effectiveness: Alignment, Harmonization and Managing for Results

Harmonization and Alignment. Over the last year, attention has been focused on implementing commitments made in the February 2003 Rome Declaration. There has been some progress with harmonization and alignment activities in over 50 member countries, involving 18 bilateral donors and 16 multilateral institutions, including the formation of government/donor working groups, development of donor and member country action plans, joint assistance strategy preparation, better alignment of budget support with budget year cycles, and learning initiatives. It is encouraging that sector-wide approaches or SWAps are becoming prevalent in both low-income and middle-income countries as a means of better aligning donor support with country systems.

I understand and share the impatience among partner countries for swifter action. Discussions among donors, with partner countries and with others have identified specific constraints to implementation which need to be addressed – and in some measure are being addressed – by development partners, including the Bank. A key constraint is the predictability of aid flows, and an absence of quick and efficient disbursement; combined with capacity constraints in fiduciary areas within recipient
countries, the lack of predictability can lessen aid effectiveness. This can be – and to some extent is being – addressed.

There are also constraints in communication between donor headquarters and field staff on corporate commitments to harmonization and alignment; and discordant donor practices – on conditionality and performance indicators, for example – that can constrain country recipient capacities, but can be addressed by close coordination of policy-based lending. There is a need for greater donor transparency that will allow recipient countries to obtain timely and accurate information on actual aid flows. The Global Gateway is providing a promising basis for exchange of information. Despite efforts by a number of development partners including the Bank, practical know-how on options, experiences and lessons of other countries is still lacking. And there is a need to address incentives and encouragement for staff working for multi-lateral and bilateral donors to pursue stronger alignment and harmonization.

The Bank remains strongly committed to making progress on harmonization and alignment. To this end in November 2003 the Bank opened procurement to bidders from all countries, thus making our policy more ‘harmonizable’ with other agencies. In March 2004, the Bank liberalized its expenditure eligibility requirements to better align our assistance around upgraded country systems. In addition, we are aiding implementation at the country level, acting as a key facilitator in a number of countries. At the systemic level, the DAC Working Party on Aid Effectiveness and the Task Team on Harmonization and Alignment is taking forward the agenda, implementing the commitments of the Rome High Level Forum. A progress report on that work has been shared with the Board and will be discussed at the upcoming DAC High Level Meeting. The Bank is contributing to this work, and continues to lead or co-lead four of the five working groups of donors and partners. To assess progress, a Second High-Level Forum on Harmonization and Alignment for Aid Effectiveness has been scheduled for early 2005, to be hosted by the Government of France. This will be an important opportunity for the development community to learn from experience and to commit to scaling-up efforts, replicating successes and explicitly recognizing and addressing remaining challenges to implementation.

Managing for Results. We are firmly committed to implementing the agenda on managing for development results which was endorsed by the Committee at its meeting in September 2002 to improve development outcomes through strengthened country ownership and increased management attention to results, in three areas for implementation: (a) within countries, to strengthen their capacity to manage for development results; (b) in the Bank, to increase the focus on results in strategies, instruments, incentives and reporting systems, and (c) across development agencies, to foster a global partnership on managing for results.

a. Strengthening country capacity to manage for results. Support to PRSP countries in enhancing the results focus of their PRSPs has been a priority. One area where significant progress has been made is in support of country statistical capacity enhancement necessary for measuring and monitoring results. A new lending program, StatCap, has been approved based on a sector-wide approach to building statistical capacity to support implementation of poverty reduction strategies. With strong Bank engagement, the international statistical community at the February 2004 Marrakech Roundtable on Results agreed on a medium-term action plan to coordinate resources, rationalize data gathering mechanisms and strengthen international statistical systems.

b. Enhancing the focus on results within the Bank. The pilot phase is well underway to introduce a stronger focus on results in Bank country programming. Six results-based country assistance strategies (CASs) have been discussed by the Board, and five more are under preparation, and many other country teams are seeing the benefits and beginning to apply the methodology. An evaluation of the pilot phase later this year will be the next step toward mainstreaming in FY05. The Bank has also carried out additional analysis and monitoring to support the IDA results measurement system, which will be discussed at the IDA14 meeting in Vietnam in June.
c. Fostering a global partnership on managing for results. Significant progress has been made in developing mechanisms for international collaboration and harmonization of results-based approaches at the country level, through an MDB Working Group and a OECD-DAC Joint Venture. At the Marrakech Roundtable developing countries and their partners discussed challenges and emerging good practices in managing for—and achieving—better development outcomes. Sponsoring agencies endorsed a joint memorandum, core principles and an action plan that will serve as the basis for establishing greater awareness and broader consensus on the priorities and critical actions for this long-term agenda.

**Trade**

A more open and balanced global trading system is central to the Monterrey agenda. The Committee last met just after the breakdown of the Doha negotiations in September in Cancun. Helping to get these negotiations back on track is a critical priority for the Bank. In November, Horst Koehler and I sent a joint letter to the heads of state of all WTO members stressing the importance of a concerted effort to revitalize the Doha negotiations. We have been using any and all opportunities with key participants to drive home how high the stakes are, and now there are some signs of progress. The WTO General Council has met and appointed chairs for the various negotiating groups, there are active discussions over when to hold the next WTO ministerial meeting, and there has been encouraging evidence of movement in the negotiating stances of a number of key participants. In the Bank, we will continue to do everything we can do to help the process reach a successful conclusion.

As highlighted in a progress report to the Board, assisting the multilateral negotiating process is not the only agenda for the Bank: there are also actions required at the country and regional level. At the regional level, members are increasingly looking for analysis and projects with a regional dimension – from research on the regional implications of China’s accession to the WTO through support for free trade initiatives in Central America, to analysis of how to maximize the gains to the ACP countries of partnership agreements with the EU.

At the country level there is also a need for action to remove impediments to trade. The Bank has provided policy advice to more than a dozen countries that have recently implemented significant tariff reforms, and assistance to a substantial number of the 27 countries currently seeking WTO accession. There are a total of 73 trade-related lending operations under preparation covering 42 different countries. Roughly half of these operations focus on trade facilitation, an area that countries see as critical to improve their competitiveness. The Integrated Framework initiative continues to target the special challenges facing the least-developed countries: to date, Diagnostic Trade Integration Studies have been completed in thirteen countries, along with dissemination workshops and donor meetings in most instances.

**Migration and Remittances**

International migration, and with it cross-border remittances, has emerged as a powerful new force that can be harnessed for the benefit of both receiving and sending countries. The number of people residing outside their country of birth increased by 14 percent during the 1990s, reaching an estimated 175 million. And officially recorded remittances received by developing countries reached US$90 billion in 2003, second only that year to foreign direct investment as a source of external finance for developing countries.

The rapid and sustained growth of migration and remittances has brought to the fore a number of important policy challenges which will require more analysis and more dialogue. Given our development focus, the Bank is stepping up its work on issues most closely related to our mandate and comparative strengths. We aim to contribute to having better information on magnitudes and patterns of migration and remittances; to help countries cope with emigration of highly skilled persons especially in the poorest
countries; to contribute to the discussion of international norms and practices including on the movement of temporary workers and on the rights of migrants; and to help developing countries enhance the size and impact of remittances. In these efforts we will work closely with the Global Commission on International Migration that is being co-chaired by Managing Director Dr. Mamphela Ramphele.

We are supporting countries in tapping the potential of remittances, while reducing the vulnerability of remittances to abuse. In this regard, the Bank has supported the Asia Pacific Economic Cooperation (APEC) Alternative Remittance System (ARS) Initiative. Follow up work with APEC is ongoing on specific case studies and targeted recommendations which could form the basis of the discussions at the next APEC Finance Ministers’ meeting in Santiago in September 2004. We are also conducting research to improve our understanding of magnitudes and directions of remittances. We are planning to work with official and private partners to reduce the high transactions costs of remittance to many parts of the world. We will integrate migration and remittance issues into our CAS’s as appropriate, to help countries address impediments and strengthen their domestic environments to attract and better use remittances.

Debt Sustainability, Debt Vulnerability and Handling Shocks

HIPC Initiative. Twenty-seven of the 38 countries potentially eligible under the HIPC Initiative have passed their decision points and have received debt relief, and of these 11 have reached completion point making their debt relief irrevocable. Niger just reached its completion point and additional countries should reach their completion points shortly. Eleven countries have not reached decision point, in part because many of them are emerging from conflict and have protracted arrears. Although the overall cost for countries that have reached the decision point is projected to be about the same as it was in last September, there has been some increase in the estimates for those countries that have yet to reach the decision point. We need to remind ourselves that these costs are not yet fully financed, especially with respect to the large reductions in debt which IDA will deliver over the coming years. Debt service savings continue to contribute to increases in expenditures directly targeted at poverty reduction within the PRS process. Participation by commercial creditors, however, remains low, although the Debt Reduction Facility for IDA-only countries has been instrumental in extinguishing commercial debt in several HIPCs, and will continue to play an important role in strengthening the effectiveness of the initiative.

As indicated in the separate note prepared for our meeting, there are important issues where further work is needed and planned. The first is how to address the debt overhang in HIPCs that will not be able to enter the initiative before the end of 2004 when the sunset clause becomes effective. We will put forward specific proposals for consideration at your next meeting in the Fall. Two other issues for attention are the long-term debt-sustainability of low-income countries, and how to help them preserve debt sustainability in the face of exogenous shocks.

Debt Sustainability in Low-Income Countries. The Boards of the Bank and Fund recently reviewed a joint paper on debt sustainability in low-income countries, and the Committee will have the opportunity to discuss and give guidance on the issues on the basis of a note drawing on those board discussions. The focus is on developing a framework for lending and external assistance that facilitates debt sustainability in post-HIPC and other low-income countries while helping these countries meet the MDGs at the same time. As the note for the Committee makes clear, there are policy implications for donors, creditors, and borrowers, and a number of issues still need to be resolved before the framework can become fully operational, many of which are separate from the HIPC Initiative. The new post-HIPC debt sustainability framework serves a different purpose: to provide forward-looking guidance on new financial assistance tailored to individual countries’ circumstances. It would not alter the terms under which HIPCs receive debt relief.
Addressing Vulnerability to Shocks. In low-income countries, debt sustainability depends in large part on the ability to deal effectively with exogenous shocks. While the new debt-sustainability framework would address these shocks ex-ante, the global community needs to develop a strategy to mitigate the impact of shocks ex-post in a timely and coordinated manner and on appropriately concessional terms. I believe the Bank can and should play an important role in helping implement such a strategy. In consultation with the Fund and other development partners, it can signal the need for assistance and seek to catalyze donor support for low-income countries in the aftermath of a shock. Bank staff are working on these issues, and will be consulting with the Board on an approach to position Bank support to low-income countries dealing with shocks within a broader development assistance framework.

Sectoral Priorities

Education. The Committee has a separate progress report on the Education for All Fast Track Initiative (EFA FTI). While there has been some progress, we need to do much more. Our meeting coincides with EFA Week 2004, which will emphasize this message. The initiative has established a global framework, grounded at the country level, that provides a platform for resolving education-related policy, institutional and financing issues as countries scale up for results; and for tracking and comparing progress on key FTI objectives across countries. It has also begun to deliver on key results: garnering political momentum in countries, strengthening links between policies and outcomes, providing a platform for sharing lessons, and identifying disconnects between performance and financing.

During the past year, significant progress has been made on donor coordination and donor practices, and in particular, a shift toward budget support. The biggest challenge is to find the external financing needed to support the increasing number of countries ready to implement sound country and sectoral programs. Current levels of funding are too low: we estimate that at least US$3.7 billion in annual incremental financing would be needed to support low-income countries in achieving EFA. Such financing needs to be long-term, predictable and flexible so that countries can commit to long-term plans and adequately cover recurrent costs. Experience with the first ten FTI countries suggests that the prospects of achieving universal primary education by 2015 are remote unless there is a substantial improvement in the commitment, disbursement, predictability and flexibility of additional external finance.

Health. At the High Level Forum (HLF) on the health MDGs that the Bank and WHO hosted in Geneva in January 2004, development partners agreed that without a greater sense of urgency a large number of countries will miss the 2015 health targets. Across all developing countries, child and maternal mortality rates are falling too slowly and in Sub-Saharan Africa, trends were barely positive during the 1990s. There are many effective interventions across and within countries for malnutrition, child mortality, maternal mortality, and communicable diseases (including AIDS). The problem is that basic health services are not available or not effective for the people who can benefit from them—especially the poor.

Additional resources, improved policies and institutions, and better targeting of expenditures are all crucial if progress towards the health MDGs is to be accelerated. Basic health services are weak in almost all developing countries. What is needed is systemic reform and development of capacity – the availability of an adequate number of health professionals, their effective deployment, ensuring that medicines are accessible and available to people who need them most. The Bank is helping both low and middle income countries work on creating a sustainable financing framework over the long term that underpins the reforms in this sector. We will continue to work on these and other related issues with partners, supporting actions that will help countries scale up progress towards the health MDGs.

Communicable diseases – HIV/AIDS, tuberculosis and malaria – have imposed huge costs on development, and an incalculable cost in human lives lost; it is not a global health problem, it is a global development problem. Tackling communicable diseases is on the top of the Bank’s agenda and a key
priority for the Bank in all regions. Though resources remain insufficient, there has been progress in launching a stronger international effort against these killers. The Bank has a key role in getting HIV/AIDS on the development agenda in every country, mobilizing a multi-sectoral response, coordinating knowledge management, focusing on implementation issues and, through its country presence and technical implementation capabilities leveraging the contributions of specialized funds and agencies.

**Infrastructure Action Plan.** As the GMR shows, low and middle-income countries have massive needs for infrastructure spending to support growth and the MDGs. At its last meeting the Committee welcomed the Bank’s intention to re-engage in supporting infrastructure investment through a balanced approach across the public-private spectrum, helping countries mobilize financing from multiple sources, as set out in the Infrastructure Action Plan. We have reported progress to the Board in implementing this plan, and we are stepping up support to member countries through increased infrastructure lending and policy advice.

We are rebuilding country level diagnostic work and are investing in infrastructure sector performance data to improve results measurement and monitoring. We have created a new cross-sectoral Infrastructure Economics and Finance department. And we are strengthening the Bank’s risk mitigation instruments; exploring multi-country and sub-sovereign engagement; and enhancing collaboration across the Bank Group. Key challenges for the future include: portfolio quality; limited fiscal space for public infrastructure investments; stepping up finance for middle-income countries; Bank Group collaboration; strategically positioning relevant Global Programs; responding to external reactions to infrastructure activities; and ensuring that the commitment to infrastructure is sustained. Revitalizing the Bank Group’s infrastructure business is a medium-term--not a short-term--challenge, requiring continued effort over the years ahead.

**Water Supply and Sanitation.** As part of its Infrastructure Action Plan, the World Bank Group has made substantial progress on following up the recommendations of the World Panel on Financing Water Infrastructure. We are working with both public and private providers and financiers of water supply and sanitation services (WSS). We are building a bigger pipeline of new WSS investment projects, based on accelerated sector knowledge work. This work is guided by our recently published WSS Business Strategy. We are working to strengthen donor coordination with other MDBs and bilaterals. And the Bank Group is aiming at increasing its use of innovative instruments - including direct sub-sovereign financing and risk mitigation instruments - in the water sector.

**Rural Development.** Approximately 70 percent of the poor in developing countries live in rural areas, most of them directly or indirectly dependent on agriculture. The most important action to help in this sector remains the reform of industrial country agriculture trade barriers and subsidies; but it is also important for the Bank and other development partners to remain engaged in development assistance in this area. Bank lending earmarked for rural development increased by nearly 50 percent between FY02, a low point, and FY 2003. Successful new approaches include support for local community and farm association managed investments in forestry, land management, marketing and agricultural services, small scale irrigation, micro-credit, private-public partnerships in agricultural extension, emergency preparedness, agricultural research, conservation oriented fisheries and forestry.

**Financial Architecture**

The Bank has been working closely with the Fund to support global efforts in strengthening the international financial architecture. As of end-December 2003, more than 100 countries had participated or agreed to participate in the near future in a financial sector assessment under the joint Bank-Fund Financial Sector Assessment Program (FSAP), and 491 Reports on Standards and Codes (ROSC) modules have been completed for 101 countries. The Bank is also stepping up its efforts to help countries address gaps and strengthen capacity based on the findings of these assessments. The multi-donor
Financial Sector Reform and Strengthening Initiative (FIRST), established to supplement these efforts with about US$55 million pledged over the initial four-year term, had approved 61 projects by end-December, of which 20 have already been completed.

**Combating Money Laundering and Terrorist Financing.** This is a high priority for member countries and a key priority for the work of the Bank, as part of the agenda on good governance, financial stability and economic development. Money laundering and the financing of terrorism pose threats of the highest concern: their devastating effects include damage to the economy and financial systems of developing countries, as well as collateral damage to the overall integrity and functioning of the financial system.

Following recognition of the FATF 40+8 Recommendations as the international standard for anti-money laundering (AML) and combating the financing of terrorism (CFT), the Bank together with the Fund has now completed a 12 month pilot program of AML/CFT assessments, and associated ROSCs. In particular, the Bank has provided technical assistance to its client countries through individual country TA programs following AML/CFT assessments, through regional programs and extensive use of Global Dialogues through the World Bank Institute. We are incorporating AML/CFT issues into Country Assistance Strategies (CAS) where weaknesses in the AML/CFT regime pose a significant governance and development risk.

The Board reviewed the outcomes of the pilot program on March 25, 2004. and decided to continue the Bank’s collaboration with the FATF, to make AML/CFT assessments a regular part of Bank work, and to endorse the revised FATF 40 plus 8 special recommendations as the new standard for preparing ROSCs. In addition the Board decided the Bank would take responsibility in its assessments for reviewing law enforcement capacity, an area that was previously undertaken by independent assessors supplied by FATF member countries. The Bank will also step up its provision of technical and capacity building assistance to developing countries and assistance to member countries seeking to establish new FATF-style regional bodies in regions where such bodies do not exist.

The Bank will also continue its work with the IMF, the FATF and other key regional partners to facilitate the creation of FATF-Style Regional Bodies (FSRBs) in regions where they do not exist. Work is already underway in the Middle East North Africa region as well as Central Asia. The Bank will increase its support for building capacity in existing FSRBs, with particular focus on training assessors in the revised global methodology. We will also continue to raise awareness in the public and private sector at a regional and sub-regional levels. The Bank will update its *Reference Guide to Anti-Money Laundering and Combating the Financing of Terrorism*, to bring it in line with the new FATF 40 Recommendations adopted in 2003. This will provide an updated roadmap for countries at various stages of development to enhance their AML/CFT framework. The revised *Reference Guide* will be translated into Arabic, French, Russian and Spanish.

**Private Sector Development**

**Strengthening Investment Climate and Support to SME’s.** A successful private sector is the main source of growth in developing countries, and the main provider of livelihood and opportunity for poor people. Helping countries create an investment climate that encourages businesses and helps them become productive is central to the work of the World Bank Group. Ongoing efforts rest on three pillars – investment climate assessments, strengthening policy and institutional underpinnings for business and investment and direct support to micro / small and medium enterprises (MSMEs).

a. Diagnosis of investment climates. We have carried out investment climate surveys/assessments in 55 countries in the last three years, and are planning assessments in another 30 countries in the two years ahead. These assessments have fed into 28 Bank operations supporting reforms so far. Our “Doing Business” project compiles objective, quantitative indicators of business regulation
(e.g. cost of business start-up) for 133 countries, both developed and developing. The first annual report was released in October 2003 and second is scheduled for July 2004. Drawing on this work, during 2003 more than 20 of the poorest countries cut the time and/or cost of business start-up. Other Bank Group diagnostic work is also relevant: for example financial sector assessments, integrated trade frameworks, governance assessments, analyses of recent infrastructure developments, MIGA’s global benchmarking survey, and the work of the Foreign Investment Advisory Service program which undertakes 50 diagnostic and capacity building projects yearly. The 2005 WDR “Improving the Investment Climate for Growth and Poverty Reduction” will help consolidate understanding of this crucial agenda.

b. Strengthening the policy and institutional underpinnings for investment and business development. A critical feature of a supportive investment climate is governance arrangements that allows firms and farms to pursue productive activity without harassment. There are approximately 600 Bank-financed projects related to legal and judicial reform and we are planning to further scale up our efforts to promote the rule of law in developing countries. Equally important is infrastructure that allows private entrepreneurs to operate effectively, including both physical infrastructure and the regulatory and other underpinnings (for example in the financial sector) of a market economy. Bank Group activities in all these areas is discussed elsewhere in this note.

c. Helping provide direct support to the micro, small and medium enterprises that constitute the bulk of developing country firms and farms, many of them in the informal sector. In addition to helping countries improve their general business environment, the Bank Group gives extensive assistance with targeted and focused interventions in support of private initiative. The Bank and IFC together provided financing to SMEs of about US$1.3 billion in FY03. Micro-finance support has grown quickly to an additional US$0.3 billion in FY03. We have launched a pioneering IDA-IFC pilot program of US$225 million to support SME development in seven African countries over four years.

**IFC (International Finance Corporation).** The IFC has been working to implement a number of important strategic initiatives aimed at strengthening its contribution to private sector development. The Corporation’s work on sustainability has continued, focusing increasingly now on “mainstreaming” sustainability work throughout the organization. In increasing numbers, IFC clients are beginning to explicitly recognize the value provided by IFC’s environmental and social expertise. IFC is also expanding and improving its advisory and capacity-building work (including work on investment climate, SMEs, corporate governance and HIV/AIDS) These services increase the development impact of IFC projects, improve the potential for new investments and provide an important way of differentiating IFC. Forty-three percent of Corporation staff are now located in country, enhancing local knowledge and client understanding, and improving responsiveness to private sector needs.

IFC’s new Strategic Initiative for Africa focuses on improving the business environment, building SME capacity, and becoming more involved in pro-actively developing new projects. And IFC continues to innovate its financing mechanisms, including pioneering work in private sector financing for municipal projects and public/private partnerships, providing partial credit guarantees for corporate bonds and securitizations, and expanding local currency loans.

**MIGA (Multilateral Investment Guarantee Agency)** has continued to make progress toward completing its US$850 million capital increase. Nearly 80 percent has now been subscribed - but 37 Category II and two Category I countries have yet to complete their payments, and I urge them to do so as quickly as possible. There are three other issues I want to bring to the Committee’s attention relating to MIGA.
First, we hope to present a proposal to the Board shortly to achieve voting parity between Category I and Category II member countries, which if approved, will be forwarded to the Council of Governors. Achieving parity is a unique feature of MIGA, required under its Convention. Second, under MIGA’s Convention, the agency must receive host country approvals for pending guarantees before it can issue those guarantees. MIGA is currently facing delays in a number of countries where the authorities are neither issuing nor rejecting the host country approval requests, thus delaying potential investments. I urge all host governments to make expeditious decisions when considering MIGA host country approval requests. Third, MIGA is also required by its Convention to undertake a periodic “comprehensive review” of its activities; the next review should be completed in FY2005. We will be discussing this with members of the Board and stakeholders over the coming months; as a first step in the review would welcome views on the agency’s results, objectives and instruments.

**Emerging Issues**

**Youth.** Today, 2.8 billion people in the world are under the age of 25, of which one-and-a-half billion are under the age of 15. Half the population of the developing world in under the age of 21. We see them as the future, but they see themselves as the now. Young people must be at the heart of the action if the global development agenda is to succeed. In the Bank we are in the process of formulating a Children and Youth (C&Y) strategy, engaging in dialogue with young people round the world, moving to mainstream youth issues and concerns into Bank advice and lending operations, and strengthening partnerships for example on the Youth Employment Network (YEN), with ILO and UN, and in supporting other youth-focused operations, with the UN, UNICEF, bilateral donors, international youth networks and NGOs. This is a challenge for the international community as a whole: to harness the contribution of the young to development and to successfully embed children and youth concerns and priorities into national development strategies, policies and investments.

**Disability.** Roughly 400 million people in the developing world have a disability and many of them are the poorest of the poor. Addressing their concerns is a necessary part of any strategy to eliminate poverty and achieve the MDG’s. Empowering them to be full participants in the economic and social life of their communities is an important part of the Bank’s mission. We are developing disability strategies to guide the Bank’s operations in each region. And we are working with other developmental agencies, as well as with NGOs, Disabled People Organizations, the UN family and the donor community to make this goal a reality.

**Human Rights.** Human rights have become a more central component in the social and institutional agenda of many developing countries; and human rights principles and practices are being increasingly embedded in the formulation and implementation of development strategies. Human rights encompass many dimensions—civil and political; economic, social and cultural, and rights to development—many of them outside the direct remit of the Bank. But we recognize that our mission of poverty reduction overlaps in important ways with the objectives of human rights that are being articulated by the UN. We are already supporting our member countries in the pursuit of their human rights objectives in our areas of mandate and comparative strength, through projects and programs that are aimed at empowering and investing in the poor - in education, health, food and nutrition, water housing, gender equality, justice system reform and governance. We are also providing support to the PRSP process, which holds the promise for increasing voice, accountability and participation. We aim to build on these foundations to see how we can contribute even more to the human rights agenda by adding value in areas that fall within the Bank’s mandate.
Matching Support to Country Needs

Low-Income Countries

PRSP Approach. It has been five years since the PRSP approach was first initiated. It has become the central model for engagement with low-income countries by the IFIs, other multilateral institutions, and most bilateral donors. By end-March 2004, 37 countries had completed full PRSPs, and another 16 had launched the process with Interim PRSPs. Twelve countries have completed at least one annual progress report. There is evidence of improvement in both participatory processes and content as more recent PRSPs build on the experience of earlier ones, but important challenges remain before the full benefits of the PRSP approach can be realized.

The challenges to be addressed as implementation proceeds included integrating PRS process with existing decision making processes, particularly the budget, and expanding the involvement of sectoral ministries and representative bodies such as parliaments; deepening the links to the MDGs in country strategies, identifying the financial, policy and institutional constraints that need to be addressed to accelerate progress towards these development goals; speeding the pace of progress in aligning donor support with country strategies and harmonizing donor processes and procedures.

IDA. In February this year, IDA Deputies and representatives of borrowing countries began the important task of negotiating the 14th replenishment of IDA resources. That first meeting made solid progress across a range of complex issues. The outcome of these discussions, which will continue in Vietnam in July and hopefully be concluded before the end of the year, will be a critical test of our resolve to meet the MDGs. The meeting identified three policy areas where additional discussions and work are needed in the course of the replenishment negotiations: (a) growth, especially how IDA can enhance support for private sector development; (b) IDA financing terms, which need to be reviewed in conjunction with ongoing work on vulnerability to debt and external shocks and (c) development effectiveness and the results agenda, which would also include a review of the role of IDA in relation to other development partners, particularly at the country level. Within this ambitious framework, IDA will require strong donor support, especially since it will also be moving forward with delivery of major debt relief under the HIPC initiative, entailing the forgiveness annually by IDA of poor countries’ debt service in excess of half a billion dollars.

These issues are at the heart of what we are trying to accomplish together and IDA itself is the keystone of international concessional finance and of the international community’s collective capacity to help the poorest countries. And we should keep in mind that the IDA-14 agreement now being negotiated will cover the period from 2005 to 2008. Since the average development project takes about 8 years to deliver its full impact, the period IDA-14 will cover is the time to invest in achieving the MDGs. The size and focus of the IDA-14 replenishment must demonstrate our commitment to concerted, international action to reach these goals and provide a message of hope for those who live in poverty.

Low-Income CIS-7 Countries

We have just completed a review of the CIS-7 Initiative, carried out jointly with the IMF, and consulting with the ADB and EBRD. The Initiative, launched two years ago, has achieved its main aim of revitalizing the partnership between the seven low-income CIS countries and the international community. Donor awareness and coordination for the benefit of the countries are demonstrably stronger now than they were before the Initiative was launched, and donors have responded where appropriate with debt relief and more concessional assistance. Knowledge creation, cross-country dissemination and enhanced capacity building are supported by a growing range of donor-assisted activities. The PRSP process in virtually all of the countries is an effective instrument for the dissemination of good reform practices. PRSP-anchored development cooperation vehicles have helped the countries consolidate their
recent income recovery, arrest the erosion of their social protection systems, and - in some cases – regain some of the development ground lost in the crises of the 1990s.

However, with donor and cross-country cooperation increasingly being focused at the sub-regional level and the growing divergence in policies and performance across the CIS-7, several of the countries would like to move beyond the Initiative. The Bank will continue to work with all these countries and their development partners to define new modalities of cooperation on specific issues and involving sub-regional vehicles where necessary. There is considerable potential for enhancing the development prospects of the CIS-7 through the PRS process, with priorities defined more clearly and linked more closely with budgets, supported with enhanced donor assistance, much of which needs to be grant-based.

Low-Income Countries under Stress (LICUS)

We cannot simply ignore the 420 million people who live in low-income countries with little early prospect of developing the policies and institutions necessary to a PRS approach. These are the world’s most fragile countries - some emerging from conflict, others caught in a cycle of weak policies and institutions, falling incomes and rising poverty. They are home to some of the poorest citizens of the world: their population suffers over twice the child mortality rates and three times the malaria death rates of other low-income countries. And their problems can have serious implications for other countries: in the form of exports of diseases, crime, narcotics and arms. A recent example is the re-emergence of polio epidemics in West Africa. While aid allocations are increasingly, and rightly, associated with performance, work now underway shows that LICUS receive lower per capita aid flows than expected even after talking their poor policy environments into account. Aid to LICUS is more volatile from year to year than aid to other countries, compounding the problem further.

One of the reasons these countries receive low aid flows is that donors are unsure how to deliver aid effectively in poor governance environments. We know that part of the answer is that such assistance needs to be highly focused and coordinated, and there are several examples where the international community has recognized the need to join forces and operate more cohesively to support recovery and reform efforts in fragile countries. Highly coordinated international efforts in post conflict transitions in Afghanistan and Timor Leste have had some success.

Late last year the Bank joined with the UN and bilateral donors to develop a results-based transitional framework for Liberia that constitutes both a strategy for the government, and a partnership agreement with its donor partners. Similar efforts are underway in countries such as Sudan and the Central African Republic. More work is needed to identify the key characteristics of programs which work in these circumstances. But we know that even in environments with the most intractable problems of conflict and poor governance, aid programs can work when the design is right. In several post-conflict countries, community driven reconstruction programs have successfully assisted in rebuilding basic social and economic infrastructure in war-torn communities, and critical health programs such as the river-blindness campaign and HIV-AIDS efforts have produced results in countries where institutions are weak and governance fragile.

The Bank is committed to meeting this challenge, but we cannot do it alone. The new LICUS implementation trust fund enables us to work cooperatively with other donors even when countries are in arrears to the Bank. Together with our partners in OECD/DAC, we are undertaking joint research on aid allocations and donor coordination models in fragile states. We will continue to work with all development partners to strengthen our joint engagement in these most fragile and disadvantaged countries of our world.
Countries eligible to borrow from the IBRD (including blend countries) are home to 70 percent of the developing world’s poor. Scaling up our support to their development efforts, and making it more effective, is an essential part of our contribution to the post-Monterrey global development agenda and attainment of the MDGs. The business model for Bank Group engagement in middle-income countries (MICs), which was discussed and endorsed by Ministers at the April 2001 meeting of the Development Committee, provides a sound framework for that contribution. However, a recent Bank-wide review, with feedback from clients, has shown that stronger and more effective engagement through quality lending, analytical and advisory activities (AAA), and risk management support also requires us to overcome a number of Bank-internal hindrances. The Action Plan we have adopted on the basis of the review and its discussion at the Strategic Forum in January 2004 and subsequently by the Board in March 2004 sets out short-term and medium-term actions to address these issues. Short-term actions include measures to clarify our role in MICs, remove obstacles to timely quality lending, encourage staff to use CASs as a strategic compass for responding to new lending opportunities with significant development impact, make better use of the range of IBRD’s financial products and develop a stronger Bank Group approach to supporting investment in infrastructure and other sectors across the public-private sector spectrum through the coordination of IBRD, IFC and MIGA instruments. We look forward to working with all our development partners in shaping an effective international framework in support of development in middle income countries.

We are also preparing medium-term actions to further enhance our support for the development efforts of MICs, including a more effective response to emergencies, improved knowledge services, a rebalancing of staff incentives and skills to underpin high quality lending and advice, the development of new financial products, a better exploitation of Bank Group synergies in countries and enhanced collaboration on MIC issues with development partners.

Strengthening and Simplifying Bank’s Operational Practices and Instruments

The Bank is implementing a substantial program to simplify and modernize the operational policy framework for Bank lending. The aim is to create a more efficient and user-friendly operational policy framework, replacing and reforming the Bank’s current operational policy framework that has become fragmented, difficult to use, and, in some cases, outdated. The objective is to provide staff and clients with a clear, coherent, and comprehensive policy framework for investment lending and adjustment (policy-based) lending. We are looking at modernized lending instruments that can more flexibly respond to today’s client demands and varying country circumstances. To enable faster processing of projects/operations, we are introducing simplified procedures, clearer guidelines, and better documentation which will help reduce unnecessary delay without compromising quality or compliance with the Bank’s policy standards. Greater emphasis is being placed on country systems and country capacity to recognize and codify the progress made in recent years in complementing the traditional project-specific approach to the application of fiduciary and safeguard policies with recognition of the benefits of a country- and sector-wide perspective and a capacity-building approach. And finally, there is increased emphasis on more effective implementation and results on the ground.

In our review of adjustment lending policy we are developing proposals for reform reflecting a range of discussions and policy developments that have taken place in recent years, that have benefited from an extensive period of consultation with stakeholders, and that will be designed to align Bank policy better with the PRSP/CDF approach to supporting country development. They must also reflect our continuing efforts to make conditionality more focused and selective and the ongoing work to strengthen the collaboration of World Bank and IMF staff on country programs and conditionality. The key elements of the proposed policy update are to create a unified and updated policy framework for adjustment lending; replace different adjustment lending variations with one single instrument under the name of “Development Policy Lending”; give greater focus to participation, enhanced implementation and
results; and provide for uniform fiduciary/safeguard policy applications based on upstream analytical work at the country and sector level.

The program to modernize and streamline investment lending, has already resulted in a number of initiatives: the introduction of faster processes for simple and repeater projects, the launch of new project processing procedures and documentation, simplification of the Bank’s project audit requirements, and the issuance of new guidance for streamlining fiduciary and safeguard reviews. We have also launched a proposal to expand the eligibility of expenditures under investment lending; initiated work on reform of project supervision reporting, and on ways to make project restructuring easier and more rewarding; and are acting to meet increased demand from countries and Bank teams for the use of sector-wide approaches.

Future work aims to update and streamline the Operational Manual for investment lending; modernize the Bank’s disbursement policies and practices for more effective resource transfer and more efficient fiduciary assurance under investment lending; put in place more agile procedures for emergency lending; facilitate project restructuring and streamline the investment lending instruments, to replace the current multiplicity of rigid, specialized types of investment lending with a more flexible, client-responsive product.

Global Partnerships and Governance

Coherence, Coordination and Cooperation among Multilateral Organizations

Progress in meeting the MDGs depends on a high degree of cooperation and coherence between the actions and policies of a wide range of institutions, agencies and governments. Such cooperation extends beyond the traditionally close collaboration between the Bank and the IMF and the other multilateral development banks, to include other key players in the MDG agenda – including the WTO, OECD DAC, UN and UN agencies and other trans-national bodies such as the EU institutions. The scope and depth of the Bank’s engagement with partner multilateral organizations has been steadily growing, and is now the subject of regular reports to the Board. This increasingly strong collaboration among multilateral organizations is based on a shared agreement on common objectives and principles (the Monterrey compact and the MDGs), a coherent framework for collaboration at the country level (the PRSP/CDF approach) and intensified cooperation on the global development agenda.

Bank/Fund Cooperation. We continue to deepen and strengthen the close partnership between the Fund and the Bank, both in our support for member countries and our cross-cutting work. We are using the framework agreed in 2002 to guide our collaboration in middle-income countries, alongside our deepening cooperation in support of low-income countries through the PRSP and HIPC processes. On sectoral and cross-cutting issues, as reported elsewhere in this note, we have further strengthened our collaboration on financial sector work, standards and codes, AML/CTF, trade and debt sustainability; and extended enhanced collaboration into new areas, most recently on the monitoring of the MDGs. Joint efforts on supporting improved public expenditure and financial management, poverty and social impact analysis and drawing on each institution’s areas of expertise, are also underway. Managements have decided to strengthen the Joint Implementation Committee (JIC), giving it a renewed mandate to address cross-cutting issues on Bank-Fund collaboration and issues that arise in the context of middle-income as well low-income countries. I remain committed to collaborating closely with the IMF in all these areas so that our two institutions can maximize their joint contribution, while respecting our complementary and linked mandates and capitalizing on areas of comparative advantage.

MDB cooperation. In the last few years we have put in place a strong structure for cooperation between the Multilateral Development Banks (MDBs). This operates at the highest level, with regular meetings and videoconferences between MDB Presidents; at the sectoral and thematic level; and in country and regional operations. There is still much to be done to turn strategic decisions into actions on
We are working together, for example, to improve coordination of our support for country strategies and PRSPs, and better aligning our capacity building efforts to support PRSP formulation and progress towards the MDGs.

Cooperation with OECD/DAC. There is increasingly close cooperation between the Bank and the Development Assistance Committee of (OECD/DAC), focused on the agenda for improving development effectiveness, including donor support for and alignment behind CDF/PRSPs, sharpening the focus on results, and improvements in harmonization and donor practices. More generally, close working with the DAC provides a means of strengthening the Bank’s partnership with bilateral donors across a spectrum of development issues that are critical to implementing the Monterrey consensus.

Voice and Participation of Developing Countries

A variety of ideas are under discussion on how to carry forward the structural issues and I welcome early indications from shareholders on how we make progress on this important agenda. Executive directors have also been making progress in their work on measures to enhance relevant capacity in EDs’ offices and capitals. They have endorsed the proposal for a secondment program from capitals and approved financing for a pilot, and steps are being taken to start implementation immediately.

In IDA, deputies have been strengthening the role of Borrower Representatives in IDA replenishment discussions. In the IDA14 discussions, the number of Borrower Representatives has been increased to nine in an effort to ensure adequate representation both by region and from IDA’s largest borrowers. Their participation in the IDA replenishment process is enriching the policy debate and should help to shape recommendations made by Deputies to IDA management, making these recommendations more relevant to country realities and more reflective of borrowers’ needs.

Conclusion

Much remains to be done as we implement the Monterrey consensus, and there is not much time if we are to succeed in meeting the MDGs. While there has been good progress in some areas, we are falling seriously short of the Monterrey ambition in two key aspects of the agenda – trade and aid. The agenda for our meeting in April gives us the opportunity to review progress in the spirit of mutual accountability. I hope that our discussion will help identify and address issues that face each of the parties as we put the Monterrey agreements into practice. I also hope that we can give new impetus to global actions especially in these two key areas – making progress in the Doha round, and providing more and better development assistance – as we seek to accelerate progress in reducing global poverty.

Following the Spring Meetings, we are organizing a conference on Global Poverty Reduction that the Government of China will host on May 26-27 in Shanghai. This conference will be both an important learning event and an opportunity to consider concrete actions to accelerate progress on Development Agenda. Finding poverty solutions that work, that endure and that can be applied across the world, is imperative to meet the MDGs. For the conference we have therefore undertaken seventy case studies and numerous field visits on what has worked and why, and what can be learned from past mistakes? I believe that the Shanghai Conference will be a unique learning experience, on different ways of doing things; on demonstrating the power of empowerment and involvement of the poor in producing results on the ground; on the importance of management and leadership in replicating successes in one part and in one community in all part and a thousand communities; and on how partnerships and supports from the global community can help accelerate poverty reduction. I hope many of you will be able to join us at the Shanghai Conference.
Statement by the Acting Managing Director of the International Monetary Fund,
Ms. Anne Krueger, to the Development Committee

We are meeting at a time when increased effort is needed by development partners to secure the commitments made at Monterrey to help achieve the Millennium Development Goals (MDGs). The improved world economic environment, and a growing realization that MDG financing needs to be scaled up, provide an opportunity to make substantial progress in the next year in carrying out these commitments.

The Global Monitoring Report (GMR), prepared by the Bank and Fund staffs with the active cooperation of a number of other entities, is a compendium of information on progress that countries and institutions are making toward establishing appropriate policies for achieving the MDGs, and provides an analysis of the key accountabilities and priorities for action. It emphasizes that developed countries should pay further attention to cooperative actions to sustain growth over the medium term, and scaling up official development assistance. Developing countries are generally making good progress toward implementing stronger macroeconomic policies, but more is needed, particularly on fiscal soundness and governance. All countries, developed and developing, have a collective responsibility to ensure the timely and successful conclusion of the Doha Round. International financial institutions need to strengthen their roles in low-income countries, including by deepening their involvement in the PRSP process, seeking to reconcile countries’ spending requirements for achieving the MDGs with the need to maintain sound macroeconomic policies, including debt sustainability, and improving coordination of their support with country priorities.

The Fund is working to reinforce its own activities through its policy advice and technical and financial assistance, both to low-income member countries and to the rest of the membership. In this statement, I shall summarize the Fund’s assessment of the world economic outlook and explain in more detail the Fund’s activities to improve its support for helping low-income countries make progress toward achieving the MDGs.

Global Environment and Policy Response

Overall Outlook and Policy Response

Since September 2003, the global economy recovery has become broader and deeper. The strengthening of the recovery has been based upon a sharp pick up in industrial production, a strong rebound in global trade, and a broad-based rally in financial markets, reflected in increases in equity prices, further decreases in bond spreads, and a rebound in private financing flows to emerging markets. Growth has been strongest in the U.S. and in the emerging markets in Asia, particularly China. Fund estimates of global GDP growth in 2003 have been revised upward to 3.9 percent, with growth of 4.6 percent expected in 2004 and of 4.4 percent in 2005. Despite the faster growth and increases in oil and commodity prices, inflation has remained subdued, reflecting excess capacity, continued weakness in labor markets, and increased competition in domestic and global markets.

With the global recovery increasingly established, the balance of risks to the outlook has clearly improved, with some upside potential for short-term growth. Nevertheless, significant downside risks remain, and a number of challenges need to be addressed. Continued geopolitical uncertainty poses risks, including to the stability of oil prices. An orderly resolution of global imbalances is still important for


global growth prospects. At some point, interest rates will also need to rise from current very low levels, and there is a risk of significant volatility in asset markets if these increases are sharper than expected. Weak medium-term fiscal positions - especially in industrialized countries facing changing demographics - could put further upward pressure on interest rates.

The current broadly favorable economic outlook provides a good opportunity to respond to these challenges, particularly those which affect the medium term, and to rebuild room for future policy maneuver. The main policy actions needed can be summarized as follows:

- As the recovery continues, monetary policy will inevitably need to become less accommodative. The key challenge for central banks will be to communicate their policy intentions as clearly as possible to minimize the risks of abrupt changes in expectations and financial market instability.

- Cooperative policy-making across regions to rebalance demand and support growth will be important for an orderly resolution of global imbalances. The main elements should include medium-term fiscal consolidation in the U.S., structural reform in the Euro area, banking and corporate sector reforms in Japan, and greater exchange rate flexibility and structural reform to support domestic demand in most emerging markets in Asia.

- Fiscal consolidation will be important more broadly for restoring medium-term fiscal positions, including in industrialized countries which require reform to their pension and health care systems. Similarly, developing countries will need to take measures to improve public debt sustainability.

- Open markets and the resumption and successful conclusion of the Doha Round negotiations will be important for broad-based global growth and poverty reduction in low-income countries.

- Fulfillment of commitments made in Monterrey, both by the international community and low-income countries, will be needed for substantial progress toward achieving the Millennium Development Goals.

Regional Outlooks

The global recovery will continue to be led by the United States. Although monetary and fiscal policy stimulus will begin to wane in 2004, solid investment growth, growing productivity, and a pick up in employment are expected to sustain growth. The United States also needs to establish a credible fiscal framework that will help ensure a return to a balanced budget (excluding Social Security) over the medium term, and to begin the reforms necessary to place health care and retirement entitlement programs on a sound financial footing over the long term. There are nascent signs of a recovery in the Euro area, particularly an increase in fixed investment, but private consumption remains quite weak and euro appreciation, geopolitical uncertainties, and balance sheet restructuring could serve to dampen the outlook. Further monetary easing may be required if domestic demand does not pick up and provided inflation remains benign. Medium-term policy priorities are further structural reform and fiscal consolidation. GDP growth in Japan has continued to exceed expectations, based on strong external demand—notably from China—and increasing support from investment and consumption. Continued efforts to ease deflationary pressures and strengthen the bank and corporate sectors should build on the already achieved progress in these areas.

In emerging markets, there has been a rebound in activity in every region, aided by improved fundamentals, strong private capital inflows, and low financing costs.

- GDP growth has been strongest in emerging market Asia, underpinned by accommodative macroeconomic policies, rapidly expanding trade, competitive exchange rates, and recovery in
the information technology sector. Growth has been particularly strong in China, and gradual steps to a more flexible exchange rate regime - combined with steps to strengthen financial markets - will help underpin sustained growth with price stability. There could also be greater exchange rate flexibility in countries where the cyclical upturn is strongest and further reserve accumulation could exacerbate inflationary pressures. This would also allow the region to contribute to more balanced global growth.

- In *Latin America*, an export-led recovery is expected to pick up in 2004, as strengthening domestic demand provides further support. Against the backdrop of high public debt levels, implementation of measures to reduce vulnerability to possible financial market deterioration will be important to ensure sustained growth.

- Growth in the *transition countries* remains solid, led by Russia and Ukraine. To sustain growth, these countries will need to continue with reforms to improve the investment environment, strengthen banking and judicial systems, and remove trade barriers within the region. *European Union accession countries* are expected to experience a more moderate upturn, linked with the performance of the Euro area, and those countries where current account deterioration has occurred will need to focus on fiscal consolidation.

- In the *Middle East*, growth is expected to slow down somewhat in 2004 as a result of slow growth in oil production. Fiscal consolidation will be important for reducing these countries’ vulnerability to oil price fluctuations.

- In *sub-Saharan Africa*, growth is projected to strengthen further in 2004, as a result of improving macroeconomic fundamentals, higher commodity prices, improved political stability and better weather conditions, as well as rising oil and gas production in some countries. Sub-Saharan African countries need to take steps to promote stronger private sector activity and investment, reduce vulnerability to exogenous shocks, develop infrastructure, and strengthen institutions, governance, and transparency, along with efforts to avoid the resurgence of civil conflicts.

**Role of the Fund Regarding its Low-Income Members over the Medium Term**

The GMR confirms that, while the international financial institutions have made progress in redirecting their work to support achievement of the MDGs, more work is needed. The Fund is examining its policies and operations to ensure that its involvement with its low-income membership addresses these objectives as effectively as possible. This process was started in August of last year, when the Executive Board held the first in a series of discussions on the role of the Fund in low-income countries. The discussion established that the Fund needs to remain engaged in assisting low-income countries over the long term, with the Poverty Reduction Strategy Paper (PRSP) approach and the Monterrey Consensus providing the appropriate framework for the Fund’s engagement. It established that the overall objective of Fund engagement is to promote a more stable macroeconomic and institutional framework in support of private sector investment and growth, as well as greater resilience to shocks. Over the long run, this will permit the evolution from sustained program engagement and predominantly donor financing, moving to a point where countries can rely increasingly on private sources of financing. This evolution will be supported by Fund technical assistance and policy advice provided in the context of surveillance. The upcoming Independent Evaluation Office report on PRSPs and the PRGF, and the review of design of PRGF-supported programs as well as various other efforts underway, should provide information to enable us to refine this vision further.

A number of PRGF-eligible countries have achieved basic macroeconomic stability and are implementing reforms needed to solidify medium term growth. Although they are likely to remain vulnerable to shocks for some period of time, these countries will be increasingly ready to move to a relationship similar to that of the rest of the Fund’s membership, one focused on surveillance and episodic
financing rather than prolonged program-based engagement. Indeed, a challenge ahead is to find the right mechanisms to facilitate these transitions, while at the same time ensuring that adequate capacity is developed and a stable macroeconomic framework is maintained in order to ensure effective use of increased donor aid inflows. At the same time, it must be recognized that a number of countries will not make these transitions for some time to come. To serve the various needs of its low-income members best, the Fund’s focus will remain on: providing advice and assessments of policies in its areas of expertise; making available suitably tailored financial support; providing technical assistance; enhancing the coordination of donor support to poor countries; and advising both recipient countries and donors on financing options consistent with development needs and longer-term debt sustainability considerations.

Areas of Progress Since the 2003 Annual Meetings

Adaptation of Instruments and Financing for Low-Income Membership. Following up on the August 2003 Board discussion, staff held discussions with donors and recipients on how the Fund’s role should evolve in practice. Following these consultations, a paper was presented providing a number of options on how the Fund might adapt its instruments and financing to support better the diverse needs of its low-income members and contribute to the intensified international effort toward the achievement of the MDGs. The paper (on “Instruments and Financing”) was discussed by the Executive Board on March 31. There was agreement on the following:

- For members with continuing balance of payments needs, norms are to be established for tapered access levels to PRGF resources under successive arrangements, but with access decisions still taken on a case-by-case basis; clearer guidelines are to be established on using blended PRGF/GRA resources.

- For members with limited balance of payments needs, low-access arrangements were seen as providing the best recourse for countries still vulnerable to shocks and still interested in the macroeconomic monitoring associated with upper credit tranche conditionality. The Executive Board requested that staff consult further with members and donors, with a view to proposing a mechanism of strengthened surveillance that would have frequent monitoring and Executive Board engagement. This could ensure a smoother transition from reliance on successive PRGF arrangements to a surveillance relationship. In addition, the existing policy of post-program monitoring is to be extended to members exiting PRGF arrangements with outstanding access of more than 100 percent of quota.

- Members emerging from conflict need adequate time to strengthen implementation capacity before embarking on adjustment programs that could be supported by PRGF arrangements. The Board therefore agreed that longer duration and more tapered access to emergency post-conflict assistance as well as more frequent assessments of policy performance should be a possibility.

- To help low-income members respond better to the adverse impact of exogenous shocks, guidelines are to be devised to make PRGF augmentation more systematic and consistent. Also, provided resources from bilateral contributions are available, Emergency Natural Disaster Assistance from the Fund should be subsidized, as is the case with Emergency Post-Conflict Assistance. Staff was also asked to develop specific proposals for a new facility from the PRGF Trust that would provide lending on PRGF terms but have the design features of a stand-by arrangement.

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3 The Fund’s Support of Low-Income Countries - Consideration of Instruments and Financing (SM/04/32, 2/24/04).
On the financing side, the paper presented a number of options on how to continue PRGF financing over the medium term, given that interim PRGF resources are estimated to be depleted sometime toward the end of 2005 or mid-2006. Estimates indicate that financing capacity on the order of SDR 0.8-1.2 billion annually would provide a reasonable basis for PRGF lending operations during 2006-2010. After 2010, it is anticipated that the financing requirements for PRGF operations may decline, but it would remain important for the IMF to maintain a significant financing capacity to address low-income members’ balance of payments needs. The precise financing requirements beyond 2010 will need to be examined closer to that time. The Board broadly agreed that the best financing option would be use of available resources in the PRGF Reserve Account to begin “self-sustained” operations in 2006, while supplementing lending capacity with additional bilateral loans. This option would meet the projected financing requirements in 2006-2010 and also allow for the continuation of self-sustained PRGF operations beyond 2010 at a significant level. Generally, the Executive Board did not favor changing the terms of PRGF financing, or to give grants from the PRGF Trust.

**Improved Framework for Assessing Debt Sustainability and the Enhanced HIPC Initiative.** The durable achievement of the MDGs depends on ensuring that the large financing needed does not lead to an excessive build up of debt. To this end, Fund and Bank staff have been working to develop a forward-looking framework to guide borrowing decisions of low-income countries, as well as financing decisions of their creditors and donors, as described in the separate note. For the framework to become fully operational, some of its modalities and operational implications remain to be clarified. Besides further considerations on how to arrive at joint assessments of debt sustainability in individual countries, the two institutions need to determine how the framework should be incorporated into their operations and how to coordinate decisions with other creditors and donors to ensure that resources are provided to low-income countries on terms that are consistent with debt sustainability.

Substantial progress has been made in implementing the enhanced HIPC Initiative, as described in the note and the HIPC statistical update. Later this year, the Fund and Bank Boards will consider the sunset clause of the HIPC Initiative, which comes into effect at end-2004.

**Review of Bank-Fund Collaboration.** A second review of the 2001 enhanced framework for Bank-Fund collaboration was discussed by the Fund and Bank Boards in March. Based on survey responses from national authorities and staff country teams, the review found that the two staffs typically share a common perspective regarding critical areas for reform, that the division of labor between the two institutions is clear, and that close collaboration is increasingly serving to strengthen national ownership of reform programs. The review also pointed to the need for sustained efforts at collaboration and to areas for further improvement. Our view is that this can be best addressed by, among other things, reconstituting an expanded Joint Implementation Committee (JIC) to bolster collaboration at the country team level and to discuss cross-cutting issues pertaining to both low- and middle-income countries. Close and joint work in thematic areas, such as public expenditure management and poverty and social impact assessments, will also be a fruitful avenue for strengthening collaboration, national ownership, and effectiveness of program design and policy advice.

**Doha Negotiations and the Trade Integration Mechanism.** At last year’s Annual Meetings, Ministers called on the Fund and Bank to continue pressing for meaningful progress on trade negotiations.

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4 See April 2004 Bank/Fund Note on Debt Sustainability prepared for the Development Committee Meeting, and Debt Sustainability in Low-Income Countries—Proposal for an Operational Framework and Policy Implications (SM/04/27, 2/03/04).

5 Heavily Indebted Poor Countries (HIPC) Initiative—Statistical Update (SM/04/109, 3/31/04).

and a successful conclusion of the Doha Development Round. The Fund is committed to helping its members take full advantage of the opportunities of more open trade and to manage the risks better. It already plays an important role in advocating the benefits of open trade in the context of surveillance, and promoting trade-related reforms through the provision of technical assistance and program support.

In following up on the Annual Meetings, we have also taken two specific initiatives. In November 2003, the Managing Director of the Fund and the President of the World Bank wrote an open letter to heads of state and government that emphasized the need for political leadership if the ambitious goals of the Doha Development Agenda were to be achieved, and if trade was to live up to its potential as a key source of growth in our common efforts to meet the MDGs. The letter noted that trade liberalization is not a “concession,” but rather a step that helps promote opportunity and productivity in countries that undertake it. Multilateral liberalization offers the most scope for achieving these benefits—bilateral and regional arrangements are no substitute.

To provide added assurances to countries that are concerned about the adjustment costs associated with multilateral liberalization, the Fund Board decided on April 2 to establish a new Trade Integration Mechanism (TIM). The TIM is designed to help countries identify the nature and size of possible shocks to their balance of payments, and formulate appropriate policy responses, as well as increasing the predictability of Fund financial support to countries facing temporary balance of payments shortfalls as a result, for instance, of greater competition in their export markets or adverse changes in their food terms of trade. Countries will be able to avail themselves of the TIM in the context of programs supported by stand-by, extended, or PRGF arrangements. Since balance of payments shortfalls of this type are unlikely to be large for most countries, the TIM is expected to create only moderate demands on Fund resources. The Fund’s Board emphasized that the TIM is to be a temporary policy, designed to address concerns associated specifically with the current round of multilateral trade negotiations, and a decision on its continuation will be taken in three years’ time.

The Agenda Ahead

Substantial follow-up work will be required in all these areas. Over the next six months, a number of projects will be undertaken, including:

- The preparation of specific proposals based on Executive Board discussion of the “Instruments and Financing” paper, including more detailed estimates of needs for PRGF financing. A separate paper will be prepared to consider how to facilitate the transition between use of financing, especially under PRGF arrangements, and surveillance, and the Fund’s role in giving signals about macroeconomic performance to other development partners. The forthcoming biennial review of surveillance will provide an early opportunity to reflect on the available range of surveillance instruments and modalities.

- Follow-up work on making the debt sustainability framework operational and extending the assessment templates to surveillance activities, the annual Bank/Fund progress report on implementation of the enhanced HIPC Initiative, and a Board paper addressing issues associated with the end-2004 sunset clause of the HIPC Initiative.

- A Bank-Fund annual PRSP progress report to be completed prior to the 2004 Annual Meetings. This year the report will be enriched by the results of the forthcoming Independent Evaluation Office’s (IEO) report (prepared in consultation with the World Bank’s Operations Evaluation Department—OED) on the PRSP approach and the PRGF.

- A joint report by the Bank and Fund on Financing Modalities Toward the Millennium Development Goals, scheduled to be completed by the Annual Meetings. This report will
consider international financing facilities and other modalities to increase official development aid.  

- Continued engagement with the OECD DAC, the Strategic Partnership for Africa, and the multilateral development banks in efforts to enhance donors’ harmonization and alignment in low-income countries, with the aim of improving aid predictability, aid effectiveness, and country ownership.

- A review of PRGF-supported program design focusing on how macroeconomic frameworks can best support sustained growth and poverty reduction, particularly through creating an environment conducive to stronger private sector growth.

- The creation of additional internal capacity to help integrate current and future Poverty and Social Impact Analysis (PSIA) into PRGF-supported program design.

- A careful consideration of the Financial Sector Assessment Program to ensure that the assessments contain essential information needed to address the particular problems faced by low-income countries in developing healthy financial sectors.

**Voice, Representation, and Quotas**

The Fund’s effectiveness as a cooperative institution depends on all members having appropriate voice and representation. While the consensus-building mode of operation gives voice to countries with small quotas, efforts have been made nonetheless, within the current framework of voting power, to enhance the capacity of Executive Directors from developing and transition countries to participate effectively in decision making in the Fund, including by addressing staffing and other constraints faced by Directors with large multi-country constituencies. Further progress on the issue of voice and representation will require broader consensus among the Fund membership than currently exists, and continued strong efforts are needed to build agreement in this area. The Boards of the Fund and World Bank are scheduled to produce a report on voice and representation for consideration by the Development Committee at the 2004 Annual Meetings.

**Conclusion**

Under current trends and policies in developed and developing countries, the Millennium Development Goal of cutting extreme income poverty in half between 1990 and 2015 will be met at the global level. Many countries, however, especially in sub-Saharan Africa, will fail even to come close to meeting this goal, and most of the critical health and education goals will not even be met globally. The international community must act quickly and forcefully to scale up its support for policies and actions to promote growth and sustainable poverty reduction.

The Fund has an important, although limited, role in this international effort, which challenges the institution to make its assistance to low-income countries as effective as possible. The work being done by the Fund, as summarized in this statement, is consistent with the basic principles laid out by the Executive Board in its August 2003 discussion and reaffirmed by the IMFC at the 2003 Annual Meetings:

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7 A progress report, *Financing Modalities Toward the Millennium Development Goals: Progress Note* (SecM2004-0107), was developed by the World Bank with the cooperation of IMF staff as background for the Development Committee meeting.
• The Fund will remain engaged in assisting low-income member countries over the long term, with the PRSP approach and the Monterrey Consensus serving as the framework for its engagement.

• The Fund’s work is concentrated in its core areas of expertise, in close collaboration with other development partners. Its contribution is focused on helping low-income member countries establish macroeconomic frameworks that can support high sustained growth and poverty reduction, identify and manage macroeconomic risks and vulnerabilities, and strengthen institutions and policies.

• Over the long term, we hope these efforts will support and facilitate countries’ transition to market-based economies, with increasing reliance on private sources of financing.

• At the same time, we are underscoring to developed countries the need for them to open up their markets to exports from low-income countries and to increase official assistance.

The Fund will continue its work based on these principles and its close cooperation with the international community in our joint effort to meet the challenge of the Millennium Development Goals.
Highlights of Ministerial Statements

Statement by Mrs. Ngozi Okonjo-Iweala, Chairperson a.i. of the Development Committee, Minister of Finance of Nigeria

Policies and Actions for Achieving the MDGs – Global Monitoring Report 2004

Positive global current economic trends notwithstanding, Ministers noted that based on current trends, most Millennium Development Goals will not be reached. All parties must act to fulfill their commitments. The Ministers welcome the first Global Monitoring Report (GMR), which provides an objective assessment of progress achieved to date and pinpoints the gaps between commitments and actions. They endorse the report’s view that there is an urgent need to scale up actions to the Monterrey Agenda.

Priorities for Developing Countries

Ministers endorse the report’s emphasis on the crucial role of economic growth and good policies in developing countries on reducing poverty. They welcome the emerging consensus on the key factors for economic growth, including increased investment in infrastructure, balanced development of the social sectors, enhancement of public/private partnerships, and improved governance. Several ministers noted that growth alone is not enough to solve persistent poverty. Ministers call for the design of pro-poor growth strategies that stimulate employment, promote small business, formalize the “grey” economy, and include appropriate tax and transfer systems.

Ministers emphasize the crucial role of the private sector in achieving the economic growth necessary to achieve the MDGs. Ministers commend the Bank Group’s increased emphasis on private sector development. Innovative programs such as the IDA/IFC initiative to promote small and medium enterprise development in Africa should be replicated elsewhere in the world.

Ministers stress that improved governance and the fight against corruption are vital for economic growth. While overall policies have improved, governance and public institutions often remain weak. Countries should “own” their development priorities, shaping them to their needs, resources, and starting points. The role of civil society should be acknowledged.

Ministers welcome the report’s acknowledgement of the close links between access to basic infrastructure and human development, and the large gaps in the availability and quality of key infrastructure. They applaud the Bank’s renewed commitment to scale up infrastructure financing through its Infrastructure Action Plan.

Priorities for Developed Countries

Ministers echo the report’s finding that developed countries’ actions to date have fallen well short of the Monterrey vision. Post-Monterrey commitments of US$18.5 billion per year by 2006 fall short of the estimated US$30 billion or more annually that could be effectively used by developing countries. Ministers call on all developed countries to increase development aid to meet the UN target of 0.7 percent of their GNI, and make their contribution to MDGs.

They call for a renewed commitment from developed countries to a successful, timely, and pro-development outcome to the Doha Round. Increased trade would sharply and rapidly reduce poverty in the developing world. Market access is key to helping developing countries achieve the economic growth required to meet the MDGs. Eliminating export subsidies and significantly reducing domestic agricultural support are key, as are addressing high barriers to trade between developing countries and encouraging
greater trade among them, and ensuring trade policy coherence. Some Ministers stress the need to focus on the areas with the greatest potential to promote economic growth—agriculture, industrial and consumer goods and services.

Priorities for International Financial Institutions

Ministers stress the important role of IFIs in achieving the MDGs. Ministers emphasize the need to continue to simplify procedures, eliminate waste and bureaucracy, and adapt to changing circumstances such as the low interest-rate environment, the increasing availability of financial resources from private capital markets, the lower income from lending and treasury operations, and the increased need for grant financing. They stress the importance of the IFIs’ advocacy role in obtaining increased market access and increased ODA and in reducing global macroeconomic volatility. They welcome the Bank’s continued commitment to “behind-the-border” trade-related assistance and the steps taken by IFIs to address the effects of adjusting to multilateral trade liberalization, including the IMF’s recent Trade Integration Mechanism.

The clearest lesson from decades of development experience is that aid is most effective when targeted at countries committed to good social, economic, and governance policies. More attention needs to be focused on identifying those countries that have comprehensive national poverty reduction strategies and are ready to absorb increased aid and able to use it effectively. A corollary of performance-based aid is a well-developed program of technical assistance and capacity building for countries that are recovering from conflict, have weak policies and governance, or are highly indebted.

Ministers stress the importance of great aid alignment and harmonization and the importance of implementing the action plan put forward at the Marrakech Roundtable on Managing for Development Results (including building statistical capacity).

Several Ministers suggest that the Country Policy and Institutional Assessment (CPIA), which stresses governance and underpins IDA’s performance-based system for allocating finance to client countries, could become a valuable tool for helping bilateral agencies better target their ODA funding to good performers. Several ministers urge the prompt publication of countries’ CPIA scores. Ministers urge the Bank to accelerate disclosure of other aspects of its operations, including Board deliberations and progress on project implementation.

Ministers welcome the Bank’s new lending practices, including participation in sector-wide approaches (SWAPs), and encourage all donors to make use of these instruments as much as possible. They call on IFIs to do more to support investment in infrastructure and support development in middle-income countries and improve and simplify operational procedures.

Ministers are of the view that the PRSP continues to be a sound framework for implementing policies and programs, but there is room for improvement. PRSPs should include medium-term goals and take account of the views of all relevant stakeholders. They should also be linked to countries’ medium-term expenditure frameworks and annual budgets. While important progress has been made toward better aligning aid with national poverty reduction strategies, more can be done in this regard.

Voice Agenda

Ministers acknowledge the progress made on parts of the voice agenda, but believe that more needs to be achieved. Some Ministers support proposals to increase Basic Votes and consider the composition, structure, and functioning of the Boards. They look forward to the presentation of proposals at the upcoming Annual Meetings.
Sub-Saharan Africa

Ministers note the special challenge posed by Sub-Saharan Africa, where growth rates are still not sufficient to achieve the MDG targets. It is hoped that initiatives such as the African Peer Review Mechanism of the New Partnership for Africa’s Development will help improve governance, which would provide the foundation of a better business climate and a more productive environment for higher levels of aid.

Low-Income Countries Under Stress

Ministers welcome the Bank’s efforts to refine its role in Low-Income Countries under Stress (LICUS), including the establishment of the LICUS Trust Fund. Ministers urge increased priority be placed on the development of LICUS programs.

Global Monitoring of Progress on MDGs

Ministers firmly support the concept of global monitoring of progress on the MDGs. Some Ministers suggest that updates of the GMR should contain a clearer framework, with specific actions to be taken by both all parties against which progress can be assessed the following year. Some Ministers suggest monitoring other relevant factors, such as women’s empowerment, democratization, human rights, the impact of HIV/AIDS on development, the link between the PRSPs and the MDGs, the development of redistribution systems, the impact of remittances, the effects of multilateral labor market liberalization, and an agenda for prioritization and efficiency improvement for IFIs that identifies clear deliverables for the coming year.

Education for All – Fast Track Initiative Progress Report

Ministers welcome the progress report on establishing a global framework for the Education for All Fast-Track Initiative (EFA-FTI), particularly its focus on concrete actions and results. Success of the initiative will depend on the ability to maintain this focus and link external assistance in education to country performance in achieving enrollment, completion and quality goals.

Several Ministers remain concerned about inadequate financing. Some Ministers warn that by refraining from financing recurrent cost, donors put the initiative in jeopardy. While Ministers are looking closely at the financing alternatives under discussion, they call for a greater commitment from donors if EFA-FTI is to produce results by 2015.

Ministers welcome the extension of FTI to all lower-income countries and the establishment of the Catalytic Fund to provide up-front financing to countries which receive limited donor support for education and are at risk of not reaching the education MDG. Many Ministers agree that the focus should now shift to the country level within the framework of PRSPs. Some other Ministers believe that the focus of FTI should continue to be on global efforts, with flexibility for recipient and donor countries.

Ministers agree with the need to strengthen country capacity for monitoring the performance of the education sector.

Financing Modalities Toward the MDGs

Ministers note the work on Financing Modalities for Achieving the MDGs carried out by the Bank and the IMF and look forward to further work to be completed by the Annual Meetings. They applaud the progress made in improving the efficiency and responsiveness of existing development assistance, which can help to reduce the financing requirements to meet the MDGs.
Many Ministers endorse the International Finance Facility (IFF) as a novel concept and a feasible mechanism to mobilize additional international aid and frontload resources to meet the MDGs. Some Ministers, however, point to challenges and conceptual weaknesses associated with front-loading development assistance. The frontloading mechanism presumes that the bulk of the development challenge will have been met by 2015 and that development assistance can decline in subsequent years, which may not be the case. Massive aid mobilization is likely to increase aid fatigue, making it difficult to raise development financing after the IFF horizon, when donor countries would have to pay the bill for frontloading and launching a new mechanism would have legal issues and high associated transaction costs which might be reduced by channeling IFF funds through multilateral institutions.

Global Tax Schemes

Some Ministers believe that it is premature to discuss globalization proposals prior to receiving assurances from national parliaments that they would in principle support such a tax. In the past, such schemes have failed to resonate with the international community. Some Ministers conclude that the broad consensus against such proposals should redirect the focus to ideas that are more realistic.

Increased Aid

Current levels of ODA as a percentage of GNI are much lower than those that prevailed in the early 1990s. Lately, increases in ODA flows have been accounted for wholly by special-purpose allocations. There is a need for more flexible, longer-term aid commitments that can be used for meeting the incremental costs of achieving the MDGs. Ministers stress the need for all donors to honor the commitments made in Monterrey in 2002 by increasing their official development assistance to 0.7 percent of GNI by 2007 and eliminating all HIPC’s debt to them.

Trade Liberalization

Ministers emphasize that any analysis of financing for development is incomplete unless trade liberalization in goods and services is taken into account. Lowering trade barriers and improving the business climate in developing countries can do more to generate self-sustaining economic development and reduce debt than any feasible increase in aid volumes. Well-designed ODA (particularly designed to improve governance and develop human capital) is best seen as playing an important complementary role to trade and investment.

Ministers congratulate the Bank on its continued analytical work on the costs of trade restrictions and export and production subsidies. The Bank’s technical assistance and project lending help strengthen trade capacity and lower “behind-the-border” impediments in logistics and customs that often prevent developing countries from making the most of their market access.

Remittances

Ministers note that remittance flows contribute to poverty reduction by enabling more locally driven, private sector-led growth. Current at US$93 billion, remittances of foreign workers to their home countries are almost double ODA flows, despite significant restrictions on the cross-border movement of labor. Yet most remittance channels are expensive to use and difficult to access. Ministers call on the Bank Group to lead efforts to address the impediments in this area.

Long-Term Debt Sustainability in Low-Income Countries

Ministers welcome the progress in designing a forward-looking joint Bank/IMF operational framework for lending and external assistance to low-income countries on the basis of maintaining debt sustainability, which they describe as an important first step toward reducing the risk of debt crises in
low-income countries while preserving their access to external finance. The key challenge now is to refine the framework and make it operational.

The new framework highlights the importance for full implementation of the HIPC initiative. Some ministers reiterate their call to the Bank and the IMF to consider an extension of the HIPC Initiative’s sunset clause to the end of the year. Debt sustainability should be seen in the context of helping countries achieve the MDGs and should guard against simply setting caps on new financial flows. All countries committed to poverty reduction should receive adequate financing to meet the MDGs. This will require substantial volumes of additional financing.

Ministers believe that going forward, debt sustainability analyses (DSAs) should be based on objective, robust, and transparent criteria with realistic growth, export, and fiscal revenue projections. The methodology needs to be further refined and tested. The assessment should include all financial flows and should take into account both overall debt stock and debt service burden. Some Ministers question the objectivity of the CPIA and its use as a tool for estimating the limits of the debt burden. To develop best practice and improve information flows in this area, a Minister suggested the creation of a Consultative Group on Debt Management.

Some Ministers hope to see DSAs developed jointly by borrowing countries, the Fund and the Bank. The process should not remain official or confidential; all market participants deserve timely access to the information yielded by debt sustainability analysis.

There is a need to reduce low-income countries’ dependence on external debt financing, i.a. by increasing domestic savings and attracting non-debt-creating forms of external resources, such as equity flows, FDI, and grants. Productive use of all resources is key to ensuring the future capacity to honor debt service obligations. Bank/Fund joint staff assessments should give adequate attention to how the authorities have addressed the medium- to longer-term structural challenges related to reducing dependence on external debt financing and vulnerability to external shocks. In this respect, the importance of export diversification should be given particular attention.

Ministers underline that debt sustainability is a function of both the cost of debt repayment and the opportunity to export in order to meet those repayments. Consequently, trade liberalization is central to debt sustainability. One of the best ways for developed countries to address debt sustainability is to remove trade barriers and subsidies that impede developing countries’ earning opportunities.

The HIPC Initiative

Ministers call for full implementation of the HIPC Initiative. For various reasons, implementation has taken longer than envisaged. Moreover, some countries which have completed the HIPC process have ended up with debt ratios exceeding the HIPC thresholds due to internal and external factors. Other countries are expected to do the same, if no corrective action is taken. Ministers ask all bilateral creditor countries to provide 100 percent cancellation of debt contracted before the initiative was enhanced in 1999. Financing of debt relief should not compromise the financing made available through concessional windows such as IDA. All creditors which have not yet provided their share of the financing are urged to do so.

Ministers stand by their commitment to full and complete implementation, including the possibility of providing additional debt relief by topping up at the completion point. Some Ministers argue that the current methodology of calculating topping up distorts burden sharing and deprives debtor countries of additional debt reduction: additional bilateral debt relief on top of and beyond HIPC relief should be excluded when calculating the need for topping up.
**Other Business**

*The Bank’s Role in Middle-Income Countries*

Ministers applaud the Bank’s efforts to strengthen its support to middle-income countries, including increasing flexibility and simplifying procedures, lowering financial costs, and reducing front-end fees. They urge management to implement these measures as soon as possible.

Ministers suggest ways that the Bank can support middle-income countries, including serving as a catalyst for private financing and a quality insurer of environmental aspects of large-scale infrastructure projects and engaging in dialogue on an array of issues where the Bank has a comparative advantage vis-à-vis other financial or development institutions. Ministers also welcome the Bank’s proposal to simplify investment lending. They concur with the proposal to certify countries to apply their own fiduciary and environmental safeguards to Bank projects, make CAS composition more flexible, and expand the CAS envelope to well-performing countries.

**HIV/AIDS**

The fast and continuous spread of the HIV/AIDS epidemic threatens to undermine collective development efforts and poses a growing threat to economic development and political stability. Ministers reiterate the call to the international community to step up efforts to reverse the spread of HIV/AIDS and reduce its impact on societies. Better country-level coordination and harmonization are a top priority.

*Anti-Money Laundering/Combating the Financing of Terrorism*

Terrorism remains a threat to economic confidence. Ministers welcome the Bank and the IMF’s role in reducing this threat, as embodied in the recent decision for more effective organization and resourcing of measures to counter money laundering and the financing of terrorism (AML/CFT).

**Afghanistan**

Some Ministers are encouraged that the international community has reaffirmed its commitment to the reconstruction of Afghanistan. Afghanistan has adopted a new constitution, will hold elections in September, and is building its market-based economic infrastructure. There will be a key role for the Bank and the international community to play for a long time.
Prepared Statements Circulated by Members

Statement by Mr. Ibrahim Al-Assaf, Minister of Finance, Saudi Arabia

I would like at the outset to welcome Mrs. Ngozi Okonjo-Iweala, in her capacity as Interim Development Committee Chair. This is a task that I am sure she will excel at, given her deep knowledge of the issues at hand, her well-established hands-on experience and her strong and commending personality.

The signs of a strong global recovery are becoming more and more evident. The accompanying increases in capital flows to developing countries are also a very welcome development. The challenge, is therefore, how to sustain this latest recovery in flows, and to ensure that they are most effectively used to achieve sustained and equitable growth where it is most needed. This is a joint responsibility that we should all embrace going forward. Our common objective should be how best to go about meeting the Monterrey commitments.

This global recovery is also occurring against a background of an unsettled global political scene and several regional conflicts. The escalating tensions in the Middle East, especially in Palestine, are contributing factors that exacerbate these uncertainties and would need to be tackled with greater urgency and through a more concerted international effort.

Peace and stability are indeed key to growth and prosperity, but the reverse is also true. Sustained economic growth that brings about notable improvements in the lives of the poor is vital for giving them an added reason to avoid conflict and seek more peaceful ways to address their problems. The international community has begun to address this issue, including through the UN agencies and the World Bank’s work in the conflict and post-conflict area. Such efforts should continue.

Let me now turn to the main items on our agenda and make the following selected comments:

This first annual Global Monitoring Report (GMR), is an excellent start as it provides an incisive and generally balanced assessment of progress on policies and actions needed to achieve the MDGs. I share the report’s main message that the progress toward achieving the MDGs is far from satisfactory and that the Monterrey vision needs to be converted into swift and effective actions by the parties to the compact.

Developing countries have made laudable progress in reforming their economies and improving their absorptive capacity. However, more needs to be done, especially in Sub-Saharan Africa, to further improve aid effectiveness. Emphasis should be on pursuing more outward oriented strategies and improving the enabling environment for private sector development, including by implementing the required structural and institutional reforms and improving access to and quality of infrastructure, where sizable investments are required. This is an area where the Bank Group can do more and where the spectrum of contributors should be broadened to include the Private Sector as well as Private-Public Partnerships.

For their part, developed countries would need to do more. There should be greater resolve by these countries to increase their levels of ODA towards the target of 0.7 percent of GNP. Efforts are also needed to improve the predictability and flexibility of aid and its allocation process. Furthermore, developed countries would need to play a bigger role in fostering global economic growth and ensure an orderly resolution of current imbalances. They will also have to move more forcefully on the Doha Development Agenda and reduce trade barriers that impede developing countries from partaking of the full benefits of trade.
In this context, let me express my appreciation for the explicit recognition by the report of the many contributions the Arab world, and Saudi Arabia in particular have made towards the MDGs cause. Namely, that Arab aid has led the increase in official development assistance from non-DAC countries, with the increase in development assistance from Saudi Arabia topping 400 percent over the last 10 years. Also, that Saudi Arabia is the second largest source of remittances ($16 billion) after the US at a time when remittances are becoming an important and stable source of financing for development. The significance of this contribution is the more apparent, especially if compared with the overall level of global ODA, which reached $58 billion in 2002. In fact, Saudi Arabia has been active over the last three decades, both bilaterally and through international and regional multilateral institutions, in supporting 73 countries in Africa, Asia, Europe and the Middle East in their development efforts by providing more than $81 billion, translating to an annual average of 4.0 percent of the Saudi GDP. This aid has been untied, fast disbursing, and characterized by high concessionality.

As for the International Financial Institutions (IFIs) we note with appreciation the significant alignment of their work to support the Monterrey compact and adjust their programs to become more results oriented. However, much more is expected from them. They would need to move faster on the existing harmonization and simplification agenda, focus more on country ownership and promote greater transparency, efficiency and accountability in the use of resources. There also needs to be a stronger push for more result-focused approaches as donors are increasingly eager to see more concretely the impact of their contribution in terms of reduced poverty and progress towards the MDGs. I would also urge that future reports include an assessment of the non-IFIs contributions and look forward to seeing particular reference to the Arab financial institutions, the Islamic Development Bank, and the OPEC Fund. Harmonization efforts among these institutions are worthy of being closely looked at and emulated.

Overall, the GMR provides a good analytical basis for monitoring progress towards the MDGs, but ensuring adequate monitoring depends, for the most part, on the ability to find reliable and consistent data and on the tools to analyze progress. This would require the World Bank to further help countries build adequate statistical capacity where it is lacking, and work closer with relevant international agencies to ensure adequate and timely reporting of data. This would benefit countries directly and would result in a more reliable information base for accurately assessing progress towards the MDGs. As to the tools used for assessing progress, I am very pleased with the use of innovative tools in the report, such as the Overall Trade Restrictiveness Index (OTRI) and the Aid Selectivity Index (ASI). I would, however, highlight the need to ensure objectivity and robustness before these and other indicators are broadly accepted as reliable measures of progress.

I note for instance some data inconsistencies in the GMR, including about Saudi Arabia’s record on Education, on which I would like to shed some light. The Saudi experience in education has proven very successful as it allowed an increasing number of Saudi citizens to contribute more productively to the development process of the country. Not only did Saudi Arabia succeed in reducing illiteracy rates (for the population aged 10 years or more) from 64.3% in 1974 to around 19.9% in 2000 we were also able to boost student enrollment across all education levels from 984,000 students in 1975 to over 5 million in 2002. Overall gender parity has also improved and the ratio of male to female students fell from 1 female student enrolled for each 2.2 male students, in 1975, to a one to one ratio in 2002. At the university level female students outnumber their male colleagues by a ratio of 10 to 9. Spending on education has also seen a dramatic increase over the last three decades with the share of the education budget to GDP rising from 3.5% in 1970 to 9.5% in 2002, in which year education expenditure reached 27% of the budget.

This leads me to make a few comments about the “Education for All – Fast Track Initiative – Progress Report”. First, I would note that the progress achieved thus far gives reason for cautious optimism but further progress hinges on ensuring the result orientation of the initiative, and on the ability of both contracting sides to meet their end of the bargain. Donor partners would need to provide more predictable and flexible financial support; and, recipient countries would need to show greater
commitment to having adequate and sustainable domestic financing for education and undertake the necessary reforms to increase their absorptive capacity for additional resources as they become available.

Second, I agree with the need to provide increased financing through multilateral as well as bilateral channels relying more on the PRSP process. This would allow for a better alignment of donors’ support around national poverty reduction strategy and budget processes and would enhance leverage in helping countries develop the necessary institutional capacity and strengthen their educational systems. The World Bank’s role, in this regard, is becoming more and more important. I would encourage that it be further reinforced. Bank Country Assistance Strategies, for instance, are becoming more and more result-focused and increasingly aligned with the countries’ own PRSPs. This is in turn helping countries better focus on performance, better prioritize and cost development objectives within improved medium term expenditure frameworks and better link their overall economic growth to the needs of the education sector.

Third, I would note that achieving the Universal Primary Completion (UPC) goal is a noble objective in itself, but it is through sustained improvements in the quality and continuous and massive investments in education at all levels, that societies would experience the transformation needed to put them on a higher and more sustainable development path. In addition to urging for the creation of more fiscal space for investment in education, I would call for more emphasis on the quality aspect of the reforms, including as part of the indicative framework where quality benchmarks should be envisaged, as data become available. It is worth mentioning here that low-income countries, especially debt-stressed ones, would need more help finding the needed resources for meeting the MDGs without sinking deeper in debt.

In this connection, I find the proposed “Debt sustainability framework for Low-Income Countries” to be, in principle, a step in the right direction. However, it is clear that this work is at an early stage and much remains to be done to elucidate its modalities and operational implications. Moreover, the proposed framework would clearly lead to increased concessionality of financing and higher volume of grants. Prudence calls on us to be fully aware of the additional financial burden this would entail, before we proceed with its “operationalization”.

Unfortunately, increasing the concessionality of aid flows alone will not suffice. We would need to find alternative and innovative financing modalities and continue to seek ways for enhancing the flexibility and responsiveness of aid to make it more effective. The Progress Note on “Financing Modalities Toward the Millennium Development Goals” provides us with a good overview of the work underway to explore such alternative financing modalities. The search for such alternatives should be broader and more pragmatic.

First, let me emphasis that a proactive stance is critical for increasing the developing countries’ access to not only global export and financial markets but also foreign direct investment (FDI) and remittance flows. I also urge the Bank and the Fund to take a close look at how best to assist countries to take maximum advantage of trade reforms and to create the right conditions for attracting FDI flows and improving access to financial markets.

Second, and concerning the International Finance Facility, the concept is novel. However, one can see major challenges that could be difficult to overcome. In particular, those related to the accounting and legislative treatment of government pledges, the chosen governance structure, and concerns about the true “additionality” of the initiative and its link to the MDGs objectives.

Third, and with regard to the global tax schemes, I note that several of the suggested ideas – such as the environment tax on carbons and the Tobin tax on currency transactions – have been previously discussed and failed to resonate with the international community and gain the needed support for their adoption. Indeed, the broad consensus against such proposals should lead us to focus on ideas that are
more realistic in the light of the needed international collaboration and political support necessary for their implementation.

Finally, I welcome the progress made in improving the efficiency and responsiveness of the existing development assistance. I also support the work underway towards more flexible and better-targeted instruments to help countries deal with exogenous shocks and problems of debt sustainability. More needs to be done, however, to improve the practicability of the existing instruments and to reduce ad hoc responses. Efforts to refine existing instruments and modalities also need to be supplemented by an equally intense marketing effort. Clearly, a greater awareness of the availability as well as the timing and modality of the entire spectrum of instruments is essential for both the recipient countries and the donor community.

Statement by Mr. Hilary Benn, Secretary of State for International Development, and Mr. Gordon Brown, Chancellor of the Exchequer, United Kingdom

It is now four years since the world’s leaders came together at the Millennium Summit at Monterrey to agree an ambitious set of development goals designed to change the face of the world. Some progress is now starting to be made in a number of areas. However, as we approach the 2005 deadline for gender equality in education, and the major review of progress which will take place next year, we remain off track for most of the Millennium Development Goals at the global level, and for every single one of them in Africa. And things are not getting any easier.

At a global level, the challenges of larger regional security issues remain ever more demanding – above all in the context of the Middle East, where progress towards a durable peace remains elusive. Furthermore, as HIV infection rates rise upwards inexorably, the sheer scale of the crisis demands an immediate and practical response from the international community.

This is not to say that we should be overly pessimistic. There is still a decade to go until we are ultimately held to account, and if properly addressed, these problems should not be insurmountable by 2015. It does, however, mean that it is timely to reflect on the major sticking points - and the hard decisions that will need to be taken - if we are actually to achieve what we set out to do.

Global Monitoring Report 2004 – Policies and Actions for Achieving the MDGs

The World Bank/IMF report on progress against the policies and actions needed to achieve the MDGs is an important contribution to this reflection, and we welcome and support their assessment of the key challenges to be addressed. Trade is one area where political will has clearly fallen behind the rhetoric. We can already see the beginnings of a shift towards more bilateral or regional approaches to trade, whilst progress on many specific aspects of the Doha agenda, including the liberalization of the agriculture sector in developed countries, remains painfully slow. Aid volumes are falling far short of even the lowest estimates of the requirements needed to meet the MDGs, and action to improve aid quality remains patchy, to say the least. At the same time, our multilateral environmental agreements are making far too little progress towards global sustainability, hampered by weak compliance, lack of ambition and lack of delivery.

Progress in all these areas is essential. However, simply reporting the challenges which remain is unlikely to bring about the necessary change. It is therefore essential that any future updates of the Global Monitoring Report contain a clear accountability framework. In particular, we should like to see these Reports identify a small number of specific actions to be taken by both developed and developing countries and our institutions, against which progress can be assessed the following year. Such an approach should start this year, with agreed actions including an end date for phasing out agriculture
export subsidies; demonstrating Monterrey commitments by increasing aid and implementing fully the principles of harmonization in our bilateral programs.

More generally, there are a number of other areas where we believe future reports could be improved and strengthened. For example, HIV/AIDS has been identified as one of the major challenges facing our international community over the next few decades, yet its impact is barely touched on in the Report. The link between Poverty Reduction Strategy Papers (PRSPs) and the MDGs should also be brought out more strongly. Furthermore, we should like to see a similarly rigorous agenda set out for prioritization for the IFIs, which moves beyond existing plans and identifies clear deliverables for the coming year.

Framework for Long-term Debt Sustainability

We welcome the paper prepared by the World Bank and the IMF on debt sustainability in low-income countries. The proposed framework provides a sound basis for the International Financial Institutions (IFIs) to take account of debt sustainability issues in a more rigorous and systematic manner when making their lending decisions. The key challenge now will be to refine the framework and make it operational. The new framework also highlights the importance of the full implementation of the Heavily Indebted Poor Countries (HIPC) Initiative. The success of any forward-looking framework will depend significantly on countries starting from a robust position – the fundamental aim of HIPC. Therefore, we must ensure that the HIPC Initiative is completed, that topping-up is provided where necessary for countries to achieve the target ratios, that it is fully funded, and that it has wide participation.

But the new framework must look more broadly than HIPC. It is critical that the goal of continuing debt sustainability be seen in the context of helping countries achieve the MDGs. We must guard against this framework simply setting caps on financing flows to low-income countries. All countries committed to poverty reduction should receive adequate financing to meet the MDGs. This will require substantial volumes of additional financing. We will therefore encourage other donors to think about innovative financing mechanisms such as the International Finance Facility (IFF). While the quantity of financing must be determined by need and absorptive capacity, the form in which it is delivered must be determined by debt sustainability prospects. If we are to provide this financing without the risk of further debt distress, we must be prepared to issue increased amounts of development assistance through grants.

While the IMF and Bank paper is a good start, it must be complemented by a range of supporting measures. More work remains to be done, and specific and appropriate instruments will be required for debt-vulnerable low-income countries to enable them to withstand exogenous shocks without exacerbating existing debt levels. And we must also ensure that no country is left behind. Under the framework some countries will be judged to have debt burdens that are not currently sustainable. We need to ensure that appropriate measures are put in place to help such countries return to a sustainable level of debt.

Enhancing the Voice and Participation of Developing and Transition Countries in the IFIs

Enhancing the voice and participation of developing and transition countries in the International Financial Institutions (IFI) is key to improving the governance and accountability of public institutions. The UK is a strong supporter of the “voice” agenda in the Bretton Woods Institutions (BWI) and, while progress has been made in some parts of this agenda, we believe that still more needs to be achieved if our Monterrey commitments are to be fulfilled.

We welcome the commitment by the Chair of the Development Committee to take forward work on structural issues at Board level. The UK supports his proposal to focus on the issue of Basic Votes over the coming year, and to consider the composition, structure and functioning of the Boards. We look forward to the presentation of clear proposals for progress at this year’s Annual Meetings, and a full
report back to Governors at the 2005 Spring Meetings. In order to achieve progress on these issues, we
must ensure that there are options for change, and we would welcome any further suggestions from other
Governors as to next steps for carrying this work forward.

The UK is pleased to announce the establishment of the Analytical Trust Fund, a multi-donor
initiative to which France, the Netherlands, Norway and Sweden are also contributing, to finance and
facilitate the provision of independent research and advice to the sub-Saharan African Executive
Directors at the World Bank and the IMF by the African Economic Research Consortium (AERC). We
hope that this initiative will make a significant contribution to enhancing the capacity of these Executive
Directors’ offices.

We welcome the progress that the World Bank is making on diversity of staff and
decentralization to country offices; efforts to achieve progress on these more challenging institutional
issues need to continue. In addition there need to be changes in a number of other areas, including
increased transparency of Board papers. In relation to IDA, we should like to see a commitment from
staff to ensuring full implementation of the agreed Terms of Reference for IDA borrower representatives
in the IDA-14 replenishment negotiations.

**Financing Modalities for Achieving the MDGs**

We very much welcome the work carried out by the World Bank and IMF, since the Annual
Meetings in September, on Financing Modalities for Achieving the MDGs. We welcome, in particular,
the paper prepared by the Bank and Fund, which provides more analysis of the options available -
including the International Finance Facility - and emphasizes the technical feasibility of this proposed
facility.

At the Annual Meetings in Dubai last year, it was agreed that alongside the work taken forward
by the Bank and Fund, emerging market and developing countries should be closely consulted on
financing for development, including on the IFF proposals. The central part of this consultation was the
French Government-hosted Ministerial Conference on Financing for Development for emerging market
and developing countries, held earlier this month in Paris.

We think it is clear that the Conference - attended by over 55 countries, 35 Ministers, leaders of
the key multilateral organizations, and non-governmental organizations - provided an essential forum for
debate on using innovative financing approaches to help poor countries meet the MDGs.

Support for the IFF proposal amongst Ministers from Developing Countries and Emerging
Markets is strong. Their Statement from the Paris conference confirms this. They support the IFF
proposal to scale up and frontload resources to meet the MDGs by investing in productive sectors,
infrastructure, health and education in particular, and urge donors to implement the proposal.

We share their confidence that, whilst some technical concerns have been raised, these issues can
be overcome. And we share the conclusion that there is substantial capacity for absorbing additional
resources at both country and regional levels, and look forward to working together on ways to implement
the IFF.

We share the overall conclusions of the conference that:

- Additional and more effective resources are urgently needed to achieve the MDGs by 2015.

- In the short to medium term the IFF is a feasible financing solution that could provide the
  necessary, critical mass of predictable, long-term aid flows.
Further exploration of new systemic approaches is needed.

We believe there is a real political momentum now behind the need to establish an innovative financing mechanism to reach the MDGs. Relevant work is being taken forward by many, including WHO, UNICEF, the Vaccine Fund and the Bill and Melinda Gates Foundation, the French and Brazilian Governments. We look forward to the results of these, and to taking forward the discussions on this critical issue at forthcoming meetings including the Poverty Conference in Shanghai in May 2003 and the World Bank and IMF Annual Meetings in September 2004.

Education for All

We welcome the significant progress made at the recent Fast-Track Initiative technical meeting in Washington. The meeting endorsed the FTI framework and reached agreement on the functions and governance structure of the Secretariat. The UK particularly welcomes the increased focus on country level processes within the revised framework. This represents a major step forward in terms of bringing together a diverse group of donors, including US and Japan, to agree on a forward-looking collaborative approach to development assistance for education.

We welcome the fact that FTI has been extended to all lower-income countries and the establishment of the Catalytic Fund to provide up-front finance to countries which receive limited donor-support for education and which are chronically at risk of not reaching the education MDGs. The UK’s spend in education is set to rise to over £1 billion over the next four years, channeled through national governments and our country programs. In addition, we expect to make a contribution to the Catalytic Fund to accelerate primary school provision in countries where progress lags behind. We recognize the critical role of the Secretariat in taking forward the newly affirmed FTI framework and collaborative spirit. The UK will press for this momentum to be sustained when we assume the co-chair of FTI from January 2005.

Migration and Development

Migration is rising up the development agenda. Movements by people around the globe – within countries, within regions and internationally – are increasing and becoming ever more diversified. The process in recent years is inextricably bound up with globalization, linked to other flows of trade and finance, and closer economic integration.

Migration can bring benefits to both sending and receiving countries as well as to migrants themselves, but there are also risks. Properly managed, migration can be a positive factor for development. We need a more informed and balanced public debate about the benefits and trade-offs of migration. In this context, we are watching with interest the work of the Global Commission on International Migration which is due to report in 2005 on global migration trends and how the international community might respond; and we welcome the intensified research program which the World Bank has launched.

Migrants can help stimulate productivity, economic growth and job creation. Over the past few years, the UK has developed a set of managed migration routes to attract the skills which the economy needs. Carefully managed migration can bring benefits for both sending and receiving countries alike, as well as for migrants themselves, in our increasingly transnational and global society.

In conclusion, as we approach the first major benchmark towards the MDGs, this is the time we must make our collective choice. If we do not seize this opportunity to act on the promises needed to achieve the goals, then there is a risk that we will slide into a descending spiral of poverty, disease, conflict, migration, environmental damage and political extremism. Nobody denies that the problems are
daunting, or that change will be difficult. However, there has never been a time in human history when
the case for development was either more pressing or more widely understood.

Statement by Mr. Boniface Brito, Minister of Planning and Development, Republic of Côte
d’Ivoire

The document now under review is a progress report on the monitoring of the implementation of
the Monterrey Consensus. I would like to commend the quality of the document and express my
appreciation to the respective departments of the two Bretton Woods institutions for preparing the report,
which I hope represents the first in a series of reports designed to educate the Committee periodically
about our collective approach toward attaining the Millennium Development Goals (MDGs) by the year
2015. My remarks will basically consist of a few observations concerning various items of the proposed
agenda. I will then close with a few thoughts about enhancing the voice and participation of developing
countries in the Bretton Woods institutions.

Actions Taken to Attain the MDGs – Global Monitoring Report 2004

The joint report gives an assessment that is worrisome both for individual countries and for
international cooperation. According to the report, if current trends in the world economy are maintained,
this situation will jeopardize progress in implementing the Monterrey Consensus and threaten the
partnership established in Monterrey between developed and developing countries. Such a possibility is a
matter of concern for the entire international community and means that we must fulfill our responsibility
to rectify the situation.

For developing countries, the challenge is to pursue and bring to completion the economic and
structural reforms undertaken since the Monterrey summit and even before Monterrey. Specifically, as
regards the countries of Sub-Saharan Africa, many of which I represent in this forum, the delay in
implementing the Monterrey Consensus is more pronounced. Our countries are determined to step up
efforts to adopt strategies for attaining the MDGs by the year 2015. It should be noted that our countries
have recently undertaken major efforts, sometimes requiring great political courage, within the New
Partnership for Africa’s Development (NEPAD) in order to strengthen governance and anti-corruption
initiatives. The gradual implementation of peer reviews is characteristic of this resolve. In many
countries, economic and structural policies have also been adopted so as to create conducive conditions
for growth and private sector development. Faced with slow progress in attaining the MDGs, our
countries have no other choice but to deepen the reforms and persevere in our efforts to improve the
climate for private investment. As the report suggests, the objective should be to double the growth rate
in the ten years remaining before 2015.

To support such efforts, the developed countries, for their part, should translate their own
commitments into reality. For what do we find? With respect to foreign trade, for example, the
negotiations of the Doha process reached a serious impasse in Cancun. Yet we all know that, in the long
term, trade flows are very important and are destined to gradually replace development assistance. This is
why the Doha trade negotiations should resume as soon as possible. In view of their weight in the
international system of trade, the developed countries should set an example by establishing ambitious
objectives for themselves, which might include, among other matters, the total elimination of customs

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8 On behalf of Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Comoros, Congo,
Democratic Republic of Congo, Côte d’Ivoire, Djibouti, Gabon, Guinea, Guinea-Bissau, Equatorial Guinea,
Mauritius, Madagascar, Mali, Mauritania, Niger, Rwanda, Sao Tomé & Príncipe, Senegal, Chad, Togo and
Somalia (informally).
duties on manufactured products from developing countries and subsidies for agricultural exports, as well as the elimination of local subsidies for agricultural production in the developed countries.

In this context, we hope that the interests of African countries will be taken into consideration in the trade negotiations, so as to permit them to gradually adapt to a system of trade that ensures broad access for all developing countries. Furthermore, during the interim period, the preferential tariff system between Africa and the European Union, established under the Cotonou agreement, should be preserved to enable African countries to gradually rebuild their competitiveness in relation to the more advanced countries of Southeast Asia and Latin America.

Finally, given the scope of the financial needs, we call upon the developed countries to increase the level of development assistance by a substantial amount. In this context, our countries support all proposals designed to increase the proportion of grants in relation to total resources. However, this should not constitute an obstacle to the search for other types of funding needed to make investments, particularly in the area of infrastructure.

Education for All

We welcome the progress that has been made during the pilot phase of the Education for All - Fast Track Initiative, specifically in terms of the structural and institutional aspects of the program. However, additional efforts are still needed in order to make this initiative a truly accelerated process, particularly with respect to its funding.

We would like to express our concerns in this regard. Our countries have carried out major reforms and earmarked substantial budget appropriations for the education sector. But, given our vulnerability to external shocks and the unfavorable trends in the terms of trade, our countries are in no position to generate the substantial resources needed to fully fund our education programs. It would therefore be desirable for the World Bank, UNESCO and other pertinent bilateral and multilateral institutions to step forward and, as an urgent matter, implement new financial instruments, as proposed in this report, to fill the funding gap.

Funding Modalities

Within the framework of the Monterrey Consensus, the developed countries made a commitment to increase concessional funding. Little progress has been achieved in this regard, and the partnership’s credibility is therefore at stake.

With respect to the issue of absorption, recent studies show that the aid absorptive capacity is sufficient for additional assistance in the range of 30 to 60 billion dollars per year. And once the issue of absorption is resolved, another serious matter remains: the funding requirements for attaining the MDGs by the year 2015 are estimated at approximately 50 billion US dollars. Yet total funding promised to date by donor countries barely exceeds 20 billion. How can we hope to fill this gap? The report lays out a number of options for methods of funding this assistance. In this regard, our countries have a preference for two options. First, we support the French-British initiative which consists of pre-financing the assistance by turning to the capital markets, with donor countries’ assistance commitments serving as a guarantee. This proposal appears to us to be easy to implement and it requires fewer negotiations on a global scale. Second, we support the concept of a global tax, which could mean the environment tax or the Tobin tax or even the creation of additional special drawing rights.

Debt Sustainability in Low-Income Countries

We commend the report’s analysis of the issue of external debt and, in particular, the need to maintain debt sustainability. The report emphasizes the need for debt relief through the HIPC Initiative,
along with adoption of a framework for granting new concessional loans under terms compatible with the country’s borrowing capacity.

We are in favor of any initiative that aims to further relax the conditions for granting concessional external resources to our countries, including grants. However, the systematic search for such concessional lending or grants must not be allowed to become an obstacle to another major objective for our countries, namely the availability of concessional lending. To deny our countries the opportunity to continue to turn to concessional financing other than grants, while these very countries are trying to fund reforms in a current context where grants are not widely available, would constitute a serious setback in the global effort to support development and attain the MDGs. Apart from the availability of concessional resources, attention should also be given to the importance of their predictability when it comes to planning our countries’ medium-term actions.

Statement by Mr. Peter Costello, Treasurer of the Commonwealth of Australia

Global Growth and Poverty

It is gratifying to see not only some strengthening in global growth since we last met, but also the strong growth now evident for many developing countries and predicted out to the 2006 forecast horizon. Over that period, developing countries’ real GDP growth is forecast to continue at about twice the rate of developed countries’ growth. Most developing regions are sharing in this growth, which considerably outpaces their population growth. Unfortunately, growth in Sub-Saharan Africa remains too weak in per capita terms to make significant progress against poverty.

Growth in some of the developing countries in this constituency also remains subdued, but we have been heartened to see the World Bank’s intensified activity to understand the constituency’s challenges. There have been recent visits by President Wolfensohn, senior Bank management, and a sub-group of Executive Directors; a recent regional workshop to pool insights into the best path forward, and novel attempts to increase coordination among aid donors to meet recipient’s priority needs, involving the World Bank and the Asian Development Bank and the Governments of Papua New Guinea and Australia.

While many developing countries face challenges in meeting some of the Millennium Development Goals (MDGs), new World Bank work confirms earlier estimates that from 1981 to 2001, the proportion of people living in extreme poverty fell from 40 per cent to 21 per cent, and the number fell by about 400 million, notwithstanding global population growth of 1.6 billion over that time. This represents unprecedented progress over the last two decades towards and beyond the overarching MDG, that of reducing income poverty.

The Global Monitoring Report 2004 shows that this strengthened growth and progress against poverty is due in part to improved macroeconomic and structural policies in most regions, although the vital areas of quality of governance and public administration continue to lag, and in some countries and regions, to go backwards.

With better macroeconomic and structural policies, average developing country credit ratings have risen. The average spread on emerging market bonds has fallen more than 200 basis points since the

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9 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.
end of 2002. Low global interest rates have helped developing countries’ investment and growth, and reduced their debt-servicing burden, from 18 per cent of exports in 1997 to 15 per cent in 2003. But developing countries will need to continue to monitor their indebtedness closely, particularly in the face of a probable increase in global interest rates in years to come from historically low levels.

Global threats to continued progress remain. Large current account deficits in the US draw in much of the world’s savings, and structural rigidities restrain growth in Western Europe and Japan. Such factors hold back global growth and raise the risks of disorderly corrections, and we urge accelerated national progress in these areas of reform.

Terrorism also regrettably remains a threat to economic confidence. The Bank and Fund have a role to play to reduce this threat, as embodied in the recent decision for more effective organization and resourcing of measures to counter money laundering and the financing of terrorism.

‘Global Monitoring Report 2004’: progress towards the Millennium Development Goals (MDGs)

The joint work of the IMF and the World Bank to produce the Global Monitoring Report usefully adds to our understanding of development successes and failures. Work by the Bank on the quality of governance, regulation and business climate, and on barriers to trade, highlights the reforms that are needed by both developed and developing countries to raise living standards. We commend the Bank on this work and urge its continuation and refinement.

Global Goals and National Commitments

Interpreting the MDGs as guides to national policy requires a common sense approach. The MDGs were endorsed by governments as global goals, not national goals. While they can only be met by national actions, the way some goals are expressed prevents their ready direct application in all national circumstances. For example, goals such as reducing infant mortality by two-thirds or maternal mortality by three-quarters may be more or less feasible depending on an individual country’s starting point. For relatively good performers close to the ‘frontiers’ of best practice, the cost of further large reductions in their mortality rates might be prohibitive, whereas even larger improvements might be achievable in countries with weaker starting points.

The MDGs should serve as encouraging broad external benchmarks of what is feasible, but countries must have the right to ‘own’ their development priorities and shape them to their needs, resources and starting points. Moreover, the MDGs also remind us that the interconnections among economic and social goals are important. For example, the Global Monitoring Report suggests that gender equity is vital to improving educational outcomes, and that improving educational outcomes is vital to improving maternal and infant health, halting the spread of infectious diseases, improving economic growth, and thus conquering income poverty.

The consistent shortfall in progress towards the MDGs in Sub-Saharan Africa is suggestive of deep seated problems of instability and weak governance. As an example of both problems and progress, the case of Uganda is illustrative: progress towards the goal of universal primary education was being hindered not only by constrained budgeted spending on education, but also by teacher absenteeism which ran at 25 per cent and diversion to other uses of as much as 87 per cent of non-wage resources intended for schools. Yet in just five years, the diversion of non-wage resources was cut by more than three-quarters through improvements in transparency and public involvement.

It is hoped that initiatives such as the African Peer Review Mechanism of the New Partnership for Africa’s Development can help improve governance more widely. Better governance would provide the foundation of a better business climate, a better use of existing resources, and a more productive
environment for seeking higher levels of future aid that could assist progress once necessary underlying conditions are in place.

*Investment, Remittances, Trade and Aid*

Net foreign investment inflows to developing countries were running in 2002 at about US$150 billion a year, and remittances to developing countries were over US$90 billion a year. Official development assistance (ODA) was almost US$60 billion a year in 2002, though the latest estimates suggest it rose again in 2003 to almost US$70 billion.

World trade growth continues at more than twice global GDP growth. Developing countries’ international trade (imports plus exports) is equivalent to about half their gross national income. Yet trade barriers – among developing countries themselves as well as the particularly harmful barriers by some OECD economies that bear on developing countries’ exports – subtract some US$350 billion a year from developing countries’ potential income, and about US$150 billion from developed countries’ potential income.

To put it differently, for every US$4 the private sector and individuals transfer to the developing world in investment and remittances, developed countries’ governments add about US$1 in aid, while all governments’ trade barriers subtract over US$5 of potential income. Those numbers suggest a focus for our efforts: improving the business climate in developing countries to attract private capital flows, and lowering trade barriers everywhere, can do more to generate self-sustaining economic development and reduce debt than any feasible increase in aid volumes.

In our view, well designed and effective ODA (particularly in improving governance and supporting human capital) is best seen as playing an important complementary role to trade and investment.

*Business Climate and Governance*

Good governance and robust, transparent and honest legal and economic institutions are the foundations of wealth production. They are also the foundations that allow performance-based aid to be deployed effectively.

The *Global Monitoring Report 2004* deploys strong new evidence from the World Bank’s ‘Doing Business’ database to confirm that heavy regulation tends to be associated with corruption, high proportions of business conducted inefficiently in the informal sector, and low growth. Corruption is a regressive tax that hits hardest at the weakest and the poorest. In addition, corruption in developing countries destroys the support for aid in developed countries.

The Bank, the Fund, the regional development banks and bilateral donors all have valuable contributions to make towards strengthening governance and institutions in developing countries. Over the last year, Australia has taken innovative measures in cooperation with local authorities and the international financial institutions in both the Solomon Islands and Papua New Guinea to help strengthen the rule of law and the quality of governance.

But domestic reformers in developing countries themselves have the greatest role to play, and here the Bank can help the reform process with the dissemination and transparent comparison and benchmarking of countries’ performance in improving governance. The Country Policy and Institutional Assessment (CPIA) ratings and the ‘Doing Business’ database have particular potential, and we encourage their further dissemination and use to enable comparisons of who is moving in the right direction, and who is failing in these basic building blocks for economic growth.
Trade Liberalization

We congratulate the Bank on its continued analytical work on the costs of trade restrictions, export and production subsides. In addition, the Bank’s technical assistance and project lending help strengthen trade capacity, and help lower the ‘behind the border’ impediments in logistics and customs that often prevent developing countries from making the most of their market access.

For developed countries, the Bank’s work on trade restrictiveness confirms the damaging heights of trade protection, export and production subsides in agriculture and the way tariff escalation often works to discourage more processed imports from developing countries. Both factors explain why the dynamic estimates of gains from plausible multilateral trade liberalization yield more than twice the income gains to developing countries (US$350 billion) than to high-income countries (US$150 billion).

For developing countries, declining simple average tariffs provide heartening indication of progress in reducing trade barriers over the last decade. Nevertheless, new trade restrictiveness indexes suggest that developing countries still have trade barriers more than twice as high as those in OECD economies, and that barriers against other developing countries are often as high as, or higher than, barriers against developed country exports. This is a powerful reminder that the potential for gains from multilateral trade liberalization in a successful Doha Round lie in ‘South-South’ trade as well as between developed and developing countries.

More and Better-Quality Aid

We strongly support continued movement to performance-based allocation of multilateral aid, including grants and loans from the International Development Association, although we recognize there are some shortcomings in the current system. In particular, for smaller countries the system can be inflexible and lead to significant fluctuations in allocation as a result of only small changes in governance ratings. We look forward to further work on fine-tuning the allocation system. In addition, we consider there should be full transparency as to the indicators (based on the CPIA ratings) that drive that allocation. Following the recent examination of CPIA methodology by an expert panel, we urge the prompt publication of full details of countries’ CPIA scores. But a corollary of performance-based aid is a well-developed program of technical assistance and capacity building for those countries that can not benefit from performance-based aid because they are recovering from conflict or they have weak policies and governance or they are highly indebted. Bilateral aid will also have to play a role in dealing with these difficult cases.

Useful World Bank involvement outside the performance-based framework is outlined in the ideas for Low Income Countries Under Stress (LICUS). However, such ideas are at this point under-developed in practical terms and under-resourced in implementation. The creation of a three-year, US$25 million LICUS trust fund is only a very tentative first step. The modesty of this initiative is indicated by the fact that the first call on that fund, on behalf of Liberia, has already accounted for 16 per cent of its resources. Well-designed aid to LICUS and post-conflict countries can be vital, and we urge increased priority on developing LICUS programs, especially in the context of tailoring assistance that will be compatible with the estimates of long-term debt sustainability for low-income countries as further discussed below.

In this context, we do not share the Global Monitoring Report’s implication that the recent increase in ODA is in some sense devalued by the amounts devoted to debt forgiveness, technical assistance and aid administration. We do not share the assumption that only cash transfers for program support amount to high-quality aid. Indeed, given the scope of problems in LICUS countries and countries that face debt sustainability problems, we may need to see more technical assistance in such cases.
The *Global Monitoring Report* introduces an interesting new measure of the ‘selectivity’ of aid allocation in poverty reduction, with ‘selectivity’ implying that a certain level of aid, provided to better performing but poorer countries will lead to greater reductions in poverty than if it were allocated evenly to all countries or more were given to countries with poor policies. But ‘selectivity’ in this sense measures only two dimensions of aid. The form in which aid is given is also important, as are the reasons (other than poverty alleviation) that sometimes inform aid decisions. For example, responses to humanitarian crises or conflicts, or aid to a LICUS country, may be measured as less ‘selective’ aid, but nonetheless meet a real need.

**Efficiency and Coordination of the International Financial Institutions**

The partnership among developed and developing countries and the international financial institutions demands a strong performance from all three to improve progress towards the MDGs. Against that aspiration, it is clear the chapter in the *Global Monitoring Report 2004* on efficiency and coordination of the international financial institutions is the weakest in an otherwise impressive analysis.

In future work, we would appreciate a clear identification of the conclusions the Bank draws for its own prioritization and the efficiency with which it applies its existing resources.

**Long-Term Debt Sustainability in Low-Income Countries**

Foreign debt sustainability is a function both of the cost of debt repayments, and of the opportunity to export in order to meet those repayments. Consequently, the trade liberalization imperatives outlined above are central to debt sustainability as well as to economic development. One of the best ways for developed countries to address the issue of debt sustainability would be to review trade barriers and subsidies that impede developing countries’ earning opportunities.

We welcome the joint Fund-Bank work on a forward-looking methodology to study debt sustainability for low-income countries. Although this work is still in its early stages, already some useful general guidance is apparent.

First, the quality of policies and institutions in a low–income country is an important determinant of its vulnerability to debt crises: countries with weak institutions and policies as revealed by the CPIA ratings, are vulnerable to debt crises at lower levels of debt than countries with stronger CPIA ratings. That is another reason why the details of CPIA ratings should be released now, even though the rating system will doubtless be improved further by additional testing and study, including external research.

Second, at any given level of institutional and policy quality, countries that are particularly prone to exogenous shocks such as export price fluctuations or climatic disruption to agricultural output have less capacity to service foreign debt. Again, the evidence on economic volatility would be a valuable addition to governments’ and markets’ capacity to judge debt sustainability.

Third, debt sustainability will always remain a matter of judgment and depend on the circumstances of each country. Judgments and country circumstances will always differ, and there is unlikely to be any single, definitive indicator of sustainable debt. We wish to see the debt sustainability analysis developed cooperatively by the borrowing country, the Fund and the Bank together (and used for example in Article IV examinations and Country Assistance Strategies), but the process should not remain solely an official or confidential one. All market participants deserve timely access to the information yielded by debt sustainability analysis, and we advocate public dissemination of the insights from this process as soon as possible.

While the debt sustainability analysis is forward looking, we also need to apply its insights to the tail-end of the HIPC processes.
An old aphorism notes that when one wants to get out of a hole, one should first stop digging. Yet in the last few years for some HIPCs, the international financial institutions have deepened the hole of excessive debt by lending more funds (albeit at concessional rates) even as countries already exceeded the HIPC exit point target ratio of 150 per cent of the present value of external debt to exports. More debt is never the solution to unsustainable indebtedness. Forgiveness of debt that was widely perceived to be unsustainable, even as it was contracted, worsens moral hazard and makes a mockery of performance-based aid allocation. The process favors that subset of HIPCs that benefit, but is unfair to the similarly poor, but less indebted developing countries, including some in this constituency.

The HIPC sunset clause will come into effect at end-2004. The question of what to do about heavily indebted countries that have yet to enter the HIPC process will become important. There are strong grounds for maintaining encouragement for as many HIPCs as possible to progress their reforms sufficiently to take advantage of the HIPC concessions.

Most of those HIPC countries that have not yet reached decision point have suffered conflict and instability, and debt sustainability analysis may show their ultimately sustainable debt levels to be below current HIPC benchmarks. We will need more detailed analysis of specific country circumstances as we proceed to operationalize the new debt sustainability analysis framework.

‘Voice’ in the Governance of the World Bank

Addressing representation and governance issues at the IMF and the World Bank is critical to the on-going credibility of the institutions. The representation of the fastest growing economies of the world, in particular those in East Asia, has not kept pace with their importance in the world economy and this continues to create tensions at the institutions. An adjustment to quota shares at the IMF, followed by a change in the capital subscription shares of the IBRD, is needed to improve the credibility of the institutions.

One approach to these goals that might command support would be to establish a review of the role, functioning and operation of the Boards. The structure and composition of the Boards could then be subsequently reviewed.

We believe the Global Monitoring Report 2004 embodies some useful new insights into the causes of persistent poverty such as poor business climate, weak governance and persistent trade barriers. With the new tools deployed in the report, we hope to see sharpened diagnoses of what countries need to do to lay the foundations for poverty-busting growth, sharpened performance-based allocations of aid, and diagnoses of debt sustainability. We also look forward to the World Bank’s efforts to assist LICUS countries.

Statement by Federal Councilor Mr. Joseph Deiss, President of the Swiss Confederation and Minister of Economic Affairs, Switzerland

Since Dubai, global economic growth has gained pace, but the recovery remains fragile. The industrialized countries must take the lead in consolidating growth by reducing external and fiscal imbalances and addressing potential economic risk and vulnerability.

10 On behalf of Azerbaijan, Kyrgyz Republic, Poland, Serbia and Montenegro, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan.
There has been much talk about the benefits of globalization. However, these will only materialize if globalization is broadly perceived as being orderly and fair to all. Therefore, it is crucial that the international community confront the substantial unfinished multilateral agenda and restore the confidence that international dialogue and negotiations can provide equitable outcomes for everyone. We must revive the Doha trade round and accelerate our efforts under the Monterrey Consensus. It is in this spirit that I greatly welcome the Bank and the Fund’s efforts to produce a report that will help us better monitor our progress towards the Millennium Development Goals.

Global Monitoring Report

I congratulate the Bank for the quality and comprehensiveness of the Global Monitoring Report. Its findings do not come as a complete surprise, but will be invaluable in guiding our future efforts. The international community still must rise to the challenge. We all, individually and collectively, have to do better, and each one of us knows, which specific issues have to be tackled in their own way. The Report gives us the tool we need to monitor ourselves. It will be key to increase global transparency and accountability of the international community. Moreover, it will send a strong message to the political constituencies in donor countries that more aid but also improved access to markets is a prerequisite to reduce poverty.

The policy changes required are of a substantial and long-term nature. Results will only be visible in the medium-term. In light of the detail and comprehensiveness of the report, I propose that the Report be prepared every two years only. The methodology should be further refined and the coverage increased as more data become available, but without sacrificing the comparability of data. It may also be useful that the Report change its focus from time to time and analyze specific areas and topics. A better comprehension of the recent dynamics and prospects of meeting the MDGs in certain countries, for example in Central Asia, the South Caucasus and the Balkans, could help us understand how to achieve better results in these countries.

Education for All - Fast Track Initiative

We welcome that the participating donor agencies have recently agreed on how to operationalize the expansion of the Fast-Track Initiative (FTI) to all poor countries with an agreed poverty reduction strategy and education sector program. While substantially increased as well as more flexible and predictable financing through multilateral and bilateral channels will be necessary, this agreement should facilitate the implementation of this challenging FTI and the achievement of the Millennium Development Goal of universal primary education by 2015.

Long-term Debt Sustainability

I welcome the new operational framework to analyze debt distress, which proposes a more forward-looking approach to debt sustainability analysis than has previously been the case. I endorse, in principle, the underlying analytical concept. It will be important to ensure that low-income countries’ external debt remains sustainable as they pursue the MDGs. But more work is required with regard to the implementation of the framework, in particular the definition of debt thresholds, the consideration of exogenous shocks. The policy implications of the new framework are far-reaching. Primary responsibility to achieve debt sustainability lies with the borrowers themselves. Yet, the creditor community will also need to abide by principles and practices that respect and foster debt sustainability.

The new framework should avoid focusing too early and exclusively on grants to be provided by the IFIs. The issue of concessionality requires a broader perspective of the international development and financial architecture. For one, it is unlikely that the total aid volume will increase rapidly. The framework will therefore need to balance resource availability against the need for enhanced concessionality. Second, it is by far not clear who among the main financiers of low-income countries
should provide the required additional concessionality. Therefore, I suggest that the Bank and the Fund undertake simulations that provide us with the information we need to endorse a final framework by the next Development Committee.

The new framework cannot replace the HIPC-Initiative, which deals with the burden of the past. If HIPC fails to relieve the poorest countries from unsustainable debt burdens, it will not be possible to achieve this objective under the new operational framework either. Thus, HIPC debt relief will remain an important instrument for the time being.

Trade

Rules-based and non-discriminatory trade, and better market access for labor-intensive goods will greatly help to achieve the MDGs. All of us have to make efforts to bring the Doha negotiations back on track and to conclude them as quickly as possible. We have a great responsibility not to loose time in creating a trade environment that will give decisive impulses to the production and exports of developing countries. With only a few exceptions, Switzerland has given full access to its market for industrial imports from developing countries. Emerging economies also have to be prepared to open their markets, and to open them even more to their low-income neighbors.

Tariff and subsidy reductions in agriculture are at the heart of Doha negotiations. Elimination of export subsidies, further decoupling of subsidies from production, and a substantial reduction of tariff escalation are essential elements for a successful Doha development round. Switzerland is in the process of eliminating tariffs and quotas on agricultural imports from least developed countries. However, opening markets is not enough. We also have to deal with the behind-the-border agenda. Developing countries have to be able to take advantage of improved market access. Switzerland has long established an import promotion program, which is successfully bringing producers from developing countries into the global markets.

Our common goal must be that commodities become a dynamic source of foreign exchange for many developing and particularly poor countries while strengthened local and regional food production should help in reducing dependency on food imports and food aid.

Many developing countries have legitimate claims to less reciprocity in their trade concessions and to a differentiated pace of introducing trade rules. Yet, the time has come to take account of economic success and dynamic growth. Not all developing countries have the same needs and differential treatment has to be focused on the countries that have a harder time in their trade integration. This point could make or break the success of the Doha Round.

I welcome the initiative taken by the DAC Chairman to strengthen the dialogue between the trade, agriculture, and development constituencies at the OECD. This will help us to better understand the need for policy coherence. Policies in all sectors are relevant for poverty reduction.

We have to keep our focus on trade capacity building. The Doha negotiations have brought to the fore that it is wrong to dissociate policy performance from the quality of trade cooperation and institutional development. Let us assist developing countries in making better use of the WTO. We must also harmonize the activities of bilateral and multilateral agencies. They all have to chip in. Together, they all have to make trade a tool for poverty reduction.

Harmonization

Last year’s Conference on Harmonization in Rome set a clear vision. Today, there is still a measurable gap between intention, commitment and reality. Many (including Swiss) agencies and institutions have embarked slowly in this direction and have to do better in internalizing the set of existing
recommendations. I commend the Bank for its efforts to modernize and simplify its procedures with a view to introduce more flexibility, free up borrower capacity and reduce transaction costs. While we endorse leadership, we wish to caution the Bank against running ahead of others, expecting them to adjust to the Bank's modernized standards. The integration of all agencies and borrowers from the outset is at the core of the harmonization process.

Of course, all harmonization efforts have to strive for the optimal balance between high standards, cost-efficiency and country specificity. The results framework will certainly capture the positive as well as the negative outcomes stemming from these decisions. There are implications at the corporate level, and we encourage the Bank to deepen its efforts of reviewing, and adjusting where necessary, organizational aspects, human resource policy, policy instruments as well as checks and balances.

IDA-14

I am pleased to note that the IDA-14 negotiations got off to a good start. The work program is heavy and challenging, and there are important issues that require careful analysis and due reflection on the part of IDA Deputies. The discussion on the share of grants in IDA will have to be placed in the context of the new framework for debt sustainability analysis. In addition, the grant allocation framework must be reconciled with the performance based allocation system. Inevitably trade-offs and compromises will be necessary, and we should prepare ourselves to look at the whole question of financing IDA over time with a fresh and open mind. This will require from the World Bank, IDA Deputies and Borrower Representatives a high level of professionalism and respect of multilateral principles.

Middle-Income Countries

Without addressing also the needs of the MICs, the MDGs cannot be achieved and poverty levels cannot be lowered significantly. The challenge is how the Bank can renew its role in the MICs in order to enhance its developmental impact and effectiveness. I welcome the initiative to simplify Bank procedures and to reduce the administrative costs for MICs. Relying increasingly on country systems where appropriate and possible, and strengthening local monitoring and management capacity, is an effective way to deliver Bank assistance. However, greater programmatic lending should not put at risk the Bank's comparative advantage to combine finance with high quality analytical and advisory capacity in areas where difficult questions need to be addressed, inter-sectoral know-how is required and the Bank is perceived as a neutral player.

Infrastructure Action Plan

Infrastructure remains a key element for poverty reduction, and I therefore welcome the Bank’s efforts to scale up its activities in this area. To reach the MDGs, the Infrastructure Action Plan must place adequate weight on rural infrastructure and on the balance between financing the construction and the recurrent and maintenance costs of infrastructure. Where there are financial trade-offs between infrastructure and other key sectors this must be discussed openly and with a strategic and country-specific view. At the end of the day, ODA financing will not suffice to cover the enormous infrastructure needs in developing countries. Instead, it will have to be used strategically to catalyze private sector financing and to promote best practices and compliance with adequate environmental and social safeguards.

Extractive Industries Review

Activities in the Extractive Industries foster infrastructure projects and, if implemented properly, contribute to poverty reduction and economic growth in many countries of the world. The Extractive Industries Review and the associated independent evaluations by the World Bank Group provide valuable
food for thought. I urge the Bank to formulate its position and response to this review without further delay. I do not want to preempt the discussion on this important matter. Nevertheless, it is clear that the Review will have implications far beyond the World Bank Group. As for the World Bank, in addition to its broader role in these industries, I also expect it to become a center of excellence in advising countries on their energy options, including in particular the scope to implement meaningful energy efficiency measures and renewable energy solutions.

Voices of the Poor

Enhancing the voice of the poor is an important issue. But I am not convinced that the proposal by the Development Committee Chairman for a review by an eminent persons group will shed any new light on this matter. Moreover, I see a risk that such an exercise could blur responsibilities and accountabilities for a process, which is being dealt with by the Board of Executive Directors. I expect the Board to come up with a conclusive proposal on this matter.

Statement by Mr. Ghassan El-Rifai, Minister of Economy and Trade, Syrian Arab Republic

We have an improved global economic environment and have witnessed a welcome recovery of growth and capital flows to developing countries. The challenge is how to sustain this recovery over the medium-term and achieve the Millennium Development Goals. The analytical work submitted to us provides a good basis for the necessary policies and actions.

We commend the high quality of the Global Monitoring Report, which outlines a well-balanced monitoring framework and provides a thorough assessment of policies and actions needed to achieve the MDGs and of the priorities. We share its basic message that, on the basis of current trends, most MDGs will not be achieved by most countries and, while indicators show improvements in policies of developing countries over the past five years, actions on the part of developed countries are well short of the Monterrey vision. In view of the risk of faltering resolve regarding the Monterrey compact that we all endorsed, we need to reaffirm our commitments to this partnership and embark on the challenging agenda reflected in the monitoring framework.

A compelling conclusion of the analysis is that progress towards the MDGs must swiftly rise above current trends. We must accelerate the pace of development, requiring actions by all parties and on all the major fronts. The agenda for scaling up efforts is well-defined. The multi-dimensional aspect of policies and actions, noted in previous research work, is clearly delineated. And so is the centrality of economic growth, which has direct impact on income poverty and contributes to expanding resources for the non-income goals, especially education and health.

We agree with the overall priorities for action by developing countries. These cover five major areas: macroeconomic stability, private sector, institutions, governance and human development. The focus should be at the country level, where monitoring and accountability eventually should be based.

Achieving the MDGs depends critically on the progress in Sub-Saharan Africa, which the Report correctly diagnoses as seriously off-track regarding the income poverty and human development goals, with a large number of countries needing to double GDP growth. Accordingly, there is a need to concentrate much attention on Sub-Saharan Africa, building on evidence of success manifested in several African countries and on the new policy orientation shown by the New Partnership for African Development.

As for the developed countries, the Report provided an equally thorough analysis and identified the major priorities: fostering global economic recovery, moving forcefully on the Doha development agenda, and providing more and better aid. The analysis is well-substantiated and shows that, on the
whole, actions are considerably short of the Monterrey vision. A policy area that needs to remain within
the monitoring agenda is the impact of major developed country policies on the growth prospects for
developing countries. The linkages are well-known, and the issue assumes particular significance at this
juncture, owing to the current risks to global recovery arising from substantial fiscal and external account
imbalances of the advanced economies. Setbacks in global recovery would have an adverse impact on
trade and capital flows to developing countries.

The analysis of trade and aid is comprehensive. The evidence regarding the impact of trade
barriers and protectionism on the prospects of developing countries, and the huge opportunities lost, is
striking. Trade barriers in developed countries discriminate against developing country products,
especially in agriculture. It is noteworthy how a pro-development Doha Round could increase the real
income of developing countries by US$350 billion by 2015, lifting 170 million out of poverty. We
appreciate what our two institutions have been doing on the trade agenda, which should indeed be at the
top of our priorities and given a renewed sense of urgency.

The current prospects for providing the necessary amounts of aid are not encouraging. As the
Report shows, there is a large gap between the development ambitions of the international community and
the resources provided. As aid has become more productive and donor capacity has grown, unfortunately
aid amounts have gone down sharply. While there are indications that donors will increase ODA by
about US$18.5 billion by 2006, and that should be commended, it is far below the US$30 billion that
can be effectively used, according to Bank estimates.

We look forward to more work on specific courses of action that will contribute to the flow of
financing, including on remittances. We note the work being done on exploring different modalities to
finance achievement of the MDGs and the ongoing Board discussion. We should maintain focus on
ODA, and we are glad to see a revival of support for the 0.7 percent of income target, though some
donors expect that this can only be met over an extended period. Among the other modalities, the
imaginative International Finance Facility proposed by the UK is prima facie feasible and would help
accelerate progress towards the MDGs; this proposal should, indeed, be further pursued.

One important initiative that holds considerable developmental promise and merits much more
attention on funding is the Education for All/Fast Track Initiative. Promising progress has been achieved
in the initial stages of preparation and implementation. It is heartening that a global framework has been
established and that it is operating at the country level, and that the Catalytic Fund has been launched.
We are also pleased to note that there has been more focus on the universal primary completion objective,
with improved monitoring and tracking of progress and some improvement in mobilization of resources.

And yet the most important challenge facing this initiative relates to financing, which is now far
too low and highly unpredictable. We should address the identified need to increase funding from the
current US$1 billion to US$3.7 billion a year if the universal primary completion objective were to be
achieved, and recognize that the financing gap would substantially widen if the initiative is expanded to
40 countries, as has been envisaged. One could consider such helpful approaches mentioned in the
Report as more flexibility of IDA, more focus on debt sustainability and more concessionality, but there
is no escape from generating a strong political commitment to fill the funding gap.

Financing issues also come to the fore when considering the debt sustainability topic. The
international donor community has made a commendable effort in reducing the debt burden of the
Heavily Indebted Poor Countries (HIPCds), as manifested in the significant falls in debt stock and debt
service burdens. Experience has shown, however, that the HIPC Initiative cannot ensure debt
sustainability; and there are already signs of increasing debt burdens for countries that have reached their
completion points under the program, as well as for other low-income countries. The ongoing work by
our two institutions on developing a debt sustainability framework is appropriately based on preparing a
careful assessment of debt burden indicators to identify cases of significant risk of debt stress and the
required responses in terms of more prudent policies and/or an increase in the concessionality of financing. Care should be taken to ensure that the methodology and operational modalities are sufficiently flexible and realistic, and we look forward to reviewing the proposed further work on the framework.

Turning to the priorities for action by the international financial institutions, the evidence does indicate progress in their contribution towards the achievement of the MDGs, and we note the joint program on focusing on results that these institutions considered at the Marrakesh meeting a few months ago, and their readiness to consider external evaluation of their performance. In view of the funding gaps in financing efforts to achieve the MDGs, contributions to bridging these gaps should be adequately monitored. We also endorse the increasing attention being planned for the middle-income countries, home of a large number of the poor, and for infrastructure which has wide impact on growth prospects and the achievement of social targets.

Finally, we welcome the efforts of our two institutions to ensure consistency between their priorities and those of the Monterrey compact agenda, and we look forward to continuing activities and contributions commensurate with their leading positions among international financial institutions.

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

This meeting offers us an occasion to take stock of where we stand with respect to the Millennium Development Goals (MDGs) and the fulfillment of the mutual commitments agreed upon at Monterrey. As we look back, on both achievements and missed opportunities, we should draw lessons on which to build faster progress in the future. In order to do so, we must clearly identify the constraints faced by each of us, partners in development, in living up to the Monterrey commitments. As we acknowledge and try to work around these constraints, we will need to identify a set of key policy and action priorities toward the MDGs and pursue them in a consistent, well coordinated and determined way.

**Taking Stock of Policies and Actions toward the MDGs and Related Outcomes**

Let us start from where we stand with respect to the MDGs. On current trends, we are on track with respect to the goals of halving extreme poverty and hunger by 2015. This is largely driven, however, by the stunning achievements of China and India. Were these two countries to be excluded from the sample, prospects would appear much less encouraging. The situation is particularly bleak in Sub-Saharan Africa, where, if progress continues at the current pace, only a handful of countries can be expected to achieve the income poverty goal by 2015. Progress toward the other MDGs is even more modest and prospects more uncertain. In particular, health-related goals have recorded very little progress. As pointed out in the Global Monitoring Report, “the prospects are gravest in health”. If we simply stay the course, we will fail by far to achieve the goals of reducing child and maternal mortality, reversing HIV-AIDS, malaria and tuberculosis, and increasing access to safe water in most countries. On education, achievements vary dramatically across regions, with East Asia and the Pacific leading and Sub-Saharan Africa lagging far behind. Gender parity in education is unlikely to be realized in more than a third of developing countries.

On a positive note, economic growth has been rising in developing countries, thanks also to improvements in macroeconomic, structural and social policies, as well as in financial and administrative aspects of public management. However, although growth prospects have improved, they have not done

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11 On behalf of Albania, Greece, Italy, Malta, Portugal, San Marino and Timor Leste.
so at a pace consistent with reaching the MDGs by 2015. To this end, faster economic growth is essential, but it will not be enough. Substantial income inequality, itself a major obstacle to sustainable economic growth, is of utmost concern. Public sector governance has improved less than other policy dimensions and the overall quality of policies continues to be poorer in low-income countries than in middle-income ones. Sub-Saharan Africa still records the worst policy indicators, even though important governance initiatives such as NEPAD—particularly as they start to catalyze improvement at the country level—encourage hopes for a better future. Low-income countries under stress, in particular, present unique challenges with respect to crucial aspects of governance such as civil liberties, participatory processes and the rule of law.

The return to higher growth in the industrialized economies will have positive repercussions on the developing world. Developing countries can fully realize the potential gains from a growing world economy through more trade and increasing financial flows including aid. Progress on trade and aid has not been, so far, as rapid as initially hoped, with aid still falling short of the post-Monterrey commitments and the Doha Round stalemate. However, we take note of the efforts to put back on track the Doha agenda. In reducing obstacles to the free flow of goods and services, developed countries should lead by example. Flexibility is an essential element for success.

**Priority Actions and Policies as We Scale Up**

Good governance, health and education should be at the top of the development policy agenda. A governance deficit mars prospects for sustainable economic growth and true empowerment of the poor—the two basic building blocks toward the MDGs—through multiple channels. Lack of good governance hinders private sector development, hampers the effectiveness of service delivery to the poor, and curtails the effectiveness of aid. Without significant improvements in governance, countries will not be able to realize much gain from efforts toward the MDGs. The role of multilateral development institutions in assisting developing countries to enhance the quality of their governance is particularly crucial at a time when development aid policies are being subjected to intense scrutiny from civil society and national parliaments. An important part of this work are the comprehensive assessments of country standards for anti-money laundering and combating the financing of terrorism. We commend the commitment recently reaffirmed by the Bretton Woods Institutions to these critical efforts.

The health of the population is the prerequisite, together with education, to foster human capital. In Africa, AIDS and malaria have destroyed lives but also the expectation of higher growth. Publicly provided health is a daunting challenge for poor countries. This is where developed countries could most effectively help through research and development, as well as expanding access to essential drugs at low costs.

We need to improve our understanding of the transmission mechanisms linking policy to the MDGs, but the importance of education is clear even at an intuitive level. Education is a key instrument to empower the poor: knowledge is the basis for true participation by the poor in decision-making processes, and only by knowing can the poor hold accountable those who are responsible for the delivery of essential services. As education lies at the heart of technology creation and use, it is essential to improve productivity. An educated work force is therefore a prerequisite for sustainable economic growth. In recognition of this, the Education For All-Fast Track Initiative (EFA-FTI) must remain a priority as we strive to achieve the MDGs. Furthermore, education also plays a crucial role in determining the health and quality of life of mother and child. We acknowledge the significant progress that, thanks to EFA-FTI, has been made in areas such as the establishment of an overall strategy and a global framework for universal primary education, grounded at the country level, and in tracking results. To consolidate these gains, the Initiative must be fully funded and factors limiting the capacity of developing countries to absorb these resources must be addressed promptly. Development partners—governments, multilateral and bilateral donors, and civil society—must work together in fulfillment of their mutual responsibilities.
Developed countries must scale up their action and accelerate progress toward fulfillment of trade and aid commitments. A successful Doha Round is necessary for faster economic growth, both in the developed and developing countries. Although the onus of working toward a more open and fair global trade system falls particularly on rich countries, middle- and low-income countries must also play their part. More attention should be paid to South-South trade and to “behind the border” constraints to trade, so that gains from increased openness could especially benefit the poorest countries.

As for aid, developed countries have yet to deliver fully on their post-Monterrey commitments. We, on our part, remain committed to do so. Increasing aid beyond levels already announced may, however, present considerable challenges in light of existing budget pressures in our countries. It is unlikely that innovative mechanisms for financing aid may substantially ease these constraints. Further, it should be recognized that Official Development Assistance (ODA) can only play a limited role, which cannot replace efforts of developing countries to create an enabling environment for domestic and private sector resource mobilization. Private sector financing will be critical, in particular, to help the middle-income countries to reach their growth objectives. Scarc ODA flows should play a strictly catalytic role in these countries and should remain poverty-focused.

We should also concentrate on enhancing the quality of aid. As resources become more productive, the justification for additional aid becomes more convincing. This is the spirit of the development partnership established in Monterrey in 2002. The World Bank together with its partners is making progress in enhancing aid effectiveness. Our efforts in this direction and progress on aid harmonization and cooperation among development partners should be intensified following the plan of action clearly set by the Rome Declaration on Harmonization. The Bretton Woods Institutions, particularly the World Bank, should take a leading role in moving this agenda forward at the institutional and country level. Better coordination and harmonization are required across the board and are particularly critical to the success of some key initiatives such as EFA-FTI. Where adequate policies and institutional capacities are in place, donors should be willing to transfer an increasing portion of aid directly into developing countries budgets, in order to reduce transaction costs and facilitate alignment behind government strategies.

**Debt Sustainability and Debt Relief**

We encourage the Bank and the Fund to continue their work to define a framework for debt sustainability in low-income countries. We endorse the two core principles underlying the framework: first, that debt sustainability analysis should take into account the quality of policies and institutions as a key determinant of the debt level that countries can sustain; second, that donor and creditor discipline has to be part of a credible approach to debt sustainability. This approach should be consistent with overall aid allocations being based on performance and complement the HIPC Initiative. This Initiative remains pivotal among efforts to break the debt trap for heavily indebted low-income economies.

As the issue of creditor participation continues to be a central concern, we encourage the Bretton Woods Institutions to explore all the available options and bring the issue of HIPC Initiative participation to the core of their relationship with non-participating countries. The HIPC sunset clause is forthcoming and the issue must be addressed rapidly, with the objective of preserving the Initiative and having in mind that an extension should come with proposals to address the structural obstacles the HIPCs face to qualify for the decision point.

In conclusion, the Bretton Woods Institutions must maintain an active and, as appropriate, a leadership role in supporting the MDGs agenda in line with their core mandates and expertise. In doing so, the Institutions should continue to respond to the calls for their increased efficiency and effectiveness.

As we go forward, our Committee should play a stronger role in monitoring progress toward the MDGs and helping steer the course of the Bretton Woods Institutions. The Global Monitoring Report is a
very important tool in this respect. In the future, we need the Report to evolve into a more selective, sharper document. The policy challenges in front of us should be presented in a way that gives the MDGs a palpable context and relevance. Only so can the sense of urgency—which must inform our policy choices and actions—be maintained.

Statement by Mr. Ralph Goodale, Minister of Finance, Canada

Yesterday in the International Monetary and Financial Committee we noted the many encouraging signs of improvement in the global economic outlook. In much of the developing world, better macroeconomic performance, higher commodity prices and greater political stability have set the stage for more robust economic growth this year. Stronger growth is a critical factor in reducing poverty worldwide and is ultimately the best means of ensuring that we achieve the Millennium Development Goal (MDG) of halving global income poverty by 2015.

Notwithstanding generally positive global economic trends, there remain significant disparities in regional growth patterns, and we still face the harsh reality that many of the poorest developing countries, particularly those in Sub-Saharan Africa, remain at risk of failing to achieve a number of the MDGs by the 2015 target. The MDG targets also present a significant challenge for countries in South Asia, home to most of the world’s poor. Even within developing countries, where the target of reducing the number of people living on less than one dollar a day is likely to be met at the aggregate level, continuing inequalities threaten to leave millions below this meager threshold. Next year we will face the first MDG target—that for eliminating gender disparity in access to primary and secondary education by 2005—without success in far too many countries.

The Millennium Development Goals Challenge

In light of these circumstances and the relatively short period remaining until 2015, it is clear that we need to strengthen our efforts to ensure that the promise of the MDGs translates into reality for the world’s poorest citizens. We need to assess our priorities for action for helping developing countries, especially low-income countries, reach the MDGs.

Moving Forward on Trade

It is obvious that market access is key to helping developing countries achieve the economic growth required to meet the MDGs. This means moving forward the Doha Development Agenda. Canada and the Commonwealth Caribbean countries believe that, in particular, eliminating export subsidies and significantly reducing domestic agricultural support are key. At the same time, addressing high barriers to trade between developing countries and encouraging greater trade among them is key to achieving economic growth. Ensuring policy coherence between our trade policies and those of international institutions and properly sequencing reforms will allow us to use trade effectively as an engine of sustainable development and poverty reduction.

Sufficient Resources Must Be Available

It is also obvious that sufficient resources are needed to meet the MDG challenges. We look forward to follow-up work by the World Bank to be tabled at our September 2004 meeting on financing issues related to the MDGs. All donors need to come forward and honor the commitments they made in Monterrey in 2002. Canada has committed to doubling the volume of its international assistance by 2010

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12 On behalf of Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines.
and is on track to meeting this target. Ireland has adopted the objective of increasing its Official Development Assistance (ODA) to 0.7 per cent of gross national income by 2007. Canada is committed to eliminating all heavily indebted poor countries’ (HIPCs) debt owed to it as these countries complete the HIPC process. Ireland has adopted a national debt relief strategy, which, *inter alia*, has total debt relief as an objective. Given that some HIPCs will not be able to meet Decision Point criteria within the agreed HIPC timeframe, we would reiterate our call to World Bank and International Monetary Fund (IMF) members to consider an extension of the HIPC Initiative’s “sunset clause” to the end of next year.

*Mobilizing Private Sector Resources*

The private sector, both formal and informal, holds the potential to mobilize the greatest resources for promoting the economic growth that is necessary to achieve the MDGs. As stressed in this year’s Report of the United Nations Commission on the Private Sector and Development, co-chaired by Prime Minister Paul Martin and former Mexican President Ernesto Zedillo, domestic private sector resources in developing countries have the potential to dwarf foreign private and official transfers. However, structural and institutional barriers to private investment in many developing countries severely limit the potential for private sector growth.

A better enabling environment—one firmly rooted in the rule of law and directed at increasing the returns to investment by poor households such as small-hold farmers—is key to unlocking private sector potential. The World Bank Group, working closely with developing country governments, is a key player in efforts to address institutional barriers to domestic private investment and to support private sector development in member countries. Looking forward, bilateral and multilateral support for private sector development must continue to be linked closely with efforts by developing country governments to improve their investment climates through targeting support to country specific policies and strategies developed in the framework of national poverty reduction strategies.

*Improving the Effectiveness of Assistance*

Quality, efficiency and effectiveness of investments in poverty reduction are just as critical as, if not more critical than, the quantity of assistance. For both donors and recipients, more needs to be done to improve aid effectiveness. Perhaps the clearest lesson from decades of development experience is that aid is most effective when it is targeted at countries committed to good economic, social and governance policies. Consideration of what type of aid is most appropriate for each country—given their different growth paths—and how this aid could be most effectively used has been largely underplayed in policy discussions of development assistance. More attention needs to be focused on identifying those countries that have comprehensive national poverty reduction strategies and are both ready to absorb increased aid and are able to use it effectively.

For their part, donors need to do a much better job of coordinating their assistance efforts with recipient countries and with each other. The Report of the UN Commission on the Private Sector and Development explicitly called on the multilateral development banks to improve their coordination and to reduce overlap in their activities. The Rome Declaration on Harmonization sets out a clear agenda for improving the policies, procedures and practices of all donors. This approach implies greater donor focus on priorities identified by developing countries in their Poverty Reduction Strategy Papers (PRSPs). The Canadian International Development Agency (CIDA) is increasingly moving in this direction. Programming in CIDA’s countries of focus is now based on PRSPs. Ireland and a number of other donors are implementing an innovative new effort to promote the harmonization agenda in Zambia through the Harmonization in Practice initiative. Under this initiative, the donors’ group will pool resources, adopt common reporting, auditing and evaluation requirements and seek to deal with their Zambian partners as one.
The International Development Association’s (IDA’s) Country Policy and Institutional Assessment (CPIA) exercise, which heavily stresses governance and underpins IDA’s performance-based system for allocating financing to client countries, could become a valuable tool in helping bilateral agencies better target their ODA funding to good performers. For this reason, we would urge all Bank shareholders to support the publication of CPIA country scores beginning at the outset of the 14th IDA replenishment in 2005. By releasing CPIA scores, the World Bank would be leading by example in promoting transparency, which is a critical element of governance. Release of CPIA scores also will both increase incentives for better performance in IDA countries and increase the accountability of the World Bank for these assessments.

**Education for All**

Education is one of the most powerful instruments to reduce poverty and inequality and to lay the foundation for sustained economic growth—no country has ever achieved national prosperity with an illiterate population. The Development Committee played a critical role in establishing the Education for All Fast Track Initiative (EFA-FTI), launched to accelerate progress towards achieving the education MDGs. As part of our continuing oversight, we welcome the progress report issued for this meeting. The report effectively outlines both the significant achievements of the EFA-FTI realized within a relatively short period of time and highlights the challenges given our emerging experience with this new practical model of partnership.

We agree that the continued implementation and expansion of the EFA-FTI remains an important mechanism for helping countries achieve the MDG goal of universal primary education by 2015. The EFA Fast Track Initiative links development efforts directly to PRSPs and national education sector plans. It has stimulated policy reforms, led to a more unified policy dialogue and harmonization among donors, and reinforced the link between aid and individual country performance. The EFA Fast Track Initiative has also begun to leverage the transfer of additional aid to participating countries. Canada, for example, will contribute an additional US$100 million in funding to Mozambique and Tanzania and US$20 million to Honduras over a five-year period in an effort to provide more predictable and longer-term support for these countries’ primary education programs. Much more remains to be done, however. We call on other donors to stand ready, as we are in Canada, to honor the Monterrey principle of performance-based aid and fully support the achievement of universal primary education based on a country-driven approach. If the education goals prove difficult, the road to other MDGs will be harder still.

**Long-Term Debt Sustainability for Low-Income Countries**

Effective assistance also means that transfers should be provided in a manner that avoids disrupting longer-term debt sustainability in low-income countries. The HIPC Initiative clearly shows the costs to low-income countries themselves of excessive debt. We therefore welcome efforts by the Bank and IMF to develop and operationalize a debt sustainability framework, including the use of grants, to inform financing decisions. We would urge Executive Directors at both institutions as well as IDA Deputies to take a close look at options, including those that address exogenous shocks, with a view to achieving progress by end of this year. We would support a fuller discussion of this issue as well as other initiatives benefiting low-income countries, small island states and Sub-Saharan Africa at our next meeting.

**The Particular Challenge of Sub-Saharan African Countries and LICUS**

The region of Sub-Saharan Africa poses a special challenge. While many countries have begun to experience positive growth for the first time in over a decade, in most cases rates of growth are still not sufficient to achieve the MDG targets. If current growth trends remain unchanged in the region, only four countries in the region are likely to see annual per capita economic growth of more than 3 per cent.
Moreover, armed conflict in some countries and the devastating impact of the growing HIV/AIDS epidemic continue to cast a dark shadow over efforts to improve economic and social prospects. This region is also home to most of the countries in the category with very weak governance, institutions and economic and social policies. These poor performers, also referred to as Low Income Countries Under Stress (LICUS), have the weakest prospects for achieving the MDGs and present the greatest regional and global security challenges. Given their governance failures, many of these countries are not regular clients of bilateral development cooperation agencies. The World Bank, in cooperation with the United Nations and United Nations Development Programme in particular, has a strong role to play in providing these countries with policy advice. The Bank is also a critical source for capacity building and other forms of targeted technical assistance.

The Special Case of Small States

In an increasingly globalized economy, small states constitute a unique category of World Bank clients. The Report of the Commonwealth Secretariat and World Bank Joint Task Force on Small States highlighted that the extreme openness of these countries can increase vulnerability to external shocks. Susceptibility to natural disasters, limited potential for economic diversification, limited capacities in both the private and public sectors, high levels of poverty, growing HIV/AIDS infection, and limited access to private capital all complicate efforts to lessen this vulnerability. Small states are addressing these challenges in earnest and they look to the World Bank Group and other multilateral and bilateral development partners to play a significant role in supporting their efforts. To truly have an impact, multilateral and bilateral development partners must do more to reflect the specific challenges of small states in their country and regional strategies.

The World Bank is playing an important role in providing support to small states for disaster mitigation and risk management, including substantial assistance in combating the spread of HIV/AIDS. Looking ahead, small states see adjustment to the international trading system and private sector development, including critical technology transfer in this increasingly digital age, as key priorities. Increased capacity in information technologies and greater access to the Internet have the potential to offset some of the physical isolation of small states.

The World Bank Group also can be an important force in catalyzing private sector development directly through support for small- and medium-sized enterprises and indirectly though capacity-building initiatives in the financial sector, including the development of venture capital funds. On the trade front, the World Bank must continue to play a strong advocacy role for small states in international fora as well as through its provision of technical and policy assistance on trade issues.

World Bank Activities in Middle-Income Countries

During our meeting we also will focus on the particular challenges faced by middle-income countries. While they are home to well over half of the world’s poorest, they also have greater resources and stronger institutions to address development challenges. This raises the question of how the World Bank should approach these countries.

For many middle-income countries, governments often have the ability to raise financing in international capital markets, and international financial institutions should not be competing with the private sector for financing opportunities. Greater access to private capital markets is a positive development and a tangible illustration of the progress that these countries have made in the development process. Middle-income country access to private capital, however, can be sporadic.

In times of market upheaval, private capital flows to middle-income countries often drop off dramatically. This volatility is reflected in the dramatic fluctuations of World Bank lending in recent years to these countries. In times of financial crises, such as that in 1997–98, the Bank is called upon to
increase its activities in support of adjustment and of protecting social programs (particularly given the income disparities in some middle-income countries). However, we should not stray from the basic principle that the level of the Bank’s operations in middle-income countries must be guided by informed assessments of the capacity of these countries to take on new debt as well as of countries’ ability to use Bank financing effectively. Thus, the level of the World Bank’s operations must be a function of the need for high-quality interventions that strengthen the prospects for growth. In our view, the Bank should not be setting artificially high notional lending targets.

A recent review of the Bank’s engagement in middle-income countries has suggested that complexities in the Bank loan process can diminish middle-income country interest in borrowing. We welcome moves by the Bank to improve the efficiency of lending operations. In particular, the move to use national environmental and social safeguard standards in cases where the breadth and implementation of safeguards meet those of the World Bank would be welcome. Moving to the use of national safeguards would be a strong demonstration of the Bank’s support for country ownership. However, the Bank does need to be rigorous in its assessment of the quality of national safeguards. The Bank must be careful to ensure that a lingering disbursement culture does not lead to compromises on safeguard standards for the sake of increasing business volume.

The same review suggests that the Bank should increase both the timeliness and quality of its knowledge services to middle-income countries. This, in our view, is critical. While many middle-income countries have a strong capacity to formulate appropriate policies to respond to changing economic and financial circumstances, the Bank can complement these capacities in order to further development objectives. It can provide useful analysis of issues and policies that are seen as key priorities by middle-income country leaderships. Achieving the right balance between the Bank’s policy advisory role and its lending role will strengthen the Bank’s relationships with middle-income country clients and contribute to better development results.

Multilateral and other agencies will also continue to remain engaged with middle-income countries. While coordination among the various players has improved, there is still scope for closer collaboration and further harmonization approaches. More specifically, the recent review of the Bank’s middle-income country operations suggested much more needs to be done to assess the comparative advantage of the Bank vis-à-vis those of the regional development banks with respect to a broad range of investments.

Looking Forward

It is clear that, given their different problems and development requirements, the Bank will need to continue to develop different approaches to low-income and middle-income developing countries. Greater clarity on these respective roles will help the Bank better orient its activities in support of achieving the MDGs. There is now little more than a decade remaining until 2015. Scrutiny of our actions and policies will only increase as we come closer to the deadline for meeting the MDGs. It is encouraging that we know that on a global scale, we will likely meet the goal of halving global poverty. However, the challenges of meeting this target at the country level are daunting. By continuing to work together and by improving the focus of our efforts, we will be successful in guaranteeing a better future for the world’s poorest.
Statement by Mr. Horst Grebe, Minister of Economic Development, Bolivia

Achieving the MDGs – Global Monitoring Report 2004

We welcome the opportunity to continue our deliberations on the pending development agenda framed in the progress toward achieving the Millennium Development Goals (MDGs).

Global Monitoring Report

Let me begin by expressing our appreciation to the Bank and Fund staff for the enormous effort placed in the elaboration of the Global Monitoring Report (GMR). This report was awaited with great expectation by the development community, since it conveys a more concrete meaning for the framework of mutual responsibilities and accountabilities agreed upon by developed and developing countries following the Monterrey Summit. No doubt that the roadmap leading to the implementation of policies and actions is conducive to attaining the MDGs by 2015.

This first attempt to deliver the GMR is in line with the expectations of the developing countries. It describes in a balanced way the progress (or lack of it) in the implementation of policies and actions for which developed and developing countries are accountable in our joint effort to reach the MDGs.

We strongly support the priorities for actions set in the report, in particular, we believe there is the need for a more decisive move in the area of multilateral trade liberalization, whereby the developed countries should have a leading role by example. We also concur with the GMR emphasis on increasing the quantity and quality of aid and on improving the overall coherence of policies to maximize their development impact. Also, we agree that the priorities for the developing countries should be on improving the investment climate, in particular by strengthening property rights and the rule of law, and on improving delivery of basic services to empower the poor. At the same time, we think that developed countries have the responsibility of contributing to a more stable world economic environment conducive to growth in all regions.

Multilateral Trade Liberalization

Multilateral trade liberalization, as materialized in a successful conclusion of the Doha Development Round, can have the more significant, efficient and timely impact to achieve the MDGs. A Doha result of substantial liberalization, including the agricultural sector, would bring dynamic gains in income of about US$500 million per year by 2015 and would lift 140 million people out of poverty. This self evident gains (they do not have the transaction costs of delivering aid), coupled with the direct effect they have on income and permanent employment creation, place these results as a first priority objective to advance towards the MDGs.

In this respect we welcome the detailed account of the GMR on progress or lack of it, in the quest towards multilateral trade liberalization. We consider the new metrics in the report as an advance in the monitoring of trade openness. In particular, this is the case with the inclusion of Total Support Estimates and Producer Support Estimates to monitor protection in OECD countries. We also see as a positive event the use of the Trade Restrictiveness Index, which though imperfect, is a good first attempt on this issue.

For the next report we would like to have a more in depth treatment of the development impact of remittances, as compared with traditional aid flows. Our working hypothesis on this issue is that remittances are more efficient because they act as a negative income tax and have much lower transaction costs than traditional aid. We would also like to see, in the near future, some simulations of the effects of

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13 Representing Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay.
multilateral labor market liberalization. This is the other big impact measure to equalize world labor income, one that augments significantly the effects of liberalizing the market for goods.

*Aid Quantity and Quality of financing modalities*

Let us now discuss the issue of aid, including financing modalities and the quality of aid as reported in the GDR and other related papers.

On this topic, we want to focus our comments in four points. First, the efficiency in the use of aid resources, including the role of recipient countries as well as the role of donor countries. Second, the predictability and flexibility of aid, which is related to overall efficiency, but for analytical reasons, allow us to treat these factors separately as well as give our opinion on the IFF (International Financing Facility). Third, within a broad perspective on the issue, the relation between the amount of aid and the absorptive capacity of such aid. And fourth, a source of financing not yet discussed in this forum which, due to its potential effect on the volume and quality of financing, cannot be left undisclosed. Here we want to make reference to the liberalization of trade in goods and services.

Let us now spell our main points:

First, improving the efficiency in the use of aid can make a significant contribution to reduce the financing requirements to meet the MDGs. In particular, we need urgent work on speeding up the implementation of a harmonization agenda, not only to reduce the bureaucratic burden of cross and multiple conditions but, mainly to coordinate work on environmental and fiduciary safeguard policies. The theme of tied aid is another area where there is an opportunity for a very effective and quick way of improving aid efficiency. We propose to widen the definition of tied aid in the GDR to include technical cooperation and other special purpose aid. Under the scope of this measure, there is still a long way to go for untying aid. In addition to efficiency gains brought about by untying aid, there are also significant positive externalities on capacity building of local staff. We call on all donor countries to untie aid following the example of the UK. This measure alone could bring efficiency gains as large as 6 billion per year, according to a World Bank study. Recipient countries, on their part, need also accelerate reforms to streamline their public expenditure management systems and strengthening their systems of control, among others.

Second, we all know that the unpredictability of aid flows substantially contributes to diminish aid effectiveness. It is in this context that we strongly support the idea of the IFF. By front loading future aid commitments, based on the premise that the rates of return of aid are higher than the cost of borrowing for donors countries, the IFF would bring the necessary additional volume of aid in a predictable way to finance social investment. This would represent a substantial progress towards the MDGs. We would suggest that IFF funds be channeled mainly through multilateral financial institutions, which, according to many studies, have been proven to have better targeting mechanisms than bilateral donors, specially the larger ones. Channeling IFF funds mainly through multilateral institutions would also allow a better pooling of the risks derived from development investments.

Third, on aid volume and absorptive capacity, we are of the opinion that, if the IFF succeeds in raising an additional 50 billion per year over and above the 18 billion in new commitments already pledged to date, a problem of absorptive capacity could arise. Studies (cited in the GMR) by the World Bank assert that the absorptive capacity of the receiving countries is currently in the order of 30 billion per year and that such capacity can be gradually enhanced as polices and governance reforms deepen. We would therefore recommend that when developing the financing plan to launch the IFF, interventions be designed in order to alleviate this possible restriction.

Fourth, we think that any analysis of financing for development is incomplete, if the issue of trade liberalization in goods and services is not also taken into account. We all know that expanded trade is by
far the most efficient way of transferring resources to developing countries. It does not need harmonization, and is a source of permanent employment creation. It is well documented that the potential gains from partial merchandise trade liberalization, plus the elimination of agricultural export subsidies and domestic support, could bring more than US$500 billion in real income gains by 2015. Moreover, remittances of foreign workers to their home countries, currently at 93 billion per year, are almost double ODA flows, despite the significant restrictions to the movement of labor across national borders. There is great potential to substantially increase financing for development, if progress in liberalizing trade in goods and services in the context of the Doha round is achieved. We call for a global effort in making the Doha round a success in the spirit of the Monterrey agreements.

Debt Sustainability

Given the significant financial gap to finance the necessary programs to achieve the MDGs and the vulnerabilities of the economies that increase their debt burden, it is imperative to address the debt sustainability issue. Even in the case of countries that have completed the HIPC exercise, it is very appropriate to think in advance of a more lasting solution, which the HIPC initiative by itself can’t resolve. In this context, we believe it is most appropriate to work in the HIPC front as well as in other alternatives to achieve long-term debt sustainability in low income countries. To this end, it is necessary not only to assure additional funding for topping-up the HIPC countries debt reduction needs, but also to find ways to extend the sunset clause for accessing the HIPC initiative. Such measures would be subject to circumstances that would justify such extension. Using the HIPC mechanism at its maximum, including the reforms to fulfill its conditions, will contribute to the easing of possible problems of debt sustainability in the future.

We understand that the basic responsibility to achieve debt sustainability is within the countries themselves, that is, by improving the quality of the country’s policies and institutions. However, it is also true that specially low-income countries are dependent on aid flows to ease the debt burden. Repayment possibilities on a sustainable basis are closely related to the lending policies of the creditors, the additionality of concessional funds, and the availability of instruments and mechanisms to ease the impact of exogenous shocks. To this end, we welcome the proposed new framework for assessing debt sustainability in low-income countries, as this will provide a more systematic basis for analyzing debt sustainability prospects. We hope that the discussions of the World Bank and Fund will soon bring about a fully operational framework.

Role of the Bank in the Middle-Income Countries

We welcome the renewed and much needed Bank’s support to the Middle Income Countries (MICs). We believe that the Bank should substantially increase its involvement in the MICs, home to over 80 percent of the developing world’s population, and over 70 percent of the poor. Greater Bank’s involvement in the MICs will produce synergies and increase Bank’s effectiveness in low-income countries, and will strengthen the Bank’s financial health. Involvement with MICs has been the core business of the Bank, and it has to be again.

Lending to MICs has been reduced drastically in the last 15 years. According to the latest Quarterly Management Report, current estimation of IBRD commitments is between US$9.5 and 10.8 billion, well below the pre-crisis range of US$14.2 to US$16.9 billion per year. Worse yet, this trend is not expected to be reversed in the next three years, when the average forecast of commitments in the order of US$10.6 billion.

In retrospective, the 2001 Task Force on the World Bank Group and the Middle-Income Countries, focusing mainly in non-lending services and in adding conditionalities to the existing lending framework to the MICs, failed to address the main issue of the contraction in lending to the MICs. We find that it is an unfortunate omission, considering that the Bank’s comparative advantage rests mainly on
the joint supply of advice and financing. This is the main feature that distinguishes it from regular
commercial banks or agencies in the private capital market.

Indeed, it is recognized that the contraction in lending to the MICs is mostly due to factors that
could have been controlled by the Bank. The contraction resulted mainly from the stringent and
bureaucratic application of fiduciary and environmental safeguard policies, coupled with inflexible
lending programs, as inscribed in extremely rigid CASs.

Top level management has already examined the needs of the MICs and is working on an action
plan to increase Bank’s support to MICs. Furthermore, other initiatives such as modernizing operational
policies, instruments and processes could contribute to address the gradual restoration of Bank’s business
in the MICs.

We concur with many of the management proposals to increase Bank engagement in the MICs. In
particular, with the certification of countries to apply their own fiduciary and environmental safeguard
systems to Bank projects, the flexibilization of the CAS composition and the expansion of the CAS
envelope to well performing countries as well as to countries that show progress in reforms. We also
welcome Management’s proposal to simplify investment lending, in particular with simple and repeater
projects.

All these proposals are important steps in the right direction, but on the other hand, it is only the
beginning of the long road to reengagement. We ask staff for periodic reviews of progress in
implementation of the proposed plan of action and ask management to report to the Committee on this
topic in the next meeting.

Voice

The solution of the voice issue needs substantial amount of trust and a renovated spirit of mutual
responsibility and accountability as agreed in the Monterrey Summit. Increased voice in decision making
in the BWIs for the developing countries would substantially raise the ownership of reforms and improve
development effectiveness. We are of the opinion that political will mainly on the side of the developed
countries, is essential to move forward in this issue. This is, in our opinion, a pre-condition to establish a
road map to address the issue. Finally, we want also to highlight that the voting issue and the board issue
are not separable and need to be part of a simultaneous integral solution.

Statement by Mr. D.C. Gupta, Finance Secretary, India

We meet at a time when a broad-based economic recovery seems to be underway in many regions
of the world with the developing countries of Asia in the vanguard. There has been a resumption of
earlier trends in global trade, and a rebound in commodity prices. Doubts are, however, being expressed
whether this marks the beginning of a period of sustained growth because of the uncertainties regarding
the incipient recoveries in Europe and Japan, the continued high price of petroleum, and the persisting
twin deficits and high levels of private debt in the US. The signs from the trends in global capital flows
are mixed. Geo-political and strategic developments, including terrorist attacks in various parts of the
world, continue to dampen investor sentiment and threaten the pace of economic recovery.

Achieving the Millennium Development Goals (MDGs) – Global Monitoring Report

In this context, it is indeed disheartening to note that a number of MDGs may, in all likelihood,
not be achieved. Furthermore, the goals that are met at the global level may hide significant under-
achievements at regional or sub-national levels. Meeting the goals would require those regions and
countries to bolster their efforts, supplemented by suitable external assistance for longer periods. South
Asia region and particularly the countries in our constituency are on track to meet the goal of income poverty, but in various social indicators, like universal primary education, infant and maternal mortality, and gender gap would require a step-up in efforts. It is, therefore, necessary at this juncture for the international development community to take stock of the situation in terms of achievements and shortfalls, and of the performance of the three parties to the Monterrey Compact -- developing countries, developed countries, and the international financial institutions. The Global Monitoring Report prepared by the staff of the Bank and the Fund is a commendable job in collating data for enabling a proper analysis of the performance in different sectors, and to identify the gaps in policy performance standing in the way of achieving the MDGs.

The Global Monitoring Report rightly highlights the wholly inadequate levels of global flows of Official Development Assistance (ODA) as a critical constraint that impedes performance in achieving the MDGs. The most conservative estimates are that as much as an incremental US$30 billion in ODA can be effectively utilized by developing countries annually even today, and far more, say US$50 billion, as capacity develops. The Development Committee had, in Dubai, decided that the International Financial Institutions (IFIs) should identify the volumes and forms of development assistance needed to implement agreed strategies. This needs to be done urgently for appropriate benchmarking of current efforts. Current level of ODA as percentage of gross national income (GNI) of the developed countries is at a much lower level than what was prevailing in the early 1990s, the reference point for the MDGs. Moreover, at a closer look, global statistics of ODA flows reveals that, lately, even the meager increases in ODA flows have been accounted for almost wholly by special-purpose allocations. A large part of ODA has been directed for debt relief or aiding the war on terror, and not to directly finance the incremental cost of MDGs. The need is for flexible, predictable and longer-term aid commitments that can be effectively utilized for meeting the incremental costs of achieving the MDGs. In this regard, the evidence is now very clear that resource allocation by the multilaterals is based on far more reasoned and objective criteria than that by the bilaterals. The bulk of incremental resource flows need to be channeled through the multilateral agencies, such as IDA, with a proven track record of effective use of concessional resources.

Performance-based allocation has rightly become a buzzword. It is now well-recognized that more and more resources need to be directed to countries that have demonstrated the capacity for effective utilization of aid, and where incremental resources have the maximum marginal impact. Yet, in reality, much of aid allocation continues to be driven by strategic considerations rather than objective criteria. Even when performance is claimed to be the basis of allocation of concessional finance, caps and exceptions distort the process quite substantially. Any artificial capping of the allocations on a selective basis significantly undermines the global efforts to achieve the MDGs. While many developing countries have taken bold steps for reforming policies and institutions and improving the investment climate, the flow of ODA to these countries has fallen way short of expectations. As a result, even the better performing developing countries are in danger of slipping up on several of the MDGs.

The South Asia Region is a case in point. There are many emergent problems like serious shortfalls in providing universal primary education and basic health services, huge gaps in access to safe drinking water and sanitation, and challenges of combating diseases. These problems may prevent this region, with the largest concentration of poor people, from achieving some of the MDGs. The quality of governance in this region is not only relatively better, but also is in the process of improvement, as noted in the report. In terms of both unmet needs and performance-based allocation criterion, therefore, more and more concessional assistance should be flowing to this region. Yet, we find that per capita allocations, and sometimes even absolute levels of such assistance to the countries of this region, are some of the lowest, and substantially less than that for countries with much higher per capita incomes.

The recent trend of net negative flows from the World Bank is also a cause of concern. With the efforts to focus on enhanced lending at appropriate terms to middle income countries, we hope that the trend of negative disbursements will be reversed at the earliest. The World Bank and other multilaterals
should step up their investment lending to better position the recipient countries to take advantage of growth opportunities.

While increased level of ODA is critical for achieving the MDGs, global trade is a key factor for promoting economic development and poverty alleviation, especially in developing countries. In terms of hurting development, barriers to trade prevalent in developed countries, particularly on goods and services where developing countries have a comparative advantage, dwarf the insufficiency of global ODA flows many times over. While developed countries are expected to remove tariffs on developing countries’ exports of manufactured goods as well as agricultural products, and dismantle the massive export subsidies, there is little evidence of appreciable progress in this direction. If anything, the movement is in the reverse direction. New restrictions on global long distance provision of services, notwithstanding the efficiency and resource gains for developed countries, is a manifestation of this protectionist trend. The IFIs have been playing an invaluable advocacy role on issues of international trade, especially on improving market access for products and services of interest to developing countries. They must not only continue this advocacy but add further value by helping developing countries in strengthening trade infrastructure and building capacity to maximize the benefits of globalization.

On the harmonization agenda for the IFIs, there has been a significant forward movement. But, the overwhelming focus so far has been on procedural harmonization rather than substantive issues. There is still much to do on focusing the IFIs on their respective core competences to derive benefits of their comparative advantages. Further, harmonization has to go hand in hand with country ownership, by reconciling borrowers’ needs with IFIs’ priorities in each case. The harmonization efforts should result in genuine synergies at the country level, aimed at reducing transaction costs and working with countries to help achieve the priorities outlined in country-owned PRSPs.

We are glad that the close linkage between access to basic infrastructure and human development has been recognized. Reduction in rates of child mortality cannot be achieved without improving access to safe drinking water and basic sanitation; roads facilitate access to schools and hospitals; electrification improves efficiency of basic services. There are large gaps in the availability and quality of key infrastructure. The Bank’s renewed commitment to scale up infrastructure financing through a well-crafted Infrastructure Action Plan is welcome. We eagerly await its implementation in full measure. The success of the plan will depend critically on how the key administrative issues, including streamlining the safeguards compliance framework without defeating their underlying purpose, are addressed.

The issue of internal governance of the Bank and the Fund has a close bearing on the fulfillment of the Monterrey commitments by these IFIs. We hope the ongoing discussions address the substantive issues of voice and are not confined to peripheral changes. The stake of developing countries should reflect the current economic realities, like GNI measured in PPP terms. At Monterrey, we all committed ourselves to rectifying the present imbalance. The core of the matter lies in actual shareholding levels in the Bank and enhanced quota at the Fund. In terms of decision-making, developing countries have to be enabled to make their concerns heard, and influence decisions that ultimately affect them the most. Against this backdrop, it is equally important to devise a transparent and merit-based process for selection of the chief executives of IFIs.

Education for All (EFA) – Fast Track Initiative (FTI)

Given the huge challenge of EFA, the achievements on this score have been rather limited. The shift in the focus to country-level operations adds to the uncertainties of donor coordination, shortens the horizon, increases the unpredictability of external assistance, and tends to divert ODA from other equally important sectors, countries and regions. The focus of FTI should continue to be on global efforts for EFA with flexibility for recipient and donor countries. The advocacy of FTI should result in incremental concessional assistance to developing countries rather than a mere redistribution within the existing ODA envelope. The lack of additional ODA has perhaps been the biggest limitation of FTI. The meager
commitments for a few years are simply inadequate to expand the FTI. These commitments and actual funds flow commensurate with the requirement of external financing for EFA have to come as a part of larger overall commitments for MDGs.

There is a need for better donor coordination at the global level. The multilaterals should take the lead. A strong country ownership of the program and better alignment of donors’ requirements with domestic procedures will help in the success of the program. There is need for exercising caution against a multiplicity of donors at the country level leading to duplication of reporting, monitoring and safeguards requirements.

**Financing Modalities for MDGs**

We support further work in developing all the options including International Finance Facility for financing MDGs. The concern of the developing countries is how the aid is delivered and not how it is raised. We see a lot of merit in front-loading the ODA. However, a significant step up in current net ODA should be the starting point for exploring topping-up options. The front-loading should be done after a significant step up in the ODA level. It should also be ensured that, post front-loading, after 2015, net ODA does not fall below a pre-committed level. The aid flow from any new option should be through the existing multilaterals to reduce additional requirement of donor coordination and duplication of aid selectivity.

**Long-Term Debt Sustainability in Low-Income Countries**

It is now well acknowledged that even highly concessional lending can impose a debt-burden, which many of the poorest countries of the world cannot sustain over the long term. We acknowledge the need to go beyond reactive approaches such as the HIPC initiative and devise a framework that will provide guidance to borrowers, donors and the IFIs alike, and potentially help pre-empt contracting of debts that become unsustainable. We acknowledge the quality of work done by the Bank and the Fund to prepare an appropriate framework. This work needs to be further refined.

We are, however, of the view that there cannot be a perfect mathematical solution to the debt-sustainability issue. What constitutes ‘excessive debt’ itself is a critical issue and no single quantitative measure can be used to arrive at a conclusive judgment regarding sustainability of debt in specific situations. Further, we see contradictions between the proposed framework and the performance-based allocation model. It is implicit in the framework that countries with poor policies and institutions can only sustain lower debt thresholds and therefore need more grants and concessional assistance. The use of scarce concessional resources to keep high debtors afloat will come at the expense of more deserving, and often equally poor countries that have made significant efforts to improve their policies and institutions. The global community will have to ensure that any debt relief comes as net additionality to ODA rather than by redistributing the funds meant for MDGs for non-debtor countries to the countries in need of debt relief.

There is a strong case for harmonization among various donors and multilaterals in applying selectivity principle for aid flows to the developing countries. The aid allocations should be based on need and performance alone. The achievement of MDGs cannot be left to the market forces alone. These would require public investments over long periods. Therefore, private capital flows to a country should not be over-emphasized while estimating its capacity to raise funds for the MDGs and deciding the concessionality element. The performance assessment should be simple, transparent, and inclusive of the stakeholders. While LICUS and HIPC countries may require highly concessional aid, the requirement of other low-income countries is also very substantial. Any artificial capping of their allocations will significantly undermine the global efforts to achieve MDGs.
It is time for all parties to the Monterrey compact to ‘walk the talk’ for a significant and swift scaling up of actions for achievement of MDGs. Notwithstanding the near stagnation in ODA flows, the developing countries have still made significant progress in the last decade. Now it is time for action by developed countries. This should get reflected in much increased commitment levels in the upcoming multilaterals’ replenishment processes and in successful completion of the Doha round.

Statement by Mr. Ramón Guzmán, Director General for International Finance, Ministry of Economy and Finance, Spain

Global Monitoring Report

We welcome this first Global Monitoring Report (GMR) and commend the Bank for the excellent work. This GMR is, in our view, a very good starting point to set up a global monitoring system that will serve to provide a clear view on the status of the progress towards the MDGs, a fine assessment on the policies and actions that are being implemented by all stakeholders and, in light of the results, to prioritize the agenda accordingly. This last point is probably the weakest of this first report as it should have provided a more precise sense of the priority areas where the focus should be placed going forward.

We firmly believe that accelerating the progress towards the MDGs will critically depend on the implementation of the Monterrey consensus and, therefore, on the joint effort of (i) developing countries to improve their economic policies, institutions and governance; and (ii) developed countries to increase the access to their markets and provide more and better ODA. The rates of progress attained thus far are in no way commensurate to the magnitude of the challenge -even in the MDG of halving income poverty, the only objective that will be attained but at the global level. Nonetheless, with the dynamism and strength that the global economy is regaining and the appropriate sense of urgency, we believe that significant improvements can be accomplished. In the medium term, maintaining the strength of the global economy and, therefore, the progress towards the MDGs will require an orderly adjustment of the global macroeconomic imbalances.

The key to success lays critically on the ability of developing countries to increase their rates of economic growth, a goal that will require a stronger track record of sound macroeconomic policies and structural reforms, improved institutions and better governance. We acknowledge the improvements in policies observed in all regions and the role played by the PRSPs in poor countries, and recognize that ownership of the programs has been essential to move policies forward.

This being said, the change in general has been modest and the scope for improvement remains very large, notably, in structural and social policies and governance which is one of the weakest areas. In fact, being governance one of the areas where less progress has been attained it could be an issue to focus on in the next GMR. Improving the investment climate by building institutions that support the efficient functioning of markets is imperative to promote private sector activity, domestic and foreign alike and, in this respect, strengthening property rights and the rule of law have, indeed, to be key priorities. In addition, we would like to further emphasize the role of infrastructures as an engine of growth and as a major condition to improve the provision and access to social basic services by the most vulnerable groups of the population. We appreciate and encourage the Bank’s re-engagement in infrastructure through its new action plan and look forward to the results of its implementation.

Developing countries have to place growth at the center of their development strategy. Yet, we concur that for growth to be more effective at reducing poverty, the poor have to be in a position to benefit from that growth and this will only be possible with a major effort of investment in human capital, notably education and health.
We concur with the agenda for developed countries focused particularly on increasing the access to their markets and providing more and better ODA. In trade, a successful conclusion of the Doha Round would be a major push forward. However, it should be born in mind that for countries to be able to reap the benefits of trade they have to have a sufficient capacity of response from the supply side and to this aim there is still a comprehensive behind the border agenda that has to be pursued.

The discussion about the financing resources to meet the MDGs requires, in our view, taking full consideration of the fact that, for the largest part, these funds will have to come from the mobilization of domestic resources. ODA is a relevant part in the equation but one should not loose perspective of its relative importance when compared with other pools of resources -including foreign direct investment and remittances- stemming from an improved investment climate and a stronger rate of growth.

This being said, we firmly believe that increasing the quantity and quality of ODA can play a decisive role in the joint effort to accelerate the progress towards the MDGs. The commitments we pledged in Monterrey to significantly increase our ODA and the efforts we are devoting to enhance its effectiveness are clear reflection of this conviction. Moreover, we concur that as developing countries consolidate a track record of sound macroeconomic policies, structural reforms and fight against poverty, their absorption capacity to effectively use an additional amount of resources will expand and, as a consequence, the incremental pledges of ODA made in Monterrey may fall short of the resulting needs. Complying with our part in the development agenda requires our full and effective support to such good policies and, therefore, we are ready to explore ways that may facilitate the mobilization of the necessary resources.

We welcome the work done by the Bank to identify possible modalities to increase ODA beyond the Monterrey Commitments. However, we view this work still very much in progress. Further pragmatic thought should have to be given to the feasibility of all options in the next few months before the Annual Meetings.

We believe that as critical as increasing the volume of ODA might be, enhancing its quality is even more important. It is in this light, that we strongly support, firstly, the ongoing work to better define the form and level of concessionality with which we can better tailor the aid to the specific circumstances of countries. And, secondly, an enhanced coordination and harmonization among donors.

Debt Sustainability

Regarding the HIPC Initiative, we are ready to explore suitable ways to help those countries that have not reached the decision point yet but are making a visible and genuine effort to improve their track record of good economic performance and good governance. We look forward to the work that will be presented by the Fund and the Bank next fall with reasonable options to address this issue.

Regarding the topping up, we believe that it is reasonable to envisage the possibility of providing exceptional additional debt relief to those countries that, due to external shocks, have seen a fundamental deterioration of its economic circumstances and reach the completion point with unsustainable debt indicators. Our main concern in this regard is that the topping up should, in no way, be a reward for poor economic performance. Countries may have to incur in new borrowing between the decision and the completion point and, therefore, special care should have to be taken when determining the reasons for the extent of new borrowing and the specific areas for which it was used. We are open to consider changes in some key parameters used to calculate the NPV of the debt to contemplate the provision of additional debt relief. Changes in the exchange rate can present a more clear-cut case than changes in the discount rate.

Finally, we broadly support the proposed framework for debt sustainability in low income countries. We have particularly appreciated the emphasis put on the fact that while creditors and donors
can help, the primary responsibility of achieving debt sustainability lies in the low income countries themselves.

We acknowledge that there are still many operational implications to be clarified. One major implication of the proposed framework is that it implies providing a larger amount of grants. In this regard, particular attention should have to be given, first, to the way the access to grants is determined as it can, in no way, penalize those countries that are performing better. And, second, to the implications that could stem for those countries that having a reduced access to credit they do not receive a sufficient amount of grants.

Finally, given their vulnerability to external shocks, we welcome the work that is being done to find ways to assist low income countries in dealing with them.

Global Monitoring Report

We welcome this first Global Monitoring Report (GMR) and commend the Bank for the excellent work. This GMR is, in our view, a very good starting point to set up a global monitoring system that will serve to provide a clear view on the status of the progress towards the MDGs, a fine assessment on the policies and actions that are being implemented by all stakeholders and, in light of the results, to prioritize the agenda accordingly. This last point is probably the weakest of this first report as it should have provided a more precise sense of the priority areas where the focus should be placed going forward.

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This being said, we firmly believe that increasing the quantity and quality of ODA can play a decisive role in the joint effort to accelerate the progress towards the MDGs. The commitments we pledged in Monterrey to significantly increase our ODA and the efforts we are devoting to enhance its effectiveness are clear reflection of this conviction. Moreover, we concur that as developing countries consolidate a track record of sound macroeconomic policies, structural reforms and fight against poverty, their absorption capacity to effectively use an additional amount of resources will expand and, as a consequence, the incremental pledges of ODA made in Monterrey may fall short of the resulting needs. Complying with our part in the development agenda requires our full and effective support to such good policies and, therefore, we are ready to explore ways that may facilitate the mobilization of the necessary resources.

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We acknowledge that there are still many operational implications to be clarified. One major implication of the proposed framework is that it implies providing a larger amount of grants. In this regard, particular attention should have to be given, first, to the way the access to grants is determined as it can, in no way, penalize those countries that are performing better. And, second, to the implications that could stem for those countries that having a reduced access to credit they do not receive a sufficient amount of grants.

Finally, given their vulnerability to external shocks, we welcome the work that is being done to find ways to assist low income countries in dealing with them.

Statement by Mr. Li Yong, Vice-Minister of Finance, People’s Republic of China

Since our last meeting, the global economy has been recovering at a rapid pace, and the developing countries have been further deepening their structural adjustments. These developments have created a favorable condition for advancing the global agenda of poverty reduction. Despite the encouraging trend of global economy with cyclical recovery and rebounding private capital flows to emerging markets, many developing countries, especially the least developed ones, are still confronted with economic difficulties, and achieving MDGs remains a formidable challenge.

I would like to share with you my observations on the specific issues on the agenda as the following.

Global Monitoring Report

We welcome this first annual report on the progress towards achieving MDGs. We thank the staff of the World Bank and the International Monetary fund for their work in this area. The report analyzes in detail both the opportunities as well as challenges in reaching MDGs. It provides an objective assessment on the progress achieved so far by developing countries, developed countries, and International Financial Institutions (IFIs) in their efforts to implement Monterrey Consensus and achieve MDGs. The report also pinpoints the gap between the action and commitment by the parties concerned. Overall, the report has provided comprehensive and timely information for the Development Committee. We believe this report will exert positive influence on strengthening international cooperation, forming global solidarity, and speeding up progress towards MDGs. In addition to their efforts in monitoring various indicators of progress towards MDGs, we encourage the Bank and the Fund to focus on the selected policy areas that are in the most need of scaling up efforts, and put forward constructive suggestions for the discussion of this committee.

Actions by Respective Parties in Achieving MDGs

As bluntly pointed out by the report, without substantially accelerating progress towards MDGs, most countries will not meet MDGs in 2015. Therefore, the most urgent need is for all parties to take their respective responsibilities seriously and scale up actions to fulfill their commitments at Monterrey. We will comment on the key actions that need to be taken by each party as follows:
Developing Countries

We fully endorse the emphasis in the report that economic growth is critical for poverty reduction. We share the view that the design of economic development strategy should be country-driven and be supported by international community. We are pleased to note that there is emerging consensus by all parties on the key factors for economic growth, including the increase of investment in infrastructure, the promotion of balanced development of social sectors, the enhancement of Public-Private sector partnership and the improvement of governance structure.

By focusing on results in development and poverty reduction, developing countries have made impressive progress in deepening structural adjustments. Developing countries as a whole have outperformed their developed counterparts in terms of economic growth. The high growth has greatly enhanced the progress in social elements of MDGs. However, we should clearly recognize that, some developing countries, especially the low-income ones, are in severe difficulties to attain economic growth. Many developing countries still lag far behind MDGs in education, water sanitation, disease prevention, and environment protection, due to the lack of adequate resources to meet the needs of MDGs.

Developing countries’ efforts in deepening the reforms in key areas could not be sustained unless there is adequate financial support. However, we regret to note that the current level of official development aid (ODA) to developing countries is significantly lower than what is needed. We are also concerned that the cash ratio of ODA for developing countries has decreased from 60% in the early 1980s to 30% now. Mobilizing additional aid and more aid in cash form is an urgent issue in accelerating efforts towards MDGs. According to the conservative estimation by the report, developing countries can effectively utilize at least additional US$30 billion aid annually. Going forward, as countries improve their policies and investment climate, they will be able to absorb additional US$50 billion aid annually. The lack of long term and predictable aid support, a key issue in the current debate, has inevitably affected the progress of policy reforms in developing countries.

Developed Countries

The structural reforms by developing countries should be supported by adequate aid from developed countries. This is key to achieve MDGs, and it is also the core of Monterrey consensus. Therefore, sufficient aid should be provided for the countries which have committed to implement necessary reforms and are capable to use aid effectively. We support the point made by the report that additional aid should be provided in the higher proportion of cash form to meet the immediate needs of recipient countries. And predictable and longer term development aid should be committed to support good policy performance.

We appreciate the UK proposal for International Finance Facility (IFF) as a feasible mechanism to mobilize additional international aid. We welcome the efforts of the recent Paris meeting to promote international consensus on increasing aid. We also welcome the studies by the international community on other feasible options to mobilize more aid. We hope that the current replenishment negotiations, including IDA 14, Asian Development Fund 9 and the African Development Fund, would achieve positive progress. We call for all developed countries to increase development aid to meet the UN target of 0.7% of their GNI, and make their due contribution to MDGs.

The structural adjustment by developed countries and hence their sustainable economic growth will create a favorable external environment for developing countries’ growth. We hope that the developed countries would adopt appropriate macro-economic policies to address their internal imbalances, instead of resorting to trade protectionism to shift the responsibility of adjustment to developing countries.
We agree with the report that developed countries, given their weight in world trade system should lead by example to promote the successful conclusion of the Doha round negotiation. Developed countries should make further efforts to eliminate agriculture subsidies and reduce tariffs. We expect tangible results from this round of trade negotiation.

The Role of IFIs

The IFIs play an important role in achieving MDGs. The World Bank, the International Monetary Fund, and regional development banks should, based on their mandates and comparative advantages, strengthen their cooperation and coordination to support developing countries’ policy reform and urge developed countries to increase official assistance. As far as the World Bank is concerned, we welcome the progress achieved so far by the Bank in promoting country ownership, emphasizing infrastructure development, and reducing cost of doing business. We applaud the Bank’s efforts to strengthen its support for Middle-Income Countries, including increasing flexibility and simplifying procedures, lowering financial cost specifically reducing the front-end fee, etc. These measures will not only benefit borrowing countries, but will also help the Bank to increase its competitiveness and achieve its mandate. We urge the Bank management to implement these proposed measures as soon as possible so as to speed up the process of international development and poverty reduction.

Debt Sustainability

We appreciate the progress of HIPC countries in conducting necessary structural adjustments and welcome the efforts by the international community to reduce the debt burden of HIPC countries. There is, however, still a long way to go before the debt burden of the least developed countries could be completely relieved. The debt sustainability framework currently under discussion will be conducive to prevent another major debt crisis. However, it has to be realized that the problem of debt overhang cannot be addressed unless the debt-ridden countries could achieve sustainable economic growth and development. Development of these countries requires increased investment in infrastructure and continued external financial support. Therefore the relationship between desirable fiscal space and adequate funds for development needs must be appropriately handled. The debt sustainability framework should not work as financial constraints to the country’s development. Therefore, we believe the issue of debt sustainability should be discussed in a broader context of promoting international development and poverty reduction. Only in this way, can a workable framework be formulated.

Statement by Mr. Aleksei Kudrin, Minister of Finance of the Russian Federation

Global Monitoring Report 2004: Policies and Actions for Achieving the MDGs and Related Outcomes

We welcome the Global Monitoring Report as an important working tool for assessing progress towards Millennium Development Goals and related outcomes as defined by the Development Committee. Taking stock of this progress is essential for focusing our attention on the key steps and policies needed to achieve the MDGs. The report strikes the right balance between generality and specificity and addresses major development issues in a frank and systematic manner. We hope that this first exercise of its kind will add realism to our understanding of the MDGs and development more generally.

We fully support the main message of the document, namely, that increasing aid alone cannot bring us closer to attaining the MDGs. The report demonstrates that tangible and sustainable progress toward poverty alleviation and the MDGs is only seen in countries that have substantially improved their business environment. The best external assistance can hope to do is to complement domestic policy efforts. It is up to the developing countries themselves to enhance their competitiveness and diversify their national economies, and that in turn requires that they maintain sound macroeconomic, structural
and social policies and good governance, invest in physical infrastructure and human capital, create enabling environment for private sector development and foreign direct investments, harvest globalization opportunities. External aid can help to foster these important internal changes, but it cannot substitute for more reliable incentives to growth that the developed countries could provide by eliminating biases in their trade policies, liberalizing and regularizing cross-border movement of goods and services, facilitating financial flows, including workers’ remittances.

At the same time it is also clear that the existing system of aid mobilization and allocation is not optimal for catalyzing development in recipient countries. For example, the IFIs could do more to help borrowers create better domestic economic environment. The World Bank Group is a case in point. Due to its policy and instrument constraints in the last decade the Bank was unable to provide full-fledged support for large scale investments in infrastructure, and only recently started showing renewed interest to this area. The Bank also has difficulties in lending to sub-national levels of government, and does not get sufficiently engaged in private sector development or improving access to international private capital markets. If the IFIs are serious about helping their clients achieve the MDGs, they should concentrate on the areas where they could make a real difference using innovative and flexible approaches and instruments.

In this respect we believe that the Global Monitoring Report sets a good departure point for tackling development issues in a more constructive and efficient way. First, the report clearly underscores the crucial role of economic growth and good policies in developing countries as the only reliable source of poverty alleviation and decreasing aid dependency. Second, it shows that progress indicators as incorporated in the MDGs cannot be achieved in isolation from combined efforts to foster growth and assure its social and environmental sustainability. Third, the report addresses the vital role of infrastructure in economic and social progress – a topic that has been neglected for a long time to the detriment of the developing world. Fourth, it shows that there is a trade-off between increasing aid amounts and improving its quality.

Most of these issues are not new. Indeed many of them have been on the agenda of previous DC sessions and remain the focal point of IFIs activities because they are at the core of the development challenge. In some sense therefore, the repetition and reiteration of these issues is useful and even necessary. Nevertheless, it would be desirable to clarify the main purpose of the Global Monitoring Report. As we understand it, the report has been largely driven by the Monterrey Consensus, which established certain responsibilities of the parties involved in global development.

With this in view we would have expected the Global Monitoring Report to provide a clear and candid assessment of actual changes in policies and outcomes achieved since the Monterrey Conference. Although the document contains some useful indications, the overall situation and its dynamics remain unclear. The document does not answer some basic yet important questions. For example, are all parties already delivering on Monterrey commitments? If not, why? What progress can be realistically expected and in what time frame? The report should take these lessons of stocktaking to explore whether the expectations associated with the Monterrey Consensus are realistic and whether they should be adjusted. Perhaps as a result we would even be forced to admit that the entire framework has failed to take off and should be abandoned. Such candid analysis could help the development community stop wasting scarce resources on fighting impossible battles and instead concentrate its efforts on the issues within direct reach, where broad consensus of all parties can realistically be achieved. We think that such analysis and practical focus should be incorporated into future Global Monitoring Reports.

Financing Modalities Toward the Millennium Development Goals

Dissatisfaction with the current levels and quality of aid has led to a number of radical proposals of new mechanisms for mobilizing and frontloading aid. These proposals include imposing an international tax and creating the International Finance Facility.
On the issue of *global taxation*, we believe that it is premature to discuss any concrete proposals prior to receiving an assurance from national parliaments that they would in principle support such a tax. Moreover, we believe it would be utterly inappropriate to call for the creation of a supra-national taxation authority that would be necessary to enforce any such arrangement. It should be made crystal clear that any attempt to infringe on national sovereignty of members has no place in this institution.

On the issue of the *International Finance Facility*, we see a number of conceptual weaknesses associated with front-loading development assistance as presented by the IFF. In particular, the IFF proposal divorces meeting the Millennium Goals from economic growth, presenting them in an isolated way. The key to development is in relying on domestic mechanisms of growth. Financial assistance is only part of what the developed countries can do to help catalyze growth and development.

The IFF proposal is also static, meeting the MDGs is seen as a one-time event. We believe that sustainability of achievement beyond 2015 is no less important, and that by ignoring the costs of retaining the levels that are yet to be achieved we are not doing justice to the enormity of the problem.

The proposed frontloading mechanism effectively presumes that the bulk of the development challenge will have been met by 2015, and hence that development assistance can decline in subsequent years. We find it hard to share such optimism. Massive mobilization of financial resources in the active phase of the IFF is likely to increase aid fatigue, making it virtually impossible to raise necessary development financing after the IFF horizon when donor countries would have to pay the bill for frontloading. We also would suggest revisiting the analytical premise of the IFF, namely, that social and economic returns of aid are higher than the cost of the borrowed funds.

In practice the IFF would mean the end of performance-based allocation. The combination of automatic targeting and frontloading of aid would inevitably result in re-allocation of resources in favor of poor performers. This contradicts current practice in most MDBs. The end result of this transformation is not hard to predict: the efficiency of ODA would drop dramatically.

Finally, launching such a new mechanism would have serious legal problems and high transaction costs. A much easier way for any donor country that wishes to frontload its development assistance would be to finance it unilaterally through additional contributions to IDA or similar existing mechanisms.

*Education for All – Fast Track Initiative*

We welcome the presented Progress Report and particularly its focus on concrete actions and results. We believe that the ultimate success of the Initiative would critically depend on whether we are able to maintain this focus in the future and clearly link external assistance in the area of education to country performance in achieving their own goals of enrollment, completion and quality of education. However we should beware of the continuing proliferation of targets in this initiative, which holds the risk of micro-management by external donors and consequent loss of country ownership.

In this respect we fully agree with the need to strengthen country capacity for monitoring the performance of the education sector, so that both the government and the donors can see the practical result of their efforts as they progress. We are particularly encouraged by the suggestion to use such monitoring to determine relative effectiveness of the various policies and instruments used. Such analysis is essential for efficient allocation of resources, which are always too scarce to waste. Learning from experience what works and what does not would help the countries adjust their programs and goals, and donors would be able to concentrate aid on the areas and in instruments that are most effective. Ultimately
we believe that the ability to demonstrate tangible results will be the key condition for maintaining or increasing the level of financing of this initiative in the future.

In terms of modalities of financing for the Initiative, we agree that flexibility and predictability of support are important. We believe that the World Bank is setting an excellent example in this area, and hope that other development agencies will follow its example in simplifying and rationalizing aid modalities. At the same time we believe that flexibility should not be practiced at the expense of program sustainability and country ownership. We see the Fast Track Initiative as a tool for focusing the donors’ and client’s attention on the things that really matter, and on the means of addressing key development priorities in the way that most suits each country’s particular circumstances. As with all aid programs, EFA-FTI should not only monitor progress and effectiveness of the use of resources, but it should also envisage mechanisms and timetable for eventual reliance of the education sector on the country’s own resources.

*New Approach to Lending and External Assistance for Enabling Debt Sustainability in Low-Income Countries*

We welcome the progress in designing a framework for lending and external assistance to low-income countries on the basis of maintaining debt sustainability. This is a first step towards reducing the risk of debt crises in low-income countries while preserving their access to external finance, including ODA.

The issue of debt sustainability in low-income countries is indeed very pressing, as demonstrated by the HIPC countries and others, such as the seven poorest CIS states. The latter started their transition to market with zero debt, yet quickly reached unsustainable debt levels. Part of the blame for this lies with the IFIs and bilateral creditors and donors, who overestimated these countries’ growth potential and repayment capacity and thus misjudged the appropriate pricing and volume of lending.

Although most building blocks of the new framework make sense, the methodology needs to be further clarified, refined and tested. For example, the objectivity of the CPIA and its use as a tool of estimating the limits of debt burden and debt service raise many questions. Although there may be some link between CPIA ratings and historical probabilities of default on external debt, this link in most cases is fairly loose. Moreover, the direction of causality between these indicators is by no means clear: in some cases low repayment capacity may be caused by the low quality of policies and bad governance, and in other cases the overall deterioration of financial situation due to an external shock may lead to economic and socio-political crises resulting in bad policies and governance.

In general, we support the idea that low-income countries are themselves responsible for debt sustainability. This involves, among other things, improving policies and institutions, enhancing debt-management capacity, and implementing domestic policies that reduce their vulnerability to exogenous shocks (such as introducing greater fiscal responsibility at all levels of local authorities, diversifying exports and holding adequate foreign exchange reserves). Donors should also be aware of the debt implications of their aid, so that they can adjust the modalities and volume of their support to low-income countries accordingly. In particular, there is a need to design and actively use contingent finance mechanisms that would help low-income countries in dealing with external shocks.

We also believe that we cannot analyze debt sustainability separately from the outcomes of the HIPC initiative. There is a need to clarify how the new debt sustainability framework will correspond to the HIPC framework. If the two frameworks yield different results, this may lead to a great deal of confusion with respect to the needed amount of assistance. The Executive Boards will have to address these issues by the end of 2004 when they discuss the HIPC initiative sunset clause.
Enhancing the Voice and Participation of Developing and Transition Countries

We welcome the efforts to keep on the international agenda the issue of the voice of developing and transition countries in the World Bank Group. The reason why our voice matters is because we are the Bank’s clients, and our knowledge and experience of development are essential to make development assistance work. It is from this angle that we view any proposals for enhancing the voice and participation of developing and transition countries.

It is not in the interests of any client country to undermine the effectiveness of the World Bank. In our view, it has seasoned governance structure based on the tradition of “governance by consensus”, and we would not support any proposal that undermines it, or that might handicap the Bank’s financial position.

In general, we are not aware of any research or analysis that traces Bank’s problems or inefficiencies to its governance structure or distribution of shares and votes.

In any case, no developing or transition country should see their voice impaired as a result of the overall exercise.

We could do much more to enhance the real voice and participation of developing and transition countries by strengthening country ownership of all Bank and Fund programs. If aid operations are based on the client’s own priorities, systems and institutions, their effect will be stronger and longer lasting. In formulating such programs the IFIs should be mindful that sovereign governments are the only legitimate representatives of their countries. They have sole responsibility for the implementation of the projects and repayment of the loans. In this respect, although views of other stakeholders should be heard to enrich the discussion, in the end it is the government program and government priorities that should be used as a foundation of IFI assistance.

IDA in particular needs to make a greater effort to involve clients in the process of its decision making. It is not a secret that decisions of IDA deputies mostly reflect concerns of donor countries with diverse national accountability mechanisms. While this is certainly appropriate, we also believe that greater inclusion of recipient countries into IDA governance mechanisms could benefit both donor and recipients. Further refinement of the CPIA methodology and greater transparency of this process, thorough assessment of the countries’ absorptive capacity, engaging countries in IDA monitoring and evaluation processes as well as increasing the Board’s role in IDA decision making would both make IDA lending more effective and increase the voice and participation of developing countries in key decision-making areas.

Finally, staff diversity and decentralized decision making are two of the most effective ways to involve developing and transition countries in preparing operations and formulating Bank policies. More needs to be done to attain greater diversity of the Bank’s staff, including its middle and senior management levels.

Statement by Mr. Per Stig Moller, Minister of Foreign Affairs, Denmark

Key Messages

We are deeply concerned that, on current trends, most of the Millennium Development Goals (MDGs) will not be met by 2015. The Nordic and Baltic countries therefore concur with the strong and

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clear message in the first Global Monitoring Report that all parties have to scale up their efforts in support of the MDGs substantially. We are ready to play our part and would like to highlight the following key messages:

- Ownership, improved governance and fight against corruption are vital for development;
- Economic growth is necessary, but must be accompanied by pro-poor policies in order to reduce poverty;
- Aid must be increased and development effectiveness further improved. Meeting the commitments from Monterrey is not enough to achieve the MDGs and far from the UN goal of 0.7 percent of GNI;
- All country actions need to be part of a coherent overall approach to support development. Policy contradictions need to be clearly identified and addressed;
- A strong, coherent and well co-ordinated multilateral system is needed. The IMF and the World Bank must further strengthen their efforts in this area. Active participation in harmonization and alignment of aid around national poverty reduction strategies is crucial;
- We must all maximize our efforts to ensure a successful, pro-poor outcome of the Doha Round;
- The World Bank should remain an attractive partner in middle-income countries. We welcome the recent initiative to implement the strategy for enhancing support to these countries:
- Debt sustainability remains an essential condition for economic stability and development in low-income countries. We welcome the proposal from the IMF and the Bank for an operational framework to analyse debt sustainability;
- We are committed to a full implementation of the HIPC initiative and call for a change in the methodology when calculating debt cancellation at the Completion Point.

The Global Monitoring Report: What is Needed to Achieve the MDGs?

The Nordic and Baltic Countries are fully committed to the MDGs. We strongly believe that reaching the MDGs is essential for reducing poverty, but also for ensuring peace and stability. The Monterrey Consensus provides a common framework of agreed actions and responsibilities for all parties. It is now time to take stock and consider whether all parties are delivering on their commitments. The first Global Monitoring Report (GMR) provides a very useful basis for this important exercise.

All parties need to scale up their efforts. The first GMR confirms that we are still a long way off achieving the MDGs. While it is encouraging that the income poverty goal is likely to be achieved at the global level, it is of grave concern that only a few of the human development goals will be reached if current trends continue. The situation in Sub-Saharan Africa is a source of special concern. We strongly urge all countries and parties involved to demonstrate that they are committed to deliver on the promises made in Monterrey. We know what is needed and have the potential to deliver in order to promote poverty reduction and sustainable development throughout the world.

Good governance and country ownership are essential. One of the most important determinants for achieving the MDGs is the developing countries’ own policies. Overall policies have improved, but governance and public institutions often remain weak. Significant progress is needed in these areas. To achieve the MDGs all countries should establish a democratic society based on the rule of law and human
rights, as well as a well-functioning public sector that fights corruption and is providing fundamental social services to all its citizens. All partners, including the International Financial Institutions, have an important role to play in promoting and supporting good governance, while acknowledging their different roles and comparative advantages. We commend the World Bank Group for making good governance an integral part of its operational work. It is of utmost importance that the Bank continues to build on the progress that has been made in this area in recent years. However, ultimately, the only actor that can ensure a strengthening of governance is a reform-minded government in the country itself.

Economic growth and an enabling environment for the private sector are essential. Growth in itself is, however, not a guarantee for poverty reduction. Governments need to implement policies that ensure that the poorer segments of the population can both contribute to and share the benefits of economic growth. Accordingly, the role of civil society should be acknowledged. Recent research suggests that vast inequality dampens growth prospects. This aspect is not sufficiently addressed in the report. Future reports should therefore consider both how pro-poor policies may contribute to growth and vice versa.

Special attention to Africa is needed. Developments in some African countries deserve special attention. The report concludes that the increase in aid flows in 2002 is largely tied to special purpose assistance and only a limited part has been allocated to Africa. We strongly endorse the increasing focus on selectivity and efficiency in development assistance as a way to ensure that aid is wisely used. We believe that it is very important that the donor community contributes to building sound institutions and supports good governance in countries in Sub-Saharan Africa, for example by supporting NEPAD and the implementation of the principles of the peer review. At the same time, we need to make sure that the international community through dialogue and institutional capacity building supports low-income countries that are affected by armed conflict and have weak governments. In this regard we welcome the Bank’s efforts to refine its role in Low-Income Countries Under Stress (LICUS).

ODA is still far too low. Aid has increased but still falls significantly short of what is needed to reach the MDGs. If all donors meet their Monterrey commitments, aid will increase by around US$18.5 billion in 2006 - from the present level of ODA of US$58 billion in 2002- and raise the level of ODA to 0.29 percent of GNI. However, this is far from what is needed to achieve the MDGs and far from our common UN goal of 0.7 percent. According to World Bank estimates, at least an extra US$30 billion annually can effectively be utilized by developing countries, and as countries improve policies and governance, the amount of additional aid that can be used effectively will rise into the range of US$50 billion. This is the estimated amount that will be needed to support adequate progress towards the MDGs. However, this is just about the same level of ODA as it was at the turn of the 1990s.

The Nordic and Baltic Countries are actively participating in the efforts to further explore financing modalities that may help mobilize resources to achieve the MDGs and support the ongoing work by the World Bank in this regard.

Development effectiveness can and must be further improved. The Nordic and Baltic Countries agree that increased aid needs to be accompanied by strengthened development effectiveness, implying that the allocation of aid should benefit countries with better policies and widespread poverty. The newly developed aid selectivity index presented in the report highlights this. The index is an interesting step towards increased monitoring of the commitments made by developed countries.

Harmonization is vital for making the PRSP process work. The report states that important progress has been made towards better aligning aid with national Poverty Reduction Strategies (PRS), providing aid in forms that are more responsive to recipients’ needs, and increasing harmonization of donor policies and practices. But, much more needs to be done in these areas. Harmonization is about making aid more effective in achieving true partnerships between developed and developing countries. It
is about simplifying administrative procedures and thereby enabling developing countries to steer their own development process.

The PRS constitutes a sound framework for implementing policies and programs as well as monitoring progress towards the MDGs at the country level. But there is room for considerable improvement. The PRS should include medium term goals and be formulated in an open and transparent process that includes participation of all relevant stakeholders. The PRS should be linked to medium term expenditure frameworks and annual budgets and programs where all resources, including domestic revenues and aid flows, are incorporated.

Moreover, we agree that development assistance needs to be part of a coherent overall approach to supporting development and making it more effective. Processes need to be put in place that enable an integrated assessment of the coherence of policies that affect development. In the Nordic Baltic Countries steps are being taken in this direction.

Trade is one of the most important factors for development. Liberalization of international trade is an important commitment from Monterrey and of key importance for achieving the MDGs. Therefore, we all have to maximize our efforts to deliver on the Doha Development Agenda and ensure a timely and pro-development outcome to the Doha Round. The Nordic and Baltic Countries acknowledge the special importance of agriculture to developing countries, and thus the responsibility the industrial countries have in improving the market access for agricultural products. In order for developing countries to take full advantage of improved market access, low-income countries should be supported in dealing with “behind-the-border” issues.

The International Financial Institutions (IFIs) should further harmonize. The enormous challenge of achieving the MDGs also calls for a strong, coherent, and well coordinated multilateral system. The need for strengthening the multilateral system and the international financial architecture is clearly highlighted also in the recent report by the World Commission on the Social Dimension of Globalization. The World Bank and other IFIs are playing an active role in promoting harmonization efforts at the country level. However, while important progress has been made, there is considerable room for further improvement. The IFIs should therefore continue to strengthen and refine their role. The report would benefit greatly by including more specific recommendations and guidelines in order to advance in this respect.

Further strengthening of the global monitoring exercise. The Nordic and Baltic countries firmly support the concept of global monitoring. We believe that it has an important role to play in focusing our attention on how our policies can be supportive of the MDGs. We are fully committed to furthering the results agenda and see the Marrakech Core Principles and Action Plan as an important step forward. Concerning research on the determinants of the MDGs, we believe the monitoring could be further improved by giving more attention to the role of empowerment of women, democratization, human rights and the development of redistribution and tax systems to ensure that progress includes and benefits the poor.

These important aspects are only briefly mentioned in this first report. Some of these areas fall within the mandate of other institutions. This is one of the reasons why we are convinced that close co-operation between the Bank, the United Nations and other partners is extremely important in order to avoid a counter-productive overlap of monitoring activities and to ensure that the international architecture functions as one coherent system. We welcome the possibility of discussing MDG monitoring also in the forthcoming BWI-ECOSOC High-Level meeting, a forum that may contribute to improving the monitoring process, and would welcome more concrete and ambitious suggestions for enhancing co-operation between development partners.
The Education For All - Fast Track Initiative (EFA-FTI) is important. The Nordic and Baltic Countries welcome the progress made so far on the establishment of a global framework for the EFA-FTI process. We are particularly pleased that the donors in March agreed on a common framework for the Initiative. We can now focus more on bringing the process to the country level. Sector Wide Approaches (SWAPs) and budget support have proven to be good instruments for coordination as well as effective tools for increasing the dialogue and partnership among development partners, and we encourage all donors to make use of these instruments as much as possible.

The mobilization of external resources falls far short of the level needed to close the financing gap, and the existing aid allocation instruments need to be further exploited to ensure complementarity, flexibility and predictability. We also recognise that low absorptive and implementation capacity in some of our partner countries represents a real challenge in terms of speeding up the process. Capacity and institution building in the education sector should therefore be given high priority.

The role of the Bank in middle-income countries. We consider it very important that the World Bank remains an attractive partner in middle-income countries as these countries house the majority of the world’s poor. We therefore welcome the recent initiative to implement the strategy for enhancing support to middle-income countries. Conditions and circumstances in these countries vary widely, and therefore so must the support that the Bank provides in keeping with the overall objectives of poverty reduction and attainment of the MDGs.

The Bank can and should function as a catalyst for private financing and a quality insurer of, for example, the environmental aspects of large-scale infrastructure projects. The Bank should continue to engage in dialogue with these countries on issues such as governance, social development, infrastructure, financial sector and other areas of expertise where the Bank has a comparative advantage vis-à-vis other financial or development institutions. Particularly, the Bank should do more work on inequality. In many of the world’s middle-income countries vast inequality threatens to hamper economic and social development. Hence, reduced inequality can contribute to a stronger base for sustainable growth and poverty reduction.

The Nordic and Baltic Countries believe that efforts to make Bank support more efficient and advantageous, including internal rationalization, must be thoroughly and open-mindedly addressed while keeping in mind the importance of strong safeguard policies in adding value to Bank support.

Long-Term Debt Sustainability

Debt sustainability in low-income countries remains an essential condition for economic stability and development. Issues relating to governance, sound macroeconomic policies, diversification of exports as well as donor co-ordination need to be addressed in this context. Furthermore, there is a need to reduce low-income countries dependence on external debt financing, a.i., by increasing domestic savings and by attracting non-debt-creating forms of external resources such as equity flows, foreign direct investments and aid grants. Productive use of all resources is key to ensuring the future capacity to honour debt service obligations.

The HIPC initiative should be fully implemented. The initiative was meant to address the urgent debt problems of eligible HIPCs within a short period of time and to ensure that their debts were sustainable when exiting the initiative. For various reasons the implementation of the initiative has taken longer than envisaged. Moreover, some countries which have completed the HIPC process have ended up with debt ratios exceeding the HIPC thresholds due to a number of internal and external factors. Other countries expected to reach the completion point soon are unfortunately headed in the same direction, if no corrective action is taken.
The Nordic and Baltic countries stand by their commitment to a full and complete implementation of the HIPC initiative, including the possibility of providing additional debt relief by topping up at the Completion Point. Such a decision must be based on fair and transparent criteria and on the condition that there has been a fundamental change in the country’s economic circumstances due to exceptional exogenous shocks.

The current methodology for calculating topping up distorts the burden sharing among bilateral creditors, and deprives debtor countries of additional debt reduction. Therefore, additional bilateral debt relief on top of and beyond HIPC relief should be excluded when calculating the need for topping up.

All bilateral creditor countries are encouraged to provide 100 per cent cancellation of debt contracted before the initiative was enhanced in 1999. As was clearly stated from the outset, financing of debt relief should not compromise the financing made available through concessional windows such as IDA. All creditors, both official and private, which have not yet provided their share of the financing are strongly urged to do so. As agreed in the IDA-13 report, these challenges should be addressed at HIPC meetings to be held in the course of the IDA-14 negotiations.

The Nordic and Baltic countries welcome the operational framework to analyse debt sustainability. Obviously, debt relief alone cannot guarantee debt sustainability. We find that the proposed framework represents a constructive approach that provides a sound basis for incorporating debt sustainability considerations in a forward-looking way. We welcome the application of a more country-specific approach than currently in the terms of defining sustainable debt levels and agree on the need for a better balance between “rules and discretion” in the analyses. We further agree that we need to look at innovative ways of dealing with external shocks. The operational framework will constitute an essential tool to ensure that borrowers and lenders share a common approach to reduce the risk of debt distress in low-income countries. An enhanced monitoring role for the IMF is important to avoid countries ending up in a new debt trap.

Moving forward we would particularly like to highlight the following issues:

Firstly, debt sustainability analyses must be based on robust and transparent criteria with realistic projections for growth, exports and fiscal revenues. All projected financial flows must be included. Moreover, the assessment should take into account both overall debt stock, including domestic debt, and debt service burden. New lending that would bring the debt level above what can be considered to be sustainable should be avoided. The debtor countries have the primary responsibility to maintain sustainable debt levels, but providers of multilateral and bilateral ODA loans and export credits also bear a responsibility to avoid that poor countries do not end up in a debt trap.

Secondly, institutional quality and governance must be strengthened. Especially, the transparency and accountability as regards new borrowing remains weak in many low-income countries. In this respect, external and internal debt management should receive strengthened focus in the future technical assistance programs of the Bank and the Fund. Such technical assistance should be carefully coordinated with other institutions active in this area, including the DMFAS Programme in UNCTAD. To develop best practices and improve information flows in this area, the creation of a Consultative Group on Debt Management should be seriously considered.

Thirdly, the Bank and the Fund should in their Joint Staff Assessments of PRSPs give adequate attention to how the authorities have addressed the medium to longer term structural challenges relating to reducing low-income countries dependence on external debt financing and their vulnerability to external shocks. In this respect, the importance of export diversification should be given particular attention.
Finally, we agree that we need to look at innovative ways of dealing with external shocks. There is a need for reviewing existing instruments to mitigate the negative effects of exogenous shocks and to explore potential new instruments. The Nordic and Baltic countries support the ongoing work on this within the World Bank and the IMF.

Statement by Mr. Nor Mohamed Yakcop, Minister of Finance II, Malaysia

There have been various efforts in the past four years towards achieving the Millennium Development Goals (MDGs). These efforts have culminated in Monterrey, where commitments to fund development were made; in Rome, where the need to harmonize development aid was realized; and in Doha, where trade and development are recognized as an important vehicle for poor countries to achieve growth.

Despite these efforts and with 11 years remaining to the target date of 2015, many challenges remain. Out of the world population of 6 billion in 2003, 2.8 billion live under US$2 a day and 1.2 billion under US$1 a day. The challenge does not end in 2015. In fact, it is growing even bigger because the world’s population is continuing to grow and is estimated to reach 8 billion within the next 25 years, with the majority of them residing in developing countries.

Nevertheless, we are heartened to note that at the global level, the MDG target to reduce by half the number of people living in extreme poverty between 1990 and 2015 is likely to be achieved. Despite this, on an individual basis, the target is still beyond the low-income countries.

Achieving the targets of the seven other MDGs by 2015 is even more formidable if the International Financial Institutions (IFIs), the international community and individual countries themselves do not step up implementation and find new and innovative ways to meet the financing needs of achieving the MDGs. Improvement in these trends need to be closely monitored and continuously updated to ensure that the participants do not weaken in their resolve or waiver in their efforts to jointly and seriously move ahead towards the MDGs of eliminating the impoverished and deprived poor people.

Global Monitoring Report

We welcome another positive step towards creating awareness of the status of the MDGs agenda and what is still lacking in efforts to achieve them. The publication of this Global Monitoring Report is useful and timely because not only will it be discussed and deliberated upon by the Development Committee, it will also be widely disseminated and promoted to all the three parties involved in the quest towards achieving the MDGs. Therefore, we fully agree that this Report should be prepared on an annual basis to constantly remind all parties, i.e. developing countries, developed countries and IFIs, of their responsibilities, and that reciprocal actions are critical from everyone to achieve satisfactory progress.

We note with concern the lack of overall coherence of developed countries’ policies in terms of their development impact highlighted in the Report. There are clear contradictions in policies where the much needed support provided for development is negated by actions and policy decisions made in other sectors. An example is quoted of a US$58 billion Official Development Assistance aid package being undermined by five times as much protection to domestic agricultural producers and tariffs imposed by the developed countries on imports from developing countries.

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We believe increased market access for exports of developing countries will complement the effectiveness of aid. At the same time we also share the view that sustainable economic growth can be attained with good policies and positive reforms implemented on a sustained basis to enable the country to move away from poverty and to generate enough income on their own efforts to eventually arrive at a better position to achieve the MDGs.

As the Report suggested, there are still large unmet needs in a number of countries including in our constituency in the East Asia and Pacific region. While the region as a whole has made substantial progress, continued efforts and external assistance are still needed. In this regard, we call for the IFIs to scale up their role as direct partners and as a catalyst in initiating and mobilizing resources to meet the financing needs of the developing countries.

**Education for All (EFA) — Fast Track Initiative (FTI) Progress Report**

We welcome the continued progress made on the EFA – FTI. The Report points towards strong evidence that it is indeed possible to accelerate progress on EFA provided the right conditions exist. Human capital development is the key to poverty alleviation and the rationale for making good quality education universally available is never more compelling. Education contributes to economic well-being and cohesive, stable communities; and it empowers poor people to boost their incomes and leave the pain of poverty behind. No country has ever achieved sustained economic growth without reaching the critical threshold of literacy for its population.

We agree that the most important efforts will be those made by the developing countries themselves. However, as the Report rightly points out, the biggest FTI challenge relates to financing and we are concerned with the current low levels of funding and the very slow rate of disbursement of available resources. Achieving universal, good quality basic education is an expensive undertaking for governments, involving huge upfront costs. We believe that FTI, as a performance-based initiative, has adequate safeguard and donors can be assured that their funding is efficiently used to achieve the desired outcome.

We note that in 2002, the net Official Development Assistance increased by only US$6 billion. The GMR projected that if all commitments are fully realized, Official Development Assistance would only rise by US$18.5 billion by 2006. This amount is still far short of what is needed by developing countries to achieve the MDGs. Given that IDA is the biggest source of external funding for many of the MDGs, we urge donor countries to substantially increase their commitments under the IDA 14 replenishment from the IDA 13 level of US$24 billion to reduce this funding gap.

**Financing Modalities Towards the MDGs: Progress Note**

We welcome this progress report on the status of work on a range of approaches to increasing aid flows and improving aid flexibility in order to meet MDGs and we look forward to a fuller assessment at the coming Annual Meeting in Fall.

Our constituency see much merit in the proposed International Finance Facility (IFF). By frontloading aid flows, the IFF would provide a means to increase aid levels to help meet the MDGs by 2015 through market borrowings to bring forward future aid commitments. On the proposed global taxations and other proposals, we appreciate the steps taken in examining the environment tax, Tobin tax, a tax on international mobile business, a tax on common property of the world, and a redistribution of SDR to developing countries. However, for the Fall report, it should examine the merits of each proposal in greater detail and explain how it can be effectively used to achieve development results, and more importantly, link the proposal to the MDGs. We also share the view that the Fall report should address financing modalities in a broader context of overall capital flows and financial resources that would boost
available funding if successfully pursued, such as foreign direct investment, remittances, and market access.

*Long-term Debt Sustainability in Low-Income Countries*

In striving to achieve the MDGs, the developing countries will be exposing themselves to necessary debt that is acquired to finance the expenditures needed to meet these goals. The developed countries and IFIs, on the other hand, will be keen to ensure that they get the right mix of grant and loan that is sustainable to the recipient country. It is in this context that we support this framework, which provides both lenders and borrowers with a tool to determine the appropriate level of debt.

Our constituency considers that the proposed new framework has certain merits: firstly, it puts the onus on the country itself to pursue sound macroeconomic policies, laying the foundation towards achieving strong, sustainable growth, providing the basis to achieve long-term sustainability; secondly, the indicator in the framework allows for exogenous factors like economic shocks to be taken into account; and finally, there is also the possibility for a country to have access to grants if it maintains a good record. However, we wish to caution that when the Bank and Fund develop the modalities and guidelines for the framework, they should seek view from as wide a spectrum as possible to ensure that the framework that is developed is a thoroughly thought out comprehensive scheme.

In conclusion, we urge the IFIs, in particular the World Bank, to scale-up their activities and play a catalytic role to generate more effective aid to meet the financing gaps in the remainder of the period before the target date of 2015.

*Statement by Mr. Fathallah Oualalou, Minister of Finance and Privatization, Morocco*

The 69th meeting of our Committee comes at a time when the recovery of the world economy is clearly strengthening, as witnessed by the increase in industrial production and investment and the expansion of trade flows. According to IMF estimates, the world growth rate should reach about 4.5 percent in 2004 and 2005, largely driven by increased growth in the United States of America and the recovery of economic activity in Europe and Japan.

In the developing countries, growth should remain at about 6 percent, as a result of the sustained rate of expansion in the East and South Asian countries, faster growth in the Latin American countries, and a modest increase in the growth rate in Sub-Saharan Africa.

This improvement in the developing countries’ prospects is a direct result of the efforts being made by these countries to enhance the investment climate and of the international financial community’s support for these efforts. It also reflects the importance of exogenous factors, including, in particular, trends in the external demand for commodities and their prices, as well as environmental risks. Consequently, economic growth in the developing countries remains vulnerable and must be strengthened in order to ensure its sustainability throughout the process of deepening reforms, with a view, in particular, to improving labor conditions and reinforcing poverty reduction.

The attainment of the Millennium Development Goals (MDGs) is thus more necessary than ever. Achieving these goals will require the mobilization of adequate financing, both quantitatively and qualitatively, and the continued quest for and implementation of ways to ensure debt sustainability in the developing countries, especially the poorest among them.

There is no doubt that better representation of the developing countries in the decision-making bodies of the IMF and the World Bank will facilitate the attainment of the MDGs and of country
development strategies in general, insofar as these countries will participate more actively in making the
decisions that concern them.

The Millennium Goals: Scope of the Challenges

The first monitoring report on the implementation of the MDGs by the IMF and the World Bank -
which, by the way, is excellent -- shows that despite the encouraging progress made by the developing
countries, great challenges remain for these countries, especially those in Africa, in order to meet the
MDGs by 2015, particularly in the areas of education, health, control of infectious diseases, and access to
drinking water and sanitation.

Given the present trends in education, the goal of achieving universal primary education by 2015
will not be attained by the Sub-Saharan African countries, and probably not by the South Asian countries
either.

As for health, the situation is even more alarming, since only 15 to 20 percent of the developing
countries seem to be on the way to meeting the target of reducing maternal and child mortality. Likewise,
the goal of halting, by 2015, the spread of HIV/AIDS and infectious diseases is unlikely to be met by
many developing countries, especially those of Sub-Saharan Africa.

With regard to drinking water and sanitation, only 20 percent of the developing countries will be
able to meet the target of halving the population without access to drinking water and sanitation by 2015.

Other studies show that the current rate, the attainment of the MDGs will take more than a
century.

Meeting the Challenges: A Joint Responsibility and Global Response

In order to reverse these trends and meet the challenges related to the attainment of the MDGs,
the response must be global and multi-dimensional.

The developing countries must redouble their efforts with regard to macroeconomic and structural
reforms, economic and social infrastructure, and good governance combined with the rational and
effective management of available resources. The development of the private sector, acting as the engine
of economic growth in these countries, should be considered an absolute priority. The African countries,
which have shown their determination to meet the challenges of development and poverty reduction in the
framework of the New Partnership for Africa’s Development (NEPAD), must continue to work to achieve
their objectives with the constant and consistent support of the international financial community.

For their part, the developed countries must take the necessary steps to improve their own growth,
which will, on the one hand, enable them to increase their demand with respect to the developing
countries and, on the other hand, shore up the stability of the international monetary and financial system.
They must also substantially reduce agricultural subsidies and the tariff and non-tariff barriers which
continue to prevent goods and services produced in the developing countries from reaching their markets.
A speedy conclusion of the WTO multilateral negotiations, taking into account the needs of the
developing countries, is essential. Moreover, the developed countries should implement as soon as
possible the recommendations of the Monterrey Consensus and the international conferences held in that
framework, particularly those of Rome (February 2003), Paris (March 2003), and Marrakech (February
2004), in favor of a substantial increase in official development assistance, better harmonization of this
assistance, and results-based management. This will make possible the best use of development assistance
funds, ensure the ownership by the countries concerned of the goals and strategies of development, and
align the aid agencies with these strategies. The developed countries must also take into account the need
to ensure the necessary predictability of official development assistance to facilitate the effective planning and achievement of the MDGs.

Lastly, the international financial institutions, particularly the IMF and World Bank, must strengthen their support for the member countries' efforts to manage their macroeconomic framework and structural reforms as well as the programs that have been established to attain the MDGs. This will require, in particular, the constant adaptation of their approaches and tools to the needs of the countries concerned, including the middle-income countries, with a view to mobilizing additional resources for these countries. The multilateral financial institutions have a crucial role to play in harmonizing assistance and strengthening the countries' development capacities, including by implementing the action plan endorsed by the second round table on managing for results held in Marrakech in February 2004, as noted above.

We have also noted with satisfaction the Bank's formal pledge to increase its operations considerably in the area of infrastructure, and the Fund's willingness to improve the flexibility of its assessment of country fiscal policies, which will make it possible to accelerate investments in this sector. We trust that this flexibility will also apply to programs aimed at the achievement of the MDGs.

We encourage the Bank to further accelerate the implementation of the Infrastructure Action Plan, whose objectives include, in particular, the promotion of growth and poverty reduction in the developing countries. The next Annual Meetings will be an opportunity for us to study these questions more thoroughly.

*Mobilization of Adequate and Appropriate External Financing: Key to the Success of Efforts to Achieve the MDGs*

The mobilization of sufficient financial resources is a key element in the achievement of the MDGs. Two excellent papers have been prepared on this subject by the World Bank in relation to the financing of the “Education for All” initiative and financing modalities for the MDGs in general.

*Financing the "Education for All" Initiative*

We note with satisfaction the encouraging achievements in education, thanks to the establishment of a global framework that offers a platform for fruitful debate on institutional and financial questions and for sharing experiences, especially in the 10 pilot countries.

In order to operationalize this initiative, it is essential to mobilize sufficient financing to bring about institutional reform in the education sector and put in place the necessary infrastructure, particularly by building schools in rural areas. Moreover, these resources should cover, if only partially and for a given period, the schools’ operational expenses. It is not enough to expand education: we must also ensure the high quality of such education, on the basis of adequate staff training and the adaptation of teaching materials and methods to meet the needs of a modern economy, which will require skilled, targeted and appropriate technical assistance.

The importance of investments in this sector in promoting economic growth and social development, even if their effects are felt only on the long-term, argues for the mobilization of substantial resources in the form of highly concessional and very long-term credits.

*Financing Modalities Toward the MDGs*

Everyone agrees that without an exceptional and concerted effort on the part of the international community, it appears unlikely that the additional $50 billion annually that are considered necessary for the achievement of the MDGs will be mobilized.
In that context, we pay tribute to all the initiatives proposed to accelerate the mobilization of resources, particularly the International Finance Facility aimed at mobilizing additional resources on the international financial markets on the basis of guarantees offered by donor countries. This initiative would make it possible to considerably increase official development assistance without putting an immediate strain on the developed countries' budgets.

We hope that these resources, which should take the form of highly concessional grants or credits, will be in addition to current commitments for assistance and will not lead to a reduction in official development assistance beyond 2015, since it is understood that not all development problems will have been solved by that date.

The launching of new initiatives, such as global taxation of financial products or the creation and redistribution of additional Special Drawing Rights, could be a decisive contribution if the international financial community reaches a consensus on them. We call on the World Bank and the IMF to deepen their analysis of these initiatives.

*Long-term Debt Sustainability: A Necessary Condition*

The need to provide a high degree of concessionality for the resources that will be mobilized and, in particular, a considerable increase in the proportion of grants, stems from the concern to avoid worsening the developing countries' debt, particularly that of the most highly indebted countries, which would undermine all the efforts being made by the countries in question and by the international community to alleviate the burden of their external debt.

Although we welcome the results obtained in the framework of the Heavily Indebted Poor Countries (HIPC) Initiative, we believe it is necessary to extend the time-limit for implementing this initiative to enable all eligible countries to benefit from it.

We also strongly support the efforts by the IMF and World Bank to establish a long-term debt sustainability framework for the low-income countries to ensure systematic monitoring of these countries' debt on the basis of a series of relevant indicators and an appropriate clarification of their financing strategies. However, the concern for maintaining debt sustainability should lead to an increase rather than a reduction in assistance, and to a greater degree of concessionality.

At the same time, it will be useful to envisage the creation of mechanisms to relieve the debt of middle-income countries, so as to enable them to carry out their reform processes and release the necessary budgetary resources to establish the economic and social infrastructure they need for their development.

More active developing country participation in the decision-making process of the World Bank and IMF: need for equity, ownership of strategies and legitimization of decision-making processes

Strengthening the effective participation of the developing countries in the decision-making process of the Bretton Woods financial institutions, especially on issues having an impact on the future of those countries, would make a great contribution to the achievement of the MDGs.

Such participation, in our view, would require measures to enhance the voting powers of these countries.
To this end, we call on the IMF and World Bank to continue their efforts to examine the options for strengthening the voting power of the developing countries by focusing, first of all, on the restoration of their share of the basic votes to a level that is at least equivalent to the one in force when the IMF and World Bank were established, and on revising the formulas for calculating quotas. We hope that a consensus will quickly emerge among the member countries to adopt the necessary measures to that end.

Statement by Mr. Antonio Palocci filho, Minister of Finance, Brazil

Achieving the MDGs - Global Monitoring Report

Our Constituency welcomes the Global Monitoring Report (GMR), the first of a series of annual integrated assessments of progress on policies and actions needed to achieve the Millennium Development Goals (MDGs). We reiterate our full support to this important tool to provide continuity to the Development Committee’s oversight of progress on development issues.

The scenario depicted by this first GMR is worrisome: it indicates that a majority of MDGs will not be met by most countries, especially in Africa. We note with concern that, even though the income poverty goal is likely to be achieved at the global level, shortfalls are expected in relation to health, child and maternal mortality, access to safe drinking water, and basic sanitation, and that mortality goals are not likely to be achieved. We fully endorse the view that there is an urgent need to scale up action. A renewed effort is necessary, aimed at speeding up reforms to achieve stronger economic growth, to empower and invest in poor people, and to foster the implementation of the Monterrey agenda.

Reaching the MDGs will require the full implementation of the tripartite partnership established in Monterrey, where responsibilities fall upon developing countries, their developed partners, and the international financial institutions. We remain committed to this partnership and each partner should play its role.

Developing countries have been doing their part to improve the climate for private sector activity, particularly by taking decisive steps toward stability. Paramount among those steps, sound fiscal management is now recognized as a cornerstone to attract and retain investments, to strengthen capacity in the public sector and to improve the quality of governance. Currently, a significant number of developing countries are designing policies aiming at sustainable growth with social justice and income distribution within the framework of a fiscally responsible public administration.

Brazil, for instance, is fully committed to the consolidation of macroeconomic stability. Our growth agenda started with a tough adjustment in 2003, which has sharply reduced both inflation and interest rates. Besides the Zero Hunger program, which is currently supported by some 1,400 private companies, we managed to associate fiscal balance with income transfer to millions of Brazilian families. Measures to increase productivity and competitiveness of our companies have enhanced their capacity to both participate in international trade and meet domestic needs in a market which has become more attractive by the positive effects of inflation control.

Colombia has made significant reforms with encouraging results. In 2003, GDP increased to 3.7 percent and for 2004 is forecasted at 4 percent. This economic progress created an average of 320,000 jobs in 2003 and consolidated the formalization of labor markets with 11,000 companies enrolled in family compensation boards. This favorable situation has allowed Colombia to successfully participate in the international capital markets. An upcoming Investment Climate Assessment will permit Colombia to

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16 On behalf of Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Panama, The Philippines, Suriname, and Trinidad and Tobago.
be assertive in the priorities moving forward to achieve a solid trade agenda with stability and credibility fostering foreign and domestic investment. The ultimate goal is a safer Colombia with solid institutions and good governance in order to achieve poverty reduction.

In developing countries, removing impediments to growth through more efficient public investment and carefully designed public-private partnerships has become the current policy challenge. While maintaining their stabilization effort, developing countries need in particular to strengthen growth through investments in infrastructure, especially those in services closely linked to the human development goals (water and sanitation, and transport). Thus, in lower-middle-income countries, we note with concern the GMR’s statement that investment plus operation and maintenance of infrastructure would need to rise to 5 percent of GDP in low-income countries and up to 4 percent of GDP compared to the levels of the 1990s. In Latin America, according to the World Bank, US$70 billion per year for the next five years are necessary to build, improve and maintain roads, railways, telecommunication and energy systems, and thus contribute to reducing inequality and raising per capita income. At the same time, in Latin America private investments in infrastructure decreased from US$78 billion in 1998 to US$20 billion in 2002, a 75% reduction. The lower than expected contribution of the private sector in financing investments in infrastructure calls for an enhanced role that could be played by the Multilateral Development Banks (MDBs).

Reconciling the need for increased investment – particularly in infrastructure, maintaining fiscal responsibility and addressing social demands requires combining faster and sustainable economic growth with well-targeted social programs, including a well-designed social safety net. In Brazil, this is indeed the policy agenda of President Lula’s government. Fiscal consolidation will remain a key priority for many years to come given the need to reduce our high public debt ratios in order to further lessen vulnerabilities. Continued structural reforms are being pursued to raise potential growth over the medium-term. At the same time, actions have been taken to increase the efficiency and better target public expenditures to address pressing social needs.

Developed countries’ actions to date, as stated in the GMR “have fallen well short of the Monterrey vision”. In particular, they need to step up their efforts in three important areas: prevention of global macro volatility, trade, and aid policies.

- **Global macro volatility.** Fiscal, monetary and financial policies in developed countries need to foster robust growth in the world economy. For a smooth and orderly correction of global imbalances to continue, predicated on higher global economic growth, enhanced policy action is needed by the major players in the global economy.

- **Trade.** A renewed commitment from developed countries to a successful, pro-development, and timely outcome to the Doha Round would boost developing countries’ efforts to reduce poverty. The conclusions of 2004 Global Economic Prospects report remain valid: increased trade flows would sharply and rapidly reduce poverty in the developing world.

- **Aid.** There is a consensus that flows need to rise well above current commitments, as post-Monterrey additional commitments of US$18.5 billion per year by 2006 fall well short of the estimated US$30 billion annually that could be effectively utilized by developing countries, and they are only a fraction of the estimated US$50 billion needed annually to achieve the MDGs as countries improve their policies and governance.

The International Financial Institutions (IFIs) also need to strengthen their role in the partnership. We see encouraging progress in country focus and ownership, results orientation of operations, transparency and accountability, and partnership.
We support—and want to make more effective—the IFIs’ advocacy role regarding calls for increased market access for developing countries and for reducing global macroeconomic volatility.

We also agree that continued collaboration between the IMF, World Bank, and other MDBs is needed in their role in Low-Income Countries to achieve the results agenda. For example, it is important to continue implementing the action plan endorsed by the sponsoring agencies at the Marrakech Roundtable on Managing for Development Results.

We welcome the World Bank’s new lending products designed for developing countries. For example, Sector Wide Approaches (SWAPs) are a move in the right direction.

However—as I mentioned above—IFIs need to do more in the following areas: providing support for investment in infrastructure in MICs, instituting precautionary arrangements against global volatility and external shocks and improving operational procedures. For example, non-financial costs of operations need to be reduced through the use of fiduciary policies which rely on national safeguards. An enhanced involvement with MICs would not only fulfill the Bank’s mandate but would also improve the institution’s financial position; in addition, a number of products of the “knowledge bank” have been created and/or improved within the framework of operations with MICs.

Education For All - Fast Track Initiative (FTI)

Among the MDGs, attaining educational objectives is key for long run growth. We renew our commitment to this performance-based program focusing on the implementation of sustainable policies in support of universal primary completion (UPC). We acknowledge that significant progress has been made under the FTI in several areas, starting with the establishment of a global framework that greatly contributes to the discussion of educational policy, as well as institutional and financing issues. We fully agree that the FTI, by establishing an empirical basis for tracking, monitoring and comparing progress on key FTI objectives across countries, helps reinforce the linkages between public actions and results. Further, we support the proposed expansion of the FTI from 18 to 40 countries potentially eligible for additional support, as the number of out-of-school children covered by the initiative would roughly triple to about 40 million.

Fully aware of the central place of education among the MDGs, the IDA donor countries in our constituency have strongly supported the EFA initiative since its inception. We are increasingly worried about the financial challenges faced by the FTI. Funding for this ambitious program is clearly insufficient, and the instruments used for its financing are a matter of concern. Educational projects rely heavily on recurrent costs, among which teachers’ wages occupy significant portion of total fixed costs. By refraining from financing recurrent costs, both bilateral and multilateral donors put in jeopardy this critical initiative, and therefore we invite donors to revisit this issue while ensuring also the sustainability of domestic sources of financing for education. Education requires long-term commitments and thus predictability is key to allowing countries to set strategies and to train and recruit teachers. We are looking closely at the alternatives under discussion, such as enhancing the flexibility of IDA, strengthening the focus on debt sustainability, and increasing the concessionality of financial support. However, more is expected from donors if this initiative is to produce concrete results by 2015.

Financing Modalities Toward the Millennium Development Goals

The Education for All – Fast Track Initiative vividly illustrates the current issues pertaining to aid: insufficient volume and lack of predictability. We believe that innovative financing mechanisms are urgently needed not only to meet the need for additional, stable resources but also to accommodate each country’s particular circumstances. We accord particular importance to facilities able to frontload aid commitments, since social and economic returns on investment are higher than borrowing costs.
President Lula has been focusing on the insufficient volume and lack of predictability of aid since his first day in office. In different fora and in several bilateral events, such as in the Global Economic Forum in Davos, in the 2003 G-8 Meeting in Evian, and in a joint communiqué with Chilean President Ricardo Lagos, French President Jacques Chirac, and UN Secretary-General Kofi Annan in Geneva, President Lula has stressed the urgent need of innovative financing mechanisms for development in general and to combat poverty and hunger worldwide in particular. A technical working group of French and Brazilian officials was created to examine proposals. We renew here the call for the international community to seek such innovative financing mechanisms. This is precisely the message of the Geneva Declaration. We are looking forward to the outcomes of the Shanghai Conference, of the XI UNCTAD in Sao Paulo, of the Global Compact meeting in New York, and the world leaders’ meeting proposed by President Lula that will take place in New York on September 20. We hope that by 2005 practical decisions will be taken to implement innovative financing mechanisms for development that can gather widespread support and, above all, reinforce international political will.

Innovative mechanisms to finance aid are long overdue and thus most welcome. However, they must be realistic, based on sound principles, and viable both operationally and financially. It is imperative that such mechanisms contribute to increase the volume of aid. They also need to be able to gather support and consensus among the donor community.

In line with the above, we support the UK’s proposal for an International Finance Facility (IFF). We believe that the proposed mechanism is technically feasible. It is a structure that builds upon international coordination and harmonization among donors, as it requires legally binding donor pledges to buttress AAA-rated market borrowings for development purposes, and deploys resources through existing agencies, both bilateral and multilateral and relying as much as possible on existing disbursement mechanisms in particular those handled by IDA. Some technical difficulties remain to be overcome: for example, the fiscal status of pledges by donor countries. Nevertheless, we see great merit in the IFF and encourage other countries to carefully consider its advantages. We stress that the IFF is intended to provide only the additional aid commitment made post-Monterrey, and hence it would not negatively affect aid flows after 2015. Being a financing vehicle and not a new agency, IFF would possess the flexibility needed to mobilize additional, predictable resources.

The IFF does not preclude considering other mechanisms, such as international taxation on different bases (environment, transactions, financial transfers, to mention a few). On the contrary, other mechanisms could either complement the required frontloaded resources or reduce the need for IFF donors to issue bonds, thus minimizing the contingent liability embedded in the proposal. We remain strongly committed to the review of other innovative mechanisms and urge the international community to explore those alternatives.

Using additional resources efficiently will strengthen the case of the IFF. This highlights the importance and timeliness of the Shanghai Conference. The lessons to be drawn from evaluating the development impact of scaled-up projects are critical to leverage resources for growth and development all over the globe. President Lula, along with other heads of state, is looking forward to participating in this event. We expect a fruitful discussion of Brazil’s experiences with new, well-targeted social programs and policies such as Bolsa-Familia.

Finally, as much as we support additional, predictable and well-targeted public financial flows for low-income countries, we remain concerned about the volatility of private financial flows, which are critical for middle-income countries.
Long-Term Debt Sustainability

The question of additional financial resources to low-income countries needs to be discussed in the context of the issues of long-term debt sustainability and the critical issue of countries’ absorptive capacity. We support the two pillars of the proposed debt sustainability analysis:

- Establishment of indicative country-specific external debt-burden thresholds that depend on the quality of the country’s policies and institutions. Empirical analyses carried out both at the Bank and the IMF indicate a significant variation in the debt ratios that countries can sustain. We agree that countries with weaker institutions and policies are likely to experience debt distress at significantly lower debt ratios.

- Analysis and careful interpretation of actual and projected debt-burden indicators under a baseline scenario and in the face of plausible shocks. Despite access to low-cost financing, a number of LICs have accumulated high levels of debt. Among those countries, there are countries with good policies that accumulated debt because of exchange rate deterioration, exogenous shocks (especially related to commodity prices), and other forms of volatility.

Thus, we wish to point out the importance of constructing for LICs acceptable indicators of debt sustainability, including the choice of debt stock or debt service measures, the choice of the discount rate, and the choice of the appropriate threshold to determine whether a country’s debt burden is sustainable. We agree that the analyses should be based on a combination of indicators. In calibrating this mix of indicators, we would advise caution in introducing the CPIA into the framework, given the current unfinished status of discussions on these parameters within the Bank.

Finally, given the forthcoming sunset of the HIPC Initiative in December 2004, the development of a new approach to debt sustainability in low-income countries does not preclude a transparent discussion on the future of the HIPC Initiative.

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

The World Economic Situation: A Window of Opportunity

In the Spring of 2004 the economic situation of the less developed countries (LDCs) is providing more than a glimmer of hope. All regions of the world are forecast to grow faster than their population growth, thus achieving increases in the level of well-being for their citizens. Of course, significant regional differences remain. While growth remains unsatisfactory in most African countries and in the Middle East region, it is especially strong in South East Asia and South Asia. Such a positive evolution in Asia finds its origins in an astonishingly robust and sustained growth rate in China and also India, but also in the Southeast Asian countries which have rebounded strongly from the financial crisis. Significant progress is also recorded in Latin America, where the recent crisis effects are being overcome. In addition in the lower-growth regions, growth is especially fragile--which makes sustained progress towards poverty reduction unlikely.

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17 On behalf of Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovakia, Slovenia, and Turkey.
Pro-Poor Growth Needs Targeted Strategies

The improved growth situation and the relatively benign prospects for the coming year must be used for further progress on the anti-poverty agenda. I am glad to hear that the World Bank has adopted the view (finally, I hasten to add) that growth alone is not enough to solve the persistent poverty problem, both in fast-growing and in slower-growing countries. Empirical evidence seems now undisputed that growth does not automatically “trickle down” to the poor. On the contrary, recent data show that in most countries income distribution has worsened during recent periods--and that poverty reduction is only making progress in countries with per-capita growth of around 5 percent. This means that growth strategies must be devised which target pro-poor growth, i.e., by stimulating employment-using growth, by promoting small-scale business development, by bringing the “grey” economy into the open (in this way it would also contribute to the tax base), by designing appropriate tax and transfer systems.

Pro-poor growth then is not only a matter of developing health and social security systems, but also a matter of the design of an appropriate growth strategy.

Millennium Development Goal Gaps: Credibility of World Community at Stake

It makes me very unhappy to hear that the much-touted Millennium Development Goals (MDGs) will not be achieved, according to UN and World Bank assessments. Again, here progress is very uneven, both as far as individual Goals are concerned, and with respect to specific regions. Again, Sub-Saharan Africa, some Southeast Asian and some Caribbean and Latin American countries fare especially bad. The international development community, both donor and recipient countries, stand to lose a lot of credibility, if this dire forecast is allowed to become true. While we are still more than 11 years away from the target date, we must act expeditiously, if we want to fulfill our self-chosen goals, or at least come credibly close to fulfilling them.

We are not talking about a blame game, but about solutions and remedies! With respect to the obligations of the donor countries, to increase their aid flows, I can speak from a position of strength, since of the three donor countries within my constituency, one has already reached the 0.7 percent target, another one (my own country) has committed itself to reach 0.7 percent by 2010, and the third one is on its way to meet the EU-agreed commitment. For this reason I do not see any particular need to engage in an ever increasing variety of new financing schemes, especially when in the medium run they do not generate new money, but just pull forward financial flows--which may be lacking later on.

However, many other donors are still far away from fulfilling their promise, and I urge them to do their utmost to do this, and fast. Only if we from the donor countries deliver on our promises can we expect with justification that the recipient countries speed up their progress with respect to improved policy formulation, good governance and strengthening of their institutions.

International Financial Institutions Need to Face New Realities!

With respect to the third party in this bargain, the International Financial Institutions (IFIs), let me say that they also need to speed up their simplification procedures, eliminate waste, slack and bureaucracy within their organizations. They also must adjust more flexibly to the new realities of the development business, i.e., the low-interest rate environment, the increasing availability of private capital market financial resources, the lower income from lending and treasury operations, the increased need for grant financing for the poorest countries. I know that the World Bank is trying very hard in this area, and has made a lot of progress--but much more needs to be done, if the Bank wants to maintain and/or enhance its role as a major player in the development area in the form of a Knowledge Bank. While the complaints of some recipient countries about the onerous burdens of the social and environmental safeguards must be taken seriously, if they impose unwarranted burdens and additional costs on the projects, the Bank must become more convincing in “selling” exactly these safeguards as a unique by-
product to its lending which guarantee the social and environmental sustainability of these projects. In recent years the World Bank has built up the necessary know-how to make its financing especially attractive, because it comes with proportionally more technical assistance than other IFIs.

A More Realistic and Fairer Approach Towards Debt Relief

One of the impediments to sustained growth for LDCs is their stifling debt situation. With unsustainable debt levels, frequently incurred in very expensive foreign currency, many countries are saddled with very high interest and debt service flows which crowd out productive investment towards pro-poor growth. As a result in 1997 the Enhanced HIPC Initiative was launched, with the purpose to write off US$70 billion worth of debt to 42 eligible countries. Up to now, 27 countries have received assurances to have around US$51.5 billion of debt cancelled. The funds “saved” from debt service are supposed to be invested in education, health and other social services by the countries concerned.

As the deadline of end-2004 draws close, a number of countries have not yet reached the conditions for the “decision point” (many of those have remained ineligible because of violent internal or external conflicts) and others are stuck between decision and completion point. But even many of those that have reached the completion point, still find themselves with higher than sustainable debt burdens--despite debt relief. Reasons for this are unrealistically optimistic growth forecasts, domestic or external shocks, but also additional lending by the IFIs after the decision point.

The recent analysis by the Fund and the Bank on debt sustainability comes to the conclusion that additional indicators for debt sustainability must be considered and that lending by IFIs must take better account of debt sustainability. While there is general agreement that existing debt initiatives will not suffice for a number of countries, there is general agreement – to which I subscribe – that the present initiative must be completed before new initiatives are started. In the meantime, I agree with the case-by-case approach to “topping up” debt relief for countries which have suffered exogenous shocks beyond their own control, given that they meet all other conditions. But let me point once more to the need for burden-sharing also in this field. We can credibly ask our own taxpayers and parliaments to do more for debt relief only if all other creditors also share in the efforts to reduce the debt burden of needy countries.

Only Jointly Can We Conquer Poverty!

Coming to the end, let me say that I am grateful to the World Bank Management to alert us in time to the appalling gaps in meeting the MDGs. It is in the interest of everybody in this room, and in the interest of all the countries represented here, to make a serious effort to close the income gap and reduce poverty. This is not only a moral obligation, but in the interest of reducing social unrest and political instability. The world today is at a perilous crossroads. Let us embark on the right path together. We can conquer poverty and eliminate misery, if we all really want it.

Statement by Mr. Joseph O. Sanusi, Governor of the Central Bank of Nigeria

Including Education For All Fast Track Initiative and Financing Modalities

We meet at an opportune moment, when the United Nations is expected to shortly deliberate on progress on Financing for Development. Since the Monterrey Consensus was established, African countries have deepened reforms in the economic, political and social spheres. As part of the compact, we undertook, among others, to improve governance, adhere to sound policies, strengthen public management and promote the private sector. We have stayed the course.
The process of democratization has taken root in many of our countries. We have also seen increased voice and participation of women in our societies. A notable example is that half of the Commissioners of the African Union are women.

The AU and sub-regional institutions such as ECOWAS have had a positive impact in resolving conflicts in Central and West Africa. At the same time, individual countries have committed resources to the resolution of conflict in neighboring states.

We have proceeded to strengthen public institutions and to enhance capacity to manage our economies. In this regard, a number of countries have established independent agencies to conduct audits and provide oversight on good governance. The African Union has proceeded with the implementation of the African Peer Review Mechanism, which should give us an opportunity to learn from examples of good practices on the continent.

On the economic front, we have strengthened the first generation reforms which began in the 1980s. In general, macroeconomic management has improved. Monetary policies have stayed on a steady non-inflationary path. At the same time, many countries now have positive real interest rates to facilitate mobilization and utilization of domestic resources. PRSPs have become platforms to promote pro-poor growth, and national budgets have been realigned to support their implementation. At the same time, ownership of policies has widened, a result of increased consultation among stakeholders. In the external sector, countries have continued to make progress on trade liberalization.

As a result of these developments, Africa’s overall growth performance has improved but not sufficient to have a material impact on poverty. Meanwhile, our economies remain vulnerable to exogenous shocks; debt levels continue to be unsustainable; and HIV/AIDS pandemic threatens to undermine our entire development efforts.

Against this background, we welcome the Global Monitoring Report (GMR) for highlighting in clear terms both the hurdles to achieving MDGs as well as the actions needed to be taken by parties to the Monterrey Consensus. The Report calls attention to key areas where the promise of Monterrey is in peril. One such area is the lack of progress in mobilizing adequate financing to support developing countries implementing sound economic policies and promoting good governance.

In all, the GMR’s message is that there is need for urgent action on different fronts. In particular, timely steps should be taken to significantly augment aid flows and improve predictability of disbursements. Also, an early conclusion of the multilateral trade negotiations is important. Another major area for action concerns the Education For All Fast Track Initiative where commitments fall far short of the required financing.

In the last two Development Committee meetings, we have had indications that the SSA region will fall short on most MDG targets, a fact that has been reconfirmed by the GMR. In the circumstance, there is urgent need to speed up action to put the region on course. This will call for, among others, increased efforts to mobilize resources. However, such efforts will need to be complemented by substantial aid flows for both the social sectors and investment in infrastructure necessary for accelerating a sustainable growth. Therefore, raising aid levels to 0.7 percent of GNI should be accorded priority by developed countries. This scaling up of aid should be accompanied by improved donor harmonization and country priorities as articulated in the PRSPs. At the end of the day, effective partnership is one that promotes ownership. In this connection, donors need to address the concerns raised by the aid selectivity index. We observe that the US$6 billion aid increase in 2002 was mainly earmarked for special purposes.

We welcome a close look at frontloading mechanisms to increase resource flows to developing countries. In this regard, the recent IFF discussion that took place early this month in Paris was timely.
There are still some issues to be resolved, hence we urge the Boards of the Bank and the Fund to continue exploring the way forward.

While more aid is needed, it is argued that absorptive capacity in developing countries is too low. This argument merely underscores the need for closer harmonization of donor practices and procedures with local institutions and systems. At the same time, there is also the question of some of our countries having to turn down financing for PRSPs because of the tight fiscal targets they have had to commit to under the programs supported by the PRGF. It is our view that such programs need adequate fiscal space to support investment to enhance growth. The Bank and the Fund should work on this issue as a matter of priority.

Going forward, we must continue to place emphasis on effective monitoring. This will require concerted effort on building appropriate statistical capacity. In this respect, we welcome the work done under the Paris 21 auspices and urge speedy implementation in member countries.

In advancing the agenda for achieving the MDGs, it is critical to make progress on multilateral trade negotiations. We agree with the GMR on the need to have specific targets for the next trade talks. A start could be made by reverting to the Central and West African proposal on cotton; continued liberalization of agriculture and industrial tariffs across the board; and the reduction of subsidies. It is clear that trade issues have not been given sufficient attention in the war against poverty. Meanwhile, to benefit more fully from the multilateral trade regime, SSA will need assistance in developing supply capacity and competitiveness. In other words, we need greater emphasis on trade facilitation measures.

International financial institutions (IFIs) have a significant role to play in assisting countries to achieve the MDGs. For this reason we call for a greater clarification of roles in country programs. We have had situations where too much overlap has confused the beneficiaries. In some instances, issues that seem directly relevant to the World Bank Board have not been resolved timely due to a sequence that seems to call for prior approval by the IMF Board. This leads to confusion, and further compounds the problem with predictability of resource flows. Again, the issue of creating a fiscal space to enable countries to finance PRS programs is most germane to the respective mandates of the two institutions.

We look forward to the next GMR to detail what further progress we can expect from all multilateral development banks in their efforts to assist countries to reduce poverty. For IDA, this would imply more flexibility regarding how different instruments can be combined so as to achieve MDGs while keeping debt levels at sustainable levels. The ideas on blending and the use of debt buy-downs have proved to be a success in limited instances where they have been applied. We would thus encourage further exploration on the use of these instruments.

Regarding the Education For All Fast Track Initiative (EFA FTI), we note that conceptually it has turned out to be a good model for scaling up. It is rooted in a generally accepted platform - the PRSP. It provides an avenue for enhanced donor collaboration, exemplifying what can be achieved on harmonization according to the Rome Agenda. The fact, however, is that notwithstanding the scope for quick gains that the EFA FTI offers, progress has been minimal. We agree with the report on the need to expand EFA to more eligible countries; from ten that are currently benefiting to the proposed 40. In so doing, we must, however, direct further attention to unlocking the rigidities in the delivery mechanism. In particular, attention must be directed at lessening the conditionalities and introducing some flexibility in disbursements. In addition, as the number of qualifying countries increase, we would also expect financial pledges to increase.

We affirm the need to finance some recurrent expenditures. Noting concerns about fungibility of funds and low financial management capacity, we propose that additional funding must be accompanied by strengthening budget planning and appropriate accountability structures including external audits and transparency mechanisms similar to those applied during the HIPC resource tracking exercise.
Research has established a link between the quality of syllabus and productivity; increased attendance and completion rates; efficiency of well trained teachers and operational efficiency of education departments. In all countries engaged in scaling up, these issues are not going to be immediately solved. We are thus heartened by the fact that a significant improvement in universal primary completion rates and gross enrollment rates has been recorded. Over time, we expect that improvements in quality will also be as notable.

We see the need to emphasize support for multi-budget cycles. In this regard, the EFA FTI makes a good case for complementarity in the use of instruments. In our experience, pooled funding, sector-wide approaches and direct budget support work well. Depending on country circumstances, they can be combined for maximum effect.

Note on Debt Sustainability

We have taken note of the emerging research on debt sustainability. The proposed framework seeks to establish parameters for debtors, creditors and international financial institutions in dealing with debt after exiting from the HIPC.

To achieve MDGs, countries have to substantially increase investments in social and productive sectors. The current level of FDI to developing countries is not sufficiently large to address infrastructural needs. For this reason, we foresee a need for increased concessional lending and the facilitation of private public partnerships. In addition, there is a need for increased grants to finance investments in productive sectors.

Increased spending for the attainment of MDGs creates tension between the goals of lower budget deficits and growth. The returns from on track macro-economic programs tend to be on the stabilization front with growth picking up gradually. From all indications, what it will take to achieve MDGs is a combination of actions including graduating from HIPC, more funding and increased market access. In cases where exogenous factors caused a fundamental deterioration in a country’s economic circumstances, there is an irrefutable need to top up. The Note on Debt Sustainability echoes this point.

The case for non-HIPC low income countries with unsustainable debt has not been made. It is our conviction that we cannot establish a new framework without approving an inclusive strategy for these countries as well. Even in circumstances where private capital can be attracted to some sectors in these countries, the specter of a debt overhang will undermine confidence. Therefore, a serious discussion on debt sustainability must include all low income countries.

The proposed framework advocates a cautious approach to new borrowing in countries in which the debt-burden indicators exceed thresholds under plausible assumptions. Without pre-empting the results of further research to be done in this area, we would caution that such assumptions should be made on a sound basis. To us, it appears that this work is opening an avenue for prejudging a country’s capabilities. It is also possible that this work is giving mixed signals to creditors on future ability-to-pay and debt resolution scenarios.

A clear message from all the Development Committee papers today is that there should be additional external resources from creditors and donors to meet the MDGs. For this reason, we would like to emphasize the need for the Boards of the two institutions to include in their on-going work, mechanisms for dealing with exogenous shocks. Several instruments for terms of trade shock absorption have been piloted. We would encourage mainstreaming such work.

In the context of HIPCs, the modalities for implementation had a significant shortcoming in that they could not compel private creditors not to litigate against countries in the Initiative. In this proposed
framework, we would encourage a clear identification of stakeholders and an improvement in the process of consultations such that there is no ambiguity that the Initiative applies to all stakeholders.

Statement by Mr. Nicolas Sarkozy, Minister of Economy, Finance and Industry, France

Four years after the Millennium Summit, two years after the Monterrey Conference but also two-and-a-half years after the tragic events of September 2001, we are now, each in so far as he or she is concerned, faced with our responsibilities. Whether poor countries, rich countries or multilateral institutions, we have set ourselves ambitious goals, the Millennium Development Goals, and we have built on these goals which form a new partnership. We have done so responsibly, agreeing to monitor the efforts accomplished by each partner. The report presented here today by the World Bank is therefore a milestone, from which I can draw three conclusions.

First of all, extreme poverty in our globalizing world remains an undiminished challenge. As we know, globalization fosters closer contact between rich and poor countries, which can no longer ignore each other's existence. It sharply highlights the profound destitution burdening the lives of far too many people in the world. This is a source of despair for entire societies, and despair is all too often a breeding ground for the extremism and violence by which we have been, we are and most probably we will all be victimized.

Based on current trends, most Millennium Development Goals will not be reached. While the first Goal, to halve the proportion of people living on less than one dollar a day, could be achieved worldwide, the aggregated data nevertheless conceals large disparities. In particular and still according to the latest figures, Africa will remain far behind the goal by 2015.

We have also set a goal for access to water and sanitation. Once again, there is a wide gap between this objective and current trends. Yet, on this specific goal the G8 endorsed in Evian an action plan, and the report of the World Panel on Financing Water Infrastructure chaired by Mr. Camdessus paved the way. I know that the World Bank and the Regional Development Banks, in response to last year's appeal by the G-8, are striving to implement the recommendations set forth by this report. It is essential to continue and step up this effort if we want to see genuine progress in this area.

The same applies to access to basic education. Human capital is a prerequisite for the economic take-off of poor countries. Today, we have outstanding examples (particularly in Southeast Asia) of salient economic and human success stories built upon education. Once again, we have set a common framework for action in this area: the Education for All - Fast Track initiative. I welcome the progress of this initiative and the World Bank's renewed commitment to its achievement. France will naturally continue to provide strong support. We do not yet know exactly how much financing is required or available for its success and I am therefore calling for enhanced cooperation from all stakeholders in this respect. What is certain is that the financial requirements are very high. But we should not allow this initiative to fail due to a lack of resources!

We all know that trade can also be an engine of economic growth and can help many poor countries to escape from the grasp of poverty. I therefore share with you the desire to see the Doha trade round completed as soon as possible. But for trade liberalization to be a genuine success, it must factor in the situation of the poorest countries, in the spirit of the proposals made last year by the President of the French Republic, and be accompanied with the necessary technical assistance. The World Bank and the International Monetary Fund have a specific role to play in this respect.

My second, more hopeful observation is this: while this call for urgent action reaches us all, rich and poor countries alike, most of our partners in the South are determined to implement the necessary political and economic reforms.
The New Partnership for Africa's Development (NEPAD) is a symbolic initiative in this respect, and rightly so. Helped by a transparent peer review mechanism which permits emulation, it rallies an entire continent behind the implementation of sound policies and the creation of an enabling environment for private investment and growth. These reforms are indeed particularly vital to support the development of small and medium-size enterprises and the creation of jobs. Let's not forget, as our African partners have recalled, that economic growth is the engine needed by these countries to eradicate poverty and that growth is a good shared by all in our globalized world.

These renewed governance efforts are being made at a time when, thanks to the initiative for Heavily Indebted Poor Countries (HIPC), many of the poorest and most highly indebted countries on the planet are gradually returning to sustainable debt levels. The success of this initiative and therefore the credibility of the international community is contingent on their debt remaining permanently sustainable. The joint efforts of the IMF and the World Bank on the debt sustainability framework for low-income countries are therefore of the highest importance. I would just like to stress two points which seem particularly noteworthy here.

First of all, we need to grant priority to the rapid success of the HIPC initiative while naturally seeking to maintain a fair and equitable treatment among the beneficiaries. Several countries are still lagging behind. These vulnerable countries need a new start. Let's no longer keep them waiting because of never-ending, methodological debates, as unfortunately happened in the recent past.

My second observation is that I would like the IMF and the World Bank to operationalize their work in order for us to have a framework allowing to better adjust the financing granted to each country according to its debt level. Once again, on this specific point we should not get mired in dogmatic attitudes but remain pragmatic and be attentive in using all bilateral and multilateral instruments at our disposal as effectively as possible.

But these reforms must also concern the multilateral institutions and their governance framework. As noted at our previous meeting, it is unfortunately impossible today to make substantial progress towards the resolution of this problem. However, thanks to the initiative launched by the United Kingdom and supported in particular by France, a trust fund is presently operational, which will provide the offices of African executive directors in the Bretton Woods institutions with the additional analysis capacity they need to influence the decisions of these institutions.

My final point will be a call to action. Failure to act and fatalism are unacceptable. Solutions are within our reach and we need to take action to carry them out.

This is the very obvious conclusion I have drawn from the ministerial forum on innovative approaches for development finance I had the pleasure to host on April 8th in Paris and which I co-chaired with the Chancellor of the Exchequer.

First, we have noted that donors are now strongly and broadly committed to improve the effectiveness of development assistance. This is essential to allow the recipient countries to absorb volumes that we would like to see even larger tomorrow. I note already that efforts accomplished by developing countries result, according to World Bank studies, in an increased absorptive capacity of about 30 billions dollars. I therefore wish everyone to turn his intentions into actions to achieve this priority. The second High Level Forum on Aid Effectiveness, which France will host early next year, needs to be a milestone on this path.

Second, innovative solutions exist to boost the financial volumes earmarked for development assistance. To begin with, the British idea of creating an International Finance Facility is gradually gaining a broader support. This idea is highly pragmatic and clear: it leverages the political will of
Northern countries, using the financial markets to frontload the resources for development in exchange of their commitment to fund the facility. Thus, the additional resources needed by us are immediately and predictably available. I wholeheartedly support this ingenious project, which is underpinned by an ambitious challenge: making a breakthrough in underdevelopment by concentrating, over a short period of time, a critical mass of sufficient resources to trigger a virtuous circle of development.

Other solutions also deserve to be explored, such as the introduction of one or more international taxes to finance the necessary fight against worldwide poverty, thus taking advantage of the flows generated by globalization itself. France wishes the debate on this issue to make strides. However, it is not alone here. Our desire is shared by other countries, such as Sweden and Brazil.

I therefore sincerely hope that the World Bank and the IMF deepen their work on all these issues and be in a position to present at our next meeting a report enabling us finally to move from reflection to action. Our world is in great need of this.

Statement by Mr. John Snow, Secretary of the Treasury, United States

This meeting takes place at a time of great opportunity for the global community, as we witness an improvement of economic growth and stability. Nonetheless, there remain considerable challenges, particularly with regard to the need to undertake the actions necessary to achieve lasting growth and poverty reduction in areas such as Sub-Saharan Africa.

The United States is implementing policies which have led to a strengthening recovery in our own country. We are implementing the commitments of the Monterrey Consensus through a substantial increase in our development assistance, most notably through the newly established Millennium Challenge Corporation and President Bush’s Emergency Plan for AIDS relief. And as the chair of the G-7 this year, we are leading an ambitious international agenda that will help promote growth beyond our own economies.

Private Sector-Led Growth

Economic growth, led by the private sector, is the most effective means of promoting sustainable development and reducing poverty. We commend the increased emphasis that the World Bank Group has placed on private sector development – through analytical work, policy dialogue and direct lending. Innovative programs such as the IDA/IFC initiative to promote small and medium enterprise development in Africa help create jobs and a more robust financial sector. They should be replicated in other parts of the world. As we seek to improve the environment for private sector development, it is important to have the views of the private sector. The recent meeting that Development Committee ministers had with private entrepreneurs was an important new step in this process.

Grants

The IDA grants program is becoming well established and strongly welcomed by the recipient countries. The immediate need for grant assistance is highlighted by the continued debt sustainability challenges of many poor countries that are unable to take on even highly concessional IDA debt. The welcome emergence of several countries from years of conflict poses a further challenge – let us ensure that they do not start the process of consolidating peace, handicapped by new debt. And the continuing threat of HIV/AIDS and other diseases is but one of the critical needs best addressed by grants. For all these reasons, the IDA grant program can and must be expanded significantly.
Remittances

Remittance flows can be a critical contributor to poverty reduction and enable more locally-driven private sector-led growth, yet most remittance channels are expensive to use and difficult to access in developing countries. The World Bank Group can and should continue to lead efforts to address the impediments in this area through (1) promoting greater competition in and transparency of financial services to better inform consumers, (2) working with member clients to understand specific impediments to cross-border financial transfers, (3) promoting more efficient financial intermediation, and (4) funding projects that are designed to extend financial services and financial literacy in underserved communities. The World Bank has already accomplished much, and we urge it to continue to work closely with member clients, other MDBs and the private sector on this important cross-cutting issue.

Results Measurement/Performance Allocation/Transparency

Strong results management systems are critical to the effectiveness of loans and grants. More importantly, results are important to achieve real development outcomes. The World Bank has made considerable progress in establishing such systems at the project, country, and institutional levels. More progress is needed to ensure that all projects and programs, including country assistance strategies, have concrete, monitorable and measurable output and outcome goals.

A strong and transparent performance allocation system is a necessary corollary to a robust results management system. It is essential that the CPIA be made fully transparent by next year. We urge the Bank to be more ambitious in making transparent other aspects of its operations, including the Board’s own deliberations and progress on projects during implementation. Greater transparency will go a long way in promoting greater public trust in the Bank and ensuring shareholder financial support.

Trade

We must get the Doha Development Agenda back on track again, and to do this we should focus on the areas that have the greatest potential to promote economic growth – agriculture, industrial and consumer goods, services and trade facilitation. We welcome the concrete steps undertaken by the international financial institutions to address the effects of adjusting to multilateral trade liberalization, including the Trade Integration Mechanism recently approved by the IMF. The continued World Bank commitment to “behind the border” trade-related assistance will help developing countries realize the benefits of trade liberalization. To attain these benefits, however, developing countries need to reduce their own trade barriers substantially. The efficiency gains from trade liberalization in financial services would also be beneficial for many emerging markets.

Combating Terrorist Financing/Anti-Money Laundering

We applaud the decisions by the World Bank (and IMF) to make comprehensive assessments of countries’ compliance with the anti-money laundering and terrorist financing standards a permanent part of their work. This very positive step reflects the close collaboration and hard work of the World Bank, the IMF and the Financial Action Task Force (FATF). The next step is to move forward in implementing the program to assess country compliance and help countries identify and address shortcomings in their terrorist financing and money laundering regimes. This is critical to winning the war against terrorism and to help anchor the foundations of sustainable growth and development. The United States is ready to join international efforts to provide further technical assistance to help countries build capacity in the areas identified.
Middle East

The Greater Middle East Initiative will be a key component of the Sea Island Summit in June. My colleagues and I will be working with our partners in the region to develop a common approach to support economic reform, growth and job creation. We took a big step in that process in a meeting I hosted this week of the finance ministers from the region and Europe, Japan and North America. Much is already underway; the task is to create a cohesive framework of engagement to enhance existing efforts. A key emphasis should be on attracting investment to the region, through transforming the investment climate, strengthening financial sectors and promoting financing for small and medium enterprises.

Iraq

We welcome the progress made by Iraq in laying the foundation for economic growth, guided by principles of openness, transparency and private sector development. The World Bank has played a key role in supporting Iraq through its leadership of the International Reconstruction Fund Facility (IRFF) and successful donors conferences in October and February. The Bank has also been working diligently and creatively to build Iraqi institutional capacity, preparing and beginning to implement emergency operations under the IRFF to address urgent needs, and to lay the groundwork for a medium term program in Iraq once sovereignty has been transferred. We also commend the IFC’s work to establish a Small Business Financing Facility, which will make it possible for small businesses in Iraq to establish or grow, supporting critically needed job creation.

Afghanistan

Afghanistan continues to make progress, with the support of the Bank and the rest of the international community. Most recently Afghanistan has adopted a new constitution, with elections to come in September and is building infrastructure that will lay the foundations for a market economy. By any measure, the recent Berlin donors’ conference was a success, although the hard work – making sure that pledges are disbursed and projects implemented successfully – is yet to come. There will be a key role for the Bank and the rest of the international community to play for a long time.

Administrative Budget

The staff and administrative budget of the bank have increased significantly during the last two years. In order to ensure that as many development dollars as possible actually reach the world's poor, and to ensure the domestic political support in donor countries necessary for adequate financing of development, it is important that the Bank demonstrate efficiency, discipline and prudence in its own operations. For that reason, we commend the recent budgetary discipline demonstrated by the IMF and propose that the Bank's administrative budget follow a similar course.

Statement by Mr. Sadakazu Tanigaki, Minister of Finance, Japan

MDG Challenge

In preparation for the comprehensive review of the implementation of the Millennium Declaration scheduled for 2005, the international community is now working together in achieving the Millennium Development Goals (MDGs). Meeting these goals in the Sub-Sahara Africa region and in the area of health and sanitation, in particular, seems at risk. It is essential to identify best practices for achieving the MDGs and share and replicate them among developing countries and the donor community wherever appropriate. To achieve the MDGs, we believe it is more effective to improve the quality of aid by replicating and scaling up best practices on the ground, than increasing the volume of aid. Where then can we find the key to success in achieving the MDGs? Looking at the best practices in developing
countries, we can perhaps say that there are three overarching elements that constitute the key in achieving the MDGs.

First, localization of the MDGs and incorporating them in Poverty Reduction Strategy Papers (PRSPs). Developing countries vary on many fronts, such as poverty profile, policy and institutional environments, and administrative capacity. It is essential therefore for each developing country to localize the MDGs according to the circumstances it faces and then to formulate its own PRSP which aims at achieving the localized goals. In formulating a PRSP, developing countries are expected to prioritize policies, according to their respective fiscal and debt constraints, in order to ensure its feasibility.

Second, improvements in policy and institutional environments. There emerges a consensus that having good policy and institutional environments is a prerequisite for aid to achieve good performance. Each developing country should identify the problems in its policy and institutional environments and aim to address them in its own PRSP. Donors including the World Bank, on the other hand, should allocate financial resources based on the good policy and institutional environments of developing countries or efforts made to improve. To promote all this, we believe that the World Bank’s Country Policy and Institutional Assessment (CPIA) should be fully disclosed promptly.

Third, alignment and harmonization of aid. Once a developing country has formulated its own PRSP designed to achieve the localized MDGs within the country’s fiscal constraints, it is important that the donor community including the International Monetary Fund and the World Bank support such a PRSP in a coordinated manner. The donor community should also endeavor to reduce transaction costs of aid delivery. Japan has been working on harmonization of lending procedures in Vietnam and the Philippines with the World Bank and the Asian Development Bank.

What all this suggest is that the key to success lies in whether or not the donor community can join hands with a developing country government to support the PRSP as well as programs incorporated therein, which reflects the country’s policy and institutional environments. Reflecting the voice of developing countries in the implementation of aid is important. Donors are also expected to decentralize and transfer competencies to their local offices as much as possible, and listen directly to the voice of developing countries.

With regard to the Education for All-Fast Track Initiative (EFA-FTI), for which a progress report is submitted to this committee meeting, it is essential to have EFA-FTI coordinated with the PRSP of each recipient country. Primary education assistance should be provided in the framework of the PRSP, around which donors coordinate their programs. We would like to point out that the modality of aid hinges on the circumstances of education development of the recipient country. It would be inappropriate to focus only on the financing gap. Rather, we should put importance on sharing expertise and replicate best practices of aid coordination. In what way can we then share country-specific best practices?

Results-Based Management

We think the key to replicating best practices and scaling up development effectiveness lies in the results-based management. As was reaffirmed at the recent Round Table in Marrakech, it is essential for donors and developing countries to collaborate with each other to ensure whether or not expected results have been delivered at each stage of an aid program—from planning to implementation, to monitoring, to evaluation—for effective feedback. The whole process would prepare the ground for holding all the actors to play their respective roles.

The question here is how to measure and monitor results. In recent years, we have learned that the “result-chain” leading to the MDGs is multi-dimensional and multi-sectoral. To increase literacy rates, for example, increasing the number of teachers is not enough: the electrification rate in rural communities may also count. Likewise, to lower infant mortality, increasing the number of health clinics is essential,
but constructing roads to provide better access to those clinics may be equally important. So, when identifying and measuring the expected results at each stage of program implementation, it is essential to take into account this multi-dimensional results-chain, so that the allocation of resources to sectors other than education and health will not be neglected. In this context, we hope that the World Bank will steadily implement its Infrastructure Action Plan while paying due consideration to the multi-dimensional and multi-sectoral results-chain.

Certainly it takes time for such results-based management systems to function on the ground and to make a tangible impact on the MDGs. The first thing we need to do is to identify the result-chain to achieve the MDGs and to devise indicators to measure those results. It is essential for the donor community and developing countries to collaborate and to build step by step a realistic and reliable framework. On the donors’ side, they should strive to transform their aid management systems towards more results-based ones. In this regard, I hope the World Bank’s results-based CAS will be put in place in as many countries as possible.

For a results-based management scheme to function, reliable statistics will be indispensable. Yet, only a limited number of developing countries are equipped with the capacity to compile the statistics needed for results-based management. Against such a backdrop, Japan has made a financial contribution to the United Nations’ Millennium Project and is supporting statistics compilation capacity building in developing countries through Japanese trust funds at the World Bank and the ADB. Furthermore, we will also support human resources development and administrative capacity building in the region’s developing countries through the Tokyo Development Learning Center to be inaugurated next month in Tokyo. Providing programs for capacity building in statistics will be one of a few priority programs.

Debt Sustainability in Low-Income Countries

To achieve the MDGs, securing financial flows to low-income countries is also essential, together with good policy and institutional environments. Causing a new debt problem as a result, however, must be avoided. In this context, we welcome the proposed framework for assessing debt sustainability in low-income countries that the International Monetary Fund and the World Bank have jointly compiled. We note that this framework takes into account policy and institutional environments, and hope that the framework will be appropriately reflected in the lending policies of the International Monetary Fund and the World Bank. Also, in putting the framework into operation, we think it necessary to leave some room to maneuver, taking into account country-specific factors such as policy and institutional environments, without being too mechanical.

Financial resources are necessary to achieve the MDGs, but some countries should refrain from excessive borrowing in the context of debt sustainability. For these countries, some argue that they should be provided with more grants. While we are not opposed to this opinion, we think it is more important to help these countries with debt sustainability problem improve their policy and institutional environments through technical assistance and policy dialogue, rather than simply adding to the amount of aid, given the fact that grants available to them are very limited. Also, in general terms, our view is that lending often leads to the establishment of a the governance system through stringent assessment, execution, and monitoring of lending programs on both sides of lenders and borrowers, which enhances aid effectiveness.

It should also be noted that low-income countries with heavy debt burdens are often vulnerable to exogenous shocks. To date, various means to address exogenous shocks have been studied from diversifying the economic structure to mitigating risks through the market instruments including purchasing of insurance and utilizing futures options. We do not believe there is any short-term panacea, however. Even if it may seem more complicated, we think developing countries should work on building a resilient economic structure that can cope with shocks and changes. In other words, to overcome exogenous shocks, it is essential to make efforts at different dimensions—such as the promotion of direct
investments through improvements in the investment climate, the promotion of trade, and PRSP-driven improvements in policy and institutional environments on the part of developing countries. The international community, on the other hand, should join forces to provide continued support to such efforts.

**Support to Post-Conflict Countries**

In order to achieve poverty reduction in a sustainable manner, it is essential to establish an environment conducive to building a stable nation which is the prerequisite for development. One of the keys to achieving the MDGs is to provide appropriate assistance to post-conflict countries and low-income countries under stress (LICUS), those countries that lie in between conflict and stability. In this regard, we welcome that the World Bank has established the LICUS Trust Fund. We also find it encouraging that at the International Conference on Afghanistan recently held in Berlin, the international community reaffirmed its commitment for the reconstruction of Afghanistan. In offering assistance to post-conflict countries, we should combine three perspectives in a comprehensive manner; first, prevention of the recurrence of conflict; second, humanitarian assistance; and third, reconstruction assistance. Another perspective is to ensure political stability in the whole region surrounding the post-conflict country. As such, assistance to post-conflict countries necessitates a new angle to the development approach for ordinary low-income countries.

**Support to Middle-Income Countries**

We welcome the World Bank’s move to reformulate its strategy to support middle-income countries. Support to the middle-income countries should be mobilized around private financial resources. In reality, however, there are many middle-income countries where stable flows of long-term private capital at levels adequate to promote development are not available—either in terms of access to the international financial market or in the form of direct investment inflows. When supporting such countries, the World Bank should not resort to increased lending as a substitute for private capital. The World Bank should instead help attract private capital inflows on a continual basis by helping them build enabling policy and institutional environments to facilitate it.

Specifically, the World Bank should put first priority on identifying impediments to private capital inflows and promoting necessary reforms in areas such as financial sector reform, privatization of public enterprises, improvements in accounting systems, building a scheme for private transaction dispute resolution, and deregulation. Furthermore, it is also essential for the World Bank to analyze the reasons why public and private sector partnerships in infrastructure projects have not produced expected results, and to design a new strategy that fully incorporates the lessons. The World Bank Group, including the IFC and MIGA, is expected to take full advantage of a variety of instruments available to them as a group, such as participation in private sector projects and providing guarantees to loans and investments.

**Closing**

The global development agenda including the MDGs is not something that can be accomplished overnight. We can tell from our experience on the ground that it is a daunting task. However, we must not forget the fact that the day-to-day efforts on the ground by governments of developing countries, donors, and the civil society are identifying the keys to success in achieving the MDGs. Also, with regard to the low-income countries’ debt issue, donors are collaborating each other to address the issue. We should never let difficulty set us back. Our mission is to continue our efforts to identify best practices, replicate and scale them up among all countries and the donor community.
Statement by Ms. Agnes van Ardenne, Minister for Development Cooperation, Ministry of Foreign Affairs, The Netherlands

The topic of this DC is the progress made towards the MDGs. The first Global Monitoring Report is an essential tool for tracking progress in all the relevant areas of policy. The Education for All/Fast Track Initiative is a litmus test that will tell us a great deal about how we can achieve the MDGs within the tight deadline. I will touch upon some of the challenges we have to tackle together, following the structure of the Global Monitoring Report, and I will come back to the subject of Education for All.

Priorities for Developing Countries

Developing countries will have to speed up their reform efforts and their measures to promote internal growth if they want to attain the Millennium Development Goals in time. The agenda ranges from a better business climate and more capable local institutions to more investment in infrastructure and better service delivery in education and health. In these areas, not only the Global Monitoring Report but also reports like the Doing Business Report and World Development Report 2004 provide helpful examples and guidelines.

The crux of the matter is not to impose on developing countries general policies and priorities that are not suited to their specific circumstances. We should, as always, resist the temptation to apply general blueprints. The MDGs have to be achieved at national level through the country-owned PRSP process. In order to achieve the MDGs by 2015, developing countries and the international community will have to take a more ambitious approach to each new PRSP.

Priorities for International Organizations

Many international organizations do a good job of fighting poverty, but they can and must do better. Development is a multifaceted concept and, for this reason, we have created a plethora of international organizations in the past that deal with different aspects of development. Each organization has areas of special expertise and the international community should draw on this expertise with an eye to the comparative advantages and mandate of each agency. I therefore welcome a discussion on how the Bank, the Fund and the other UN institutions can join forces even more effectively to achieve the MDGs by 2015. More harmonization and coordination with other international organizations as well as bilateral donors, especially at country level, are essential and should be the Bank's top priority. The Bank's participation in the Harmonization in Practice Initiative in Zambia or the sector-wide approach to primary education in Bangladesh deserves to be emulated in other countries. Another example is Mozambique, where 14 donors including the World Bank have signed a memorandum of understanding on harmonized budget support.

The Bank must do more to incorporate issues of equity into its work and should look to the conclusions of the World Commission on the Social Dimension of Globalization. Globalization has brought many winners but also some losers. The international community has an obligation to look at its social impact and impact on poverty and the Bank should play a role in this effort.

Returning to the Global Monitoring Report, I call on the Bank and the Fund to share the responsibility for global monitoring with all relevant institutions: the other UN institutions, the WTO, other multilateral development banks and the OECD/DAC. A true ‘global report’, supported by as many partners as possible, will have more legitimacy.

Priorities for Developed Countries

Developed countries should live up to the commitments they made in Monterrey. It is primarily a question of mustering the political will to provide more resources, better delivery of assistance and more
coherence between aid and trade policies. I insist on greater effectiveness and transparency in our cooperative efforts. That is also one of my priorities for the Dutch Presidency of the European Union, later this year. Other priorities for our Presidency are ensuring better compliance with international agreements and a strengthening of the multilateral system.

**MDG-8 reporting.** Accordingly, I urge all OECD/DAC member countries to report on their progress towards MDG-8. If developing countries report on their progress towards ‘their’ targets, it seems only natural that developed countries should do the same. We can show that we are responsible development partners. The Netherlands is one of the first developed countries to have prepared its MDG-8 report, based on a format currently being developed by a small but growing group of OECD/DAC member countries. I hope to publish this report soon.

**Financing.** The best way to increase aid flows is simply to increase aid. The level of aid should rise much faster towards 0.7 percent of GDP than is currently the case. This would be in line with our Monterrey commitments and in conformity with the UN target of 0.7 percent of GDP for ODA. I share the Global Monitoring Report's concerns about the lack of sufficient flexible cash aid for financing country-owned PRSPs. More OECD countries should provide flexible funds to developing countries, via budget support where appropriate. And finally, we should also put the Rome declaration on harmonization into practice at country level.

**Trade.** Our last meeting in Dubai took place after the Cancún WTO Conference. Now all parties are conducting serious talks, which I hope will lead to a number of framework agreements in July.

We can increase the likelihood that the Doha negotiations will have a pro-poor outcome if all parties develop a better understanding of the impact of trade liberalization on development. Trade-related capacity building is key and we must make sure that the PRSPs fully reflect the importance of trade. Agriculture is a good example. Liberalization of trade in agricultural products is crucial for most developing countries, as the majority of their poor depend on agriculture. At the same time, liberalization is a sensitive issue in many developed countries. Research shows that painful reforms in agriculture can be offset by large gains through liberalization of industrial products and services and shows that we should think in terms of package deals.

But any package deal needs to include trade liberalization by developing countries themselves, especially the more advanced ones. I am convinced that we can ask these developing countries to grant duty-free market access to the least developed countries. Of course, we will not be in a position to make this request unless all OECD countries grant duty-free access to the LDCs as soon as possible. That will help to mitigate the losses the poorest countries will suffer as a result of the erosion of preference margins when developed countries lower their tariffs.

The most important challenge before us is to help low-income countries seize the opportunities of trade liberalization. I welcome the initiative by the Bank and the Fund in Cancún to provide financial support to offset the short-term adjustment costs of trade liberalization. We all need to continue working hard on behind the border issues. Assistance is not always sufficiently focused on raising developing countries’ productivity and income. Well-functioning internal markets are key. For instance, eliminating cotton subsidies in the developed world does not automatically make cotton from West Africa competitive. For that to come about, West African countries will have to reorganize their internal price-setting mechanisms and set up well-functioning markets for inputs and credit. I welcome the significant, coordinated support that donors are giving in these areas and I believe that capacity-building for behind the border issues deserves even more attention from the Bank, the Fund and bilateral donors.

Better coordination and harmonization at country level are, again, a top priority and our field offices should raise the profile of the behind the border agenda. Productive sector packages should be
agreed upon within the framework of Poverty Reduction Strategy Papers and Country Assistance Strategies.

**Education for All.** The progress on EFA/FTI demonstrates that it is still possible to achieve the goal of Education for All. However, if we want to succeed the donor community needs to open up to new, more flexible and predictable methods of financing. The lack of progress to date is an embarrassment to the international community. Now that policy frameworks have been spelled out and agreed upon, there are no more excuses for not financing and implementing the measures to achieve education for all, especially as a great many recipient countries are willing to fulfill their part of the deal: the implementation of sustainable policies. For many countries it is crucial to have the assurance that recurrent costs will be included under the initiative. The Bank should make haste with adjusting its procedures in order to address the need to move ahead expeditiously. The Catalytic Fund should become operational without further delay and we ask the Bank to report to the Development Committee.

If the international community fails to deliver, this MDG will not be reached by 2015 and we may ruin any prospects of reaching other, more complicated MDGs. The Netherlands will raise the percentage of its development effort devoted to education from the current 5 percent to 15 percent in 2007. I have earmarked a total of €2.5 billion for education and I urge other countries to join us in making more resources available.

**HIV/AIDS.** The fast and continuous spread of the HIV/AIDS epidemic threatens to undermine our collective development efforts and forms a growing threat to national security and political stability. The international community must step up its efforts to reverse the spread of HIV/AIDS and reduce its impact on societies. I am pleased with the significant increase in funding to fight HIV/AIDS and am pleased to announce that the Netherlands will increase its contribution to this cause to €270 million in 2007.

Nevertheless, the international community will only be successful if it finds new and innovative responses to capacity constraints at the country level. In this respect too, better coordination and harmonization at country level are a top priority and the Netherlands would very much welcome agreement on the three guiding principles for national-level coordination, also referred to as "The Three Ones".

**Long Term Debt Sustainability**

A manageable debt burden is a precondition for lasting economic growth and socio-economic development. The HIPC initiative has made a valuable contribution to lowering the debt burden of many low-income countries (LICs). The next step is to prevent unsustainable debt levels and debt distress from re-emerging. I therefore welcome the proposed framework for long-term debt sustainability in low-income countries, which incorporates key principles: focusing on levels of external and domestic debt, country-specific indicative thresholds, risk mitigation, diversification, and debt management capacity building. New concessional resources should be allocated on the basis of countries’ policies and in support of the MDGs, while taking into account a country’s repayment capacity. Sustainable debt levels as defined by debt sustainability analyses (DSAs) should be the determining factor for the modality of financing offered to LICs, including the size of grants, and will thus be a crucial factor in determining the size of the grant window under IDA-14.

However, I would like to warn against moral hazard. Grant financing should not undercut the incentives for sound economic policies, including policies for effective debt management. It is also important for the quantity and modalities of all external development financing, and not just IDA credits, to be in accordance with the DSA. Special attention should be paid to the possible consequences of the new framework for the HIPC initiative.
Bank Lending to Middle-Income Countries

As for middle-income countries, the continuing involvement of the World Bank is essential to support economic growth and progress towards social objectives of the kind incorporated into the MDGs. This is all the more important given the fact that these countries are home to more than 70% of the developing world’s poor. The measures recently proposed by the Bank to increase the efficiency of lending processes for middle-income countries should not lower the Bank’s fiduciary standards and safeguards or their national equivalents. World Bank lending has high added value in middle-income countries with good policy performance but with little or unreliable access to capital markets. In countries with less developed institutions, the Bank should focus on the provision of analytical and advisory services. Last but not least, Bank lending to these countries must remain focused on poverty reduction.

The Voice of Developing and Transition Countries

As part of the follow-up to Monterrey, I have decided to contribute to the establishment of a trust fund to improve the analytical capacity of the African Executive Directors' Offices at both the World Bank and the IMF. This initiative – together with other ongoing capacity building exercises – is an important means of giving the African continent a greater voice in the two Washington-based institutions. It is my sincere hope that – as agreed in Dubai last year – we will be able to bring the debate to a successful close at the upcoming Annual Meeting.

Statement by Ms. Heidemarie Wieczorek-Zeul, Federal Minister for Economic Cooperation and Development, Germany

With the Millennium Declaration and the agreements of Monterrey and Johannesburg, we took important steps towards a more equitable world order. Since then, our task has been to translate these shared convictions into concrete and jointly formulated policies. The fact that agreement was reached on the agendas of Monterrey and Johannesburg does not mean that all differences of opinion have been reconciled. To a certain extent, the international community has fallen short in the implementation of our common interests. This applies particularly to the fields of climate policy and the establishment of a fair trade order. At the same time, we are confronted with new challenges, especially the rise in violent conflicts and terrorism. An increasing militarization of international affairs is not the way to tackle these challenges. We must impress upon the international community that development is the most economical form of security policy.

Financing for Development and ODA

As outlined in the Global Monitoring Report, most developing countries will only have any hope of achieving the Millennium Development Goals, if international efforts are scaled up considerably at all levels and by all concerned. I welcome the resumption of the WTO negotiations. All partners must now show the necessary ability to compromise in order that the Doha Round can be brought to a rapid conclusion and live up to the title of a "development round". This includes making significant improvements to market access for exports from the developing countries, particularly agricultural produce. Negotiations should aim at phasing out export subsidies in the agricultural sector. When deciding on new steps towards liberalization and other trade rules, it must always be remembered that developing countries usually have weak financial and institutional capacities.

As regards the volume of ODA, Germany remains firmly committed to its pledge of increasing Germany's contributions to 0.33% of GDP by 2006. In addition to our joint efforts to increase ODA, we must also forge ahead with the debate on innovative instruments for financing development. Germany is
open, in principle, to several of the proposals currently being discussed at international level. We expect
the Bank and the Fund to submit a comprehensive analysis of the pros and cons of all practicable
solutions at this year's Annual Meeting.

Regarding the quality of ODA, there are four aspects to be tackled. Firstly, ODA should be
focused more on those very poor countries which are able to absorb it, thanks to a development-friendly
institutional and political environment, and where ODA can therefore be most effective (“selectivity”). It
would be disturbing if more ODA were to be used to execute short-term foreign and security policy
interests. Secondly, development co-operation must be integrated more closely into national development
programs (“alignment”). Thirdly, progress must be made on initiatives to simplify the procedures used by
the various donors and to harmonize procedures among donor countries and in the partner countries
(“harmonization”). Alignment and harmonization are vital if we are to be able to focus on shared aims at
country level (“result orientation”). Fourthly, we need greater predictability of ODA transfers. In order to
advance systematically with this agenda, we need joint action and implementation plans. The quality of
the ODA delivered by the various development organizations must live up to precisely these criteria. I
therefore very much welcome international review mechanisms.

The international community must enhance the volume and quality of ODA. But it would be an
over-simplification to distinguish – as the Global Monitoring Report does – between "good" ODA, in the
form of financial co-operation, and "bad" ODA, in the form of technical co-operation and debt relief. As
we all know, debt relief has freed up domestic funds, which can now be used for poverty reduction. The
increase in public expenditure on education and health speaks volumes. As regards technical co-
operation, it can play a major role in increasing absorptive capacity in the partner countries and the
efficiency of ODA. To put it another way, greater financial transfers are absolutely essential, but they will
not automatically achieve the desired results. Successful development has a great deal to do with ideas,
innovation and knowledge, which is a key reason why the World Bank has recently focused on becoming
a "Knowledge Bank". Therefore, technical co-operation and capacity-building are of key importance.
They must, however, be constantly adapted to changing circumstances, particularly by means of greater
integration into the programs and processes of our partner countries.

Co-operation and Partnership

Over the last few years, the international community has developed common goals and achieved
a broad consensus on how to tackle the challenges ahead. We have also strengthened communication
between the development institutions. By aligning donor programs with national development strategies,
we have laid the foundations for closer co-operation. We must now move beyond that and on to further
developing the international development architecture. We must delimit more clearly the institutions’
respective mandates, pinpoint their roles and comparative advantages, make headway on the division of
labor and, in general, co-operate more closely. The need to provide more grant funding to highly
indebted countries makes this all the more urgent.

The World Bank has a very important role to play in the international development architecture.
Ultimately, however, the success of our shared development agenda depends on all development
institutions dovetailing their contributions in a constructive way, for example the UN and its role in
reviewing progress towards the MDGs or the bilateral donors and the EU, which increasingly need to take
on the function of lead agencies in certain areas depending on their particular specializations. I would
greatly welcome the submission by the World Bank before our Annual Meeting of an agreed proposal for
a concrete and more clearly defined division of labor with other multilateral institutions, particularly the
organizations of the UN. The principle of selectivity must be clearly reflected in the World Bank
portfolio.

In all areas, it is vital that we combine forces, all the more so when trying to tackle difficult
problems. The energy sector provides a good example. Affordable, reliable and sustainable energy is of
vital importance in achieving our declared goal of poverty reduction. I am convinced that we must therefore increase our support for the broader use of renewable forms of energy and curb the subsidization of traditional forms of energy. Some renewable forms of energy are already competitive, particularly when the aim is to provide a decentralized supply of energy to the poor. For other renewable energies, the market still needs to be developed. The costs of this should not be offloaded onto the developing countries. It is therefore vital for all parties concerned to work closely together so that their efforts complement each other and expertise and studies can be shared. The World Bank has an important role to play in such an approach. It has to actively encourage the utilization of renewable energies as well as considerably increase the proportion of its portfolio spent on promoting renewable energies. An organizational unit for renewable energies and energy efficiency should therefore be set up within the Bank. By the next Annual Meeting, the World Bank should submit an implementation plan and timetable showing how the proportion of renewable energies can be increased until it becomes the main form of energy within the World Bank's portfolio. Germany is willing to offer its co-operation in this. The International Conference for Renewable Energies being held this June in Bonn will provide a sound basis for a broad coalition.

One further example of a successful partnership is the Education for All – Fast Track Initiative (FTI), which has achieved many respectable results so far. Germany will continue to support this initiative. A year ago, I pledged to double our bilateral funding for basic education as part of this initiative. We are making concerted efforts to achieve this target. In addition to the two FTI pilot countries initially chosen, Germany is now supporting two further countries as part of the initiative. We have earmarked additional funding of €90 million for the period 2003-2005 for these four countries alone and are currently examining the possibility of providing further funds for countries that are in the FTI or wish to join.

**Debt Sustainability**

We are now approaching the 5th anniversary of the decisions on debt relief for Highly-Indebted Poor Countries. The German government has been strongly committed to supporting this initiative from the outset and is following every step of its implementation with the same keen attention. That is why I consider it important that the international community should not only stand by the decisions made in Cologne but also – where it seems appropriate – develop them further. I find the success of the Initiative to date compelling: 27 countries have entered into the debt relief process and 13 countries are being granted comprehensive debt reduction, because they have reached the completion point. More will follow this year. The debt stock of the 27 countries will be reduced by two thirds. However, the success of HIPC goes far beyond this quantitative dimension of debt reduction. By linking the Initiative with poverty alleviation, a new development policy paradigm has emerged, which puts poverty alleviation at the centre of all development efforts. HIPC has helped enforce the PRSP approach. Today it represents an all-embracing development strategy which encourages ownership, participation, good governance and democratization in developing countries.

Despite these successes of the HIPC Initiative, the international community is faced with a number of new challenges, related in particular, to the fact that, although HIPC leads to a one-off debt reduction, debt relief alone cannot remove all structural causes of poverty. The core challenges for ensuring debt sustainability therefore point beyond HIPC; like any form of debt relief, the HIPC Initiative alone is no guarantee of a sustainable solution to over-indebtedness.

I explicitly support the operational framework for securing the long-term debt sustainability of low-income countries put forward by the IMF and World Bank management. It addresses issues that Germany has repeatedly brought to the urgent attention of the World Bank. Two aspects above all must be taken into account: firstly the quality of institutions and policies, and secondly the vulnerability of countries to external shocks. These aspects have been integrated into the operational framework that has been presented to us; that marks a great step forward. Numerous questions remain open, for example
with regard to the role of the international institutions, the financial resources that will be necessary and the operational implementation of the proposed framework. The international community must find a solution for those countries that will not reach Decision Point by the end of the year. These questions must be solved by the time of our Annual Meeting.

**Growth Policies and Poverty Reduction**

Without a boost to the economies of the developing countries and a resultant rise in economic growth, it will not be possible to guarantee debt sustainability in the long term or to achieve the Millennium Development Goals. If growth rates remain constant, for example, only eight countries in sub-Saharan Africa, representing 15% of the population in the region, will achieve the goal of halving poverty by 2015. The more successful we are in harnessing the productive potential of the poor by means of broad-based, pro-poor growth strategies, the greater the reductions in poverty will be. The most vital prerequisite for this is an improvement in market access for developing countries and the establishment of a fair world trade order. The World Bank and various other donors, including Germany, are at the same time trying to come up with some concrete joint recommendations for national development strategies in the partner countries.

Much more is known today about the factors required for successful development than ten years ago. It is now generally accepted, for example, that efficient institutions are of key importance for development processes. These insights must be thought through to their conclusion and translated into practice. This includes developing solutions on the basis of the (often informal) institutions that actually exist. It follows, therefore, that an intimate knowledge of local circumstances is required to implement successful growth strategies. The international community must therefore lend more active support to the developing and transition countries in charting their own path, whilst also being willing to accept unconventional policies. Ownership also means donor institutions being open to alternative economic policy options, including the macroeconomic level. Unless we use a diversity of approaches, we will not succeed in mobilizing sources of growth as much as required.

This has a number of implications. At this point, I would like to list some of the major consequences for the work of the World Bank.

1. The World Bank has now also accepted the importance of institutions for development. It must however be more systematic in drawing the appropriate conclusions and putting them into action. The quality of institutions, regulatory systems, and governance, and the property rights issue have to be seen as factors underlying all other factors relevant to growth. This has to be systematically built into the notion of economic reforms, especially in connection with liberalization and privatization. Deliberations should focus on functionality and realism (as opposed to the still commonly held view that liberalization and privatization will result virtually automatically in successful development).

2. There is no guaranteed recipe for success in development. The World Bank must therefore be increasingly involved in efforts to find tailor-made, country-specific solutions. One important aspect in this context is for reforms to be firmly rooted in cultural and political-economic terms. For example, in nearly all the countries of sub-Saharan Africa, customary law is common. It is estimated that 10% of land at most is held by formal title. If land is to be used efficiently, tenure must be more formalized. Yet to create a modern, Western-style system of land tenure would be to ignore the realities of the situation in these countries. Instead interim solutions or sensible adaptation of existing law are needed.

3. Ownership on the part of developing and transition countries must be further strengthened. The Bank can make an important contribution to this:
• by actively advising the partner governments, also on policy ideas that lie outside the mainstream;
• by strengthening analytical capacities in the partner countries;
• by further paring down the conditions connected to programs so that they focus on key institutional reforms;
• by involving partner countries to a greater extent in the decisions of the World Bank’s governing bodies (voice);
• by further shifting decision-making processes to the recipient countries.

4. The World Bank must strengthen its strategies for crisis prevention and, in particular, for dealing with external shocks and managing crises. In this context, it must also, in close co-ordination with other donors, adapt the form and volume of its lending to debt sustainability in the partner country concerned. New instruments should be developed, enabling debt service payments, for example, to be linked to GNP. I very much welcome the Bank’s and the Fund’s plans to make further headway in their analysis of this issue.

5. There should be a greater focus on the interdependence of the macro and micro levels. Therefore a close co-operation is needed between the World Bank and the IMF. The idea that the IMF is responsible for macroeconomic policy recommendations whereas the World Bank is responsible for structural and institutional questions is short-sighted. Efficient strategies to support economic growth and poverty reduction are only possible when both macro and micro policies are functionally interwoven. This understanding has to be built into the work of both institutions. The financial sector plays a key role in measures promoting growth. Its main function is to mobilize domestic financial resources, for example by improving disposition rights, and channel them towards the most productive activities.

It is my firm belief that we must forge ahead with the discussion of economic policy strategies, if we are to be able to tackle the challenges ahead, namely:

• substantially reducing world-wide poverty
• achieving the Millennium Development Goals
• ensuring the long-term debt sustainability of developing and transition countries, and
• putting international economic relations on a sounder footing and taking effective measures to prevent crises.

My ministry has drawn up a discussion paper on this important issue, aimed at stimulating international debate.

*Increased Participation of Developing and Transition Countries in the Decisions of the World Bank*

I would like to thank Trevor Manuel for his proposal regarding further discussion of this topic. I believe that the suggested procedures will help us achieve our common goal, namely enhancing the voice of the poor in the BWIs within the shortest possible timeframe. We support the proposals on strengthening the capacity of the offices of the African Executive Directors. However, these measures alone will not on their own be enough to address the whole problem in its entirety. Therefore the
decisions taken so far can only be seen as a first step in a process of more comprehensive reform. We cannot afford to limit reform efforts to a few "easy" measures.

At last year’s Annual Meetings in Dubai, Germany presented a discussion paper with various proposals for enhancing the voice of the developing countries in the World Bank. Our plan has three main pillars: a) strengthening the ownership of the developing countries; b) increasing the level of basic votes to its original level of roughly 11 percent; c) investigating the possibility of introducing double majorities. This would apply to certain decisions of an operational nature, e.g. project proposals and staffing decisions.

We believe that increasing the Basic Votes could in particular improve the situation for those countries that currently have the lowest representation. We therefore feel that this proposal represents a fair solution to the problem of marginal representation. It would not undermine the Bank’s position as a financial institution, and total voting rights would still be measured by the relative economic strength of the member countries. We therefore firmly support the proposal in the roadmap of elaborating various options for increasing Basic Votes, to be ready for the Spring Development Committee meeting in 2005.

If the Eminent Persons' Group proposed by Trevor Manuel is established, we believe that it should look at all feasible options currently being discussed within the bodies of the World Bank, including the German proposal of introducing double majorities for certain operational decisions.
Statement submitted by Mr. Poul Nielson, Commissioner for Development and Humanitarian Aid, European Commission

*We Need a Simpler, Clearer System for MDG Monitoring*

The European Commission welcomes the Global Monitoring Report 2004 as a contribution to a global monitoring framework for MDGs. Decision-makers in developing and developed countries, as well as in the International Financial Institutions, need information on progress towards these global goals to judge whether the strategies in place are appropriate, and the effort adequate, to reach the goals. If not, we need to make corrections.

But reporting on the MDGs should serve internal accountability – *vis-à-vis* tax-payers, voters, and shareholders – as much external accountability in the context of the global partnership to which we have all signed up. Because this is about information for decisions with global consequences, the question of the monitoring system is closely linked to global governance.

The UN, the World Bank, the OECD/DAC, and individual countries, both developed and developing, all play overlapping roles in the present system. The European Commission considers that we need to go beyond a general commitment to coordinate, to a clearer, simpler system where roles are defined and the data needs are identified. That way we can see where there are gaps, and inconsistencies can be spotted and eliminated.

*The European Union is Going for a Joint Approach in Monitoring...*

The European Commission and its Member States, in line with our treaty obligation to coordinate development assistance, have arrived at a higher level of joint action since the Doha, Monterrey, and Johannesburg conferences. In January, the EU Council of Ministers concluded that the EU should provide a coordinated EU contribution to the 2005 UN stocktaking event. This is a logical step, since many of the key issues for achievement of the MDGs are best addressed at EU level: policy coherence (*e.g.* trade and agriculture policies), harmonization, aid volume, and support to global initiatives. This will build on the existing monitoring of the EU’s (Barcelona) commitments for Monterrey on the level and quality of aid, for which the second annual report will be presented this week.

We expect a proposal for coordinated EU reporting on MDGs to be formally adopted this week. It is based on individual country reports by Member States, and a synthesis report prepared by the Commission. The EU approach is clearly not to duplicate work undertaken by the UN, the OECD/DAC, and the World Bank on analyzing global progress towards the MDGs. It should focus on EU contribution towards this progress – without attempting quantitative attribution – and pay particular attention to MDGs 7 and 8 which contain developed country commitments. The synthesis report will analyze past actions, identify gaps and make proposals to accelerate progress before 2015.

*...and is Making a Common Effort in Priority Actions for MDGs*

The Global Monitoring Report lists four priorities for the contribution of developed countries towards the MDGs. On all these areas the European Union has decided on joint actions.

The first point is the resolution of some outstanding issues on the regulatory side and financial architecture and the orderly resolution of fiscal and external imbalances, especially the large US deficit. In the EU, prospects have improved, with economic recovery gaining momentum, to speed up the necessary consolidation, as agreed under the Stability and Growth Pact which provides the EU’s fiscal policy framework. A faster pace of structural reform is crucial for creating a more dynamic European
The second requirement is a successful, pro-development and timely outcome of the Doha round. The completion of the Doha Development Agenda remains the top EU policy priority on trade. After the re-launching of the negotiations in December, the Commission is convinced that progress is possible in 2004. WTO members must agree now what should have been agreed in Cancun – notably, on framework modalities on agricultural and non-agricultural market access, on special and differential treatment for developing countries, and on how to deal with the Singapore Issues (investment, competition, trade facilitation and government procurement). Further multilateral trade liberalization underpinned by a strong rules-based multilateral trading system will bring significant global economic benefits and has a key role to play in the integration of developing countries in the world economy.

The third priority is an increase in ODA above current commitments. The EU is well on track with the increase in aid volume collectively promised in Monterrey – i.e. to reach an EU average of 0.39 percent ODA/GNI by 2006. In spite of a difficult budgetary situation in many Member States, the EU countries increased their ODA in 2002 by 5.8 percent in real terms compared to 2001, and provided 0.35 percent of their collective GNI (see Table 1), exceeding the forecast that Member States made last year and comparing to 0.13 percent for the US and 0.23 percent for Japan. According to current projections the European Union’s ODA will rise beyond the Monterrey pledge by 2006.

The forth point refers to supporting an overall coherent approach to development and putting in place an integrated assessment of policies that affect development. The European Union is in the process of agreeing an EU Action Plan for increased coordination and harmonization, in line with the EU’s Barcelona Commitments, to be submitted to the 2005 High Level Forum on donor harmonization. The European Union is also committed to further untying of aid of all Community instruments and encourages and supports further progress at international level in this area.

There is Progress with some MDGs, but Others Require Special Attention...

School fees have been abolished in many PRSP countries, leading to an impressive surge in primary enrolment rates. However, drop-out rates are high, so the MDG goal of universal primary education may still be missed unless urgent and decisive action is taken. The Commission considers that the Education Fast Track initiative has the potential to make a significant contribution to this goal and expects that its recent evolution will enable it to live up to this potential.

Health goals are generally more problematic. The decline of health indicators in Africa is influenced not only by poor growth and high HIV/AIDS incidence but also by failed policies on user fees, still in place in most countries. Health officials in one African country estimated that the Government collects only 50 percent of health fees due, while patients are probably paying twice what they should be. On the other hand, a study in Uganda showed that the two poorest income quintiles received the bulk of the benefit of the recent abolition of user fees in health centers. Policy change and greater donor support could together help to tackle the huge challenges that remain before us.

Health outcomes are of course closely linked to water and sanitation. At the WSSD we launched the EU water initiative in support of the water and sanitation MDG. The African component of the initiative aims to assist 78 countries covered by the Cotonou Agreement to achieve MDG and WSSD targets in water and sanitation. It is being taken forward with the creation of a Water Facility (of 500M€) as a flexible and innovative mechanism, designed to use development aid with the maximum leverage effect to attract additional resources in the sector. A final decision on the Facility will be taken by the joint ministerial ACP-EC Council in Botswana at the beginning of May.

Let us not forget the importance of supporting actions for the achievement of all the MDGs. The European Commission, as one of the few providers of grant financing for infrastructure, welcomes the
renewed recognition of the significance of this sector for economic growth, the investment climate, and access to social services.

...As does Sub-Saharan Africa

The good news in the Global Monitoring Report should not be lost from view: globally, we may be on track to half world poverty by 2015. But there are huge regional disparities in progress, with Sub-Saharan Africa lagging behind the rest of the world. Under current projections more than 360 million people there will continue to live under $1 a day. Africa also risks missing the MDGs for hunger, infant and child mortality, maternal mortality, primary education, and gender equality.

The world seems to be giving up on Sub-Saharan Africa achieving the MDGs already. The European Commission considers this unacceptable. Donors and IFIs cannot claim much credit for a global triumph, since it is driven by a small number of countries where neither financial aid flows nor IFI policy advice had much of a role. Africa, on the other hand, is the continent where aid matters most both in terms of financial flows (in share of GDP, government budgets, and per capita), and in terms of the intensity of donor advice. Africa is the test case for our contribution to the MDGs.

Many countries also in Sub-Saharan Africa have now significantly improved policies in place, according to IFI assessment. Some are seeing increased growth, though it remains below what is needed to reach the MDGs. Simply getting back to the 1990 baseline is a major challenge for other countries. Some top performers in Africa have been able to increase aid flows significantly, financing up to 50 percent of their total public expenditure. The PRSP approach has helped to make poverty central to the political agenda, but we have yet to see it bear full fruit. Among the challenges are better donor alignment, effective government prioritization and implementation, and more flexible macroeconomic frameworks agreed with the IMF. The EU’s synthesis report on the MDGs will have a special focus on Africa.

Conflicts are a tragic brake on African development. In line with our support for national and ownership, the European Union has responded positively to the request by the African Union to set up a Peace Support Operations Facility, mainly to enable African countries to carry the huge costs of peacekeeping operations in post-conflict situations. I am pleased to report that the EU Member States have agreed to establish an AU facility of € 250 million on 30th March.

More Progress is Required on Aid Effectiveness...

In countries with large aid flows relative to the economy, as for much of Africa, the alignment of donor support to national processes, donor coordination and harmonization, and the shift to budget support become ever more important. The OECD/DAC High Level Forum in Rome last year reached a remarkable degree of consensus on the way forward. We now need to implement it. Country ownership is recognized as a prerequisite for successful and sustainable development. The Commission therefore plays an active role in joint donor groups on budget support wherever they exist, and has embarked with the World Bank’s Africa Region on a process of closer alignment of support to nationally-led PRSP processes.

There is however a risk that the focus in the Global Monitoring Framework on “good policies” could turn into a revival of the policy conditionality approach which failed in the past. In order to give countries more room to develop and define their own policies, the Commission promotes a shift from policy prescriptions to outcome based conditionality. Stronger national ownership is thus matched with greater national control. The Commission also supports improvements at the national level in public finance management systems, and the development at the regional level of credible surveillance mechanisms such as the peer review mechanism under NEPAD and similar initiatives.
Debt remains an issue, as the papers before us make clear. The HIPC initiative is nearing its end. The EC has been a minor creditor, because we have since long financed development cooperation on a grant basis, but we have been a major donor in the HIPC initiative. We are committed to contributing to a successful implementation and finalization on the basis of fair burden sharing. As the sunset clause of the HIPC initiative is approaching, it becomes urgent to find workable solutions for post conflict countries.

As some of the post-HIPC countries are now facing sustainability problems again, work on long term debt sustainability gains urgency. We welcome a more comprehensive way of defining and assessing debt sustainability, but we look forward to seeing operational details of the proposed framework. We want reassurance on the transparency of decision making. We hope also to see more indications on the implications for resource allocation, particularly in the light of a recent EC-funded study. This explored the link between debt relief, poverty prevalence and policy performance, and concluded that within the group of HIPC countries: (i) there is little correlation between the level of poverty and the amount of debt relief; and (ii) those benefiting most are not the best performers in terms of policy and institutions.

*Improving Global Governance Needs to Remain on the Agenda*

The European Commission recognizes the important role played by the IFIs in the fight against poverty and the global push to reach the MDGs. Yet the voice and representation of developing countries in their decision making has long been recognized as insufficient. This undermines the legitimacy of IFI advice and has a negative impact on the ownership of reform programs by the countries concerned. The Commission considers it import that the shareholders deliver on the Dubai commitment to address this problem at the next Annual Meeting in September.
Table 1: EU ODA in 2002: actual aid volumes compared to projections, and to the 2001 volumes

<table>
<thead>
<tr>
<th>Country</th>
<th>2001</th>
<th>2002 OECD/DAC statistics*</th>
<th>Difference in comparison to the projection for 2002 (percentage points)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% GNI*</td>
<td>% GNI** (USS$M)</td>
<td>% GNI***</td>
</tr>
<tr>
<td>Austria</td>
<td>0.29</td>
<td>0.24</td>
<td>520</td>
</tr>
<tr>
<td>Belgium</td>
<td>0.37</td>
<td>0.42</td>
<td>1072</td>
</tr>
<tr>
<td>Denmark</td>
<td>1.03</td>
<td>0.96</td>
<td>1643</td>
</tr>
<tr>
<td>Finland</td>
<td>0.32</td>
<td>0.33</td>
<td>462</td>
</tr>
<tr>
<td>France</td>
<td>0.32</td>
<td>0.36</td>
<td>5486</td>
</tr>
<tr>
<td>Germany</td>
<td>0.27</td>
<td>0.27</td>
<td>5324</td>
</tr>
<tr>
<td>Greece</td>
<td>0.17</td>
<td>0.17</td>
<td>276</td>
</tr>
<tr>
<td>Ireland</td>
<td>0.33</td>
<td>0.41</td>
<td>398</td>
</tr>
<tr>
<td>Italy</td>
<td>0.15</td>
<td>0.2</td>
<td>2332</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>0.82</td>
<td>0.82</td>
<td>147</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>0.82</td>
<td>0.8</td>
<td>3338</td>
</tr>
<tr>
<td>Portugal</td>
<td>0.25</td>
<td>0.25</td>
<td>323</td>
</tr>
<tr>
<td>Spain</td>
<td>0.30</td>
<td>0.25</td>
<td>1712</td>
</tr>
<tr>
<td>Sweden</td>
<td>0.77</td>
<td>0.74</td>
<td>1991</td>
</tr>
<tr>
<td>UK</td>
<td>0.32</td>
<td>0.3</td>
<td>4924</td>
</tr>
<tr>
<td>EU total</td>
<td>0.33</td>
<td>0.34</td>
<td>29948</td>
</tr>
<tr>
<td>United States</td>
<td>0.11</td>
<td>--</td>
<td>13290</td>
</tr>
<tr>
<td>Japan</td>
<td>0.23</td>
<td>--</td>
<td>9283</td>
</tr>
<tr>
<td>Canada</td>
<td>0.22</td>
<td>--</td>
<td>2006</td>
</tr>
<tr>
<td>Norway</td>
<td>0.80</td>
<td>--</td>
<td>1696</td>
</tr>
<tr>
<td>Switzerland</td>
<td>0.34</td>
<td>--</td>
<td>939</td>
</tr>
<tr>
<td>New Zealand</td>
<td>0.25</td>
<td>--</td>
<td>122</td>
</tr>
</tbody>
</table>

** Commission Staff Working Document “Follow-up to the International Conference on Financing for Development (Monterrey - 2002) -Monitoring the Barcelona Commitments”, presented to the General Affairs and External Relations Council in 18 May 2003
*** Exchange rate of 31 December 2002: 1 USD = 0.949 EUR

Statement by Mr. Richard Manning, Chairman, OECD Development Assistance Committee (DAC)

“Achieving the MDGs” involves not only mutual responsibilities of developing countries and their donor partners, but also unites the agenda of both multilateral and bilateral donors. The DAC is the main forum where bilateral donors, working increasingly closely with multilateral agencies, meet to consider donor policies and practices. From this collective work, a number of messages arise which are pertinent to the discussions in the Development Committee.

The annual High Level Meeting of the DAC took place on 15-16 April. The World Bank was represented by Vice-president Gobind Nankani. The HLM discussed:
Aid volume and effectiveness

The growth agenda

Security and development

Eligibility as official development assistance of expenditure on security accountability and the Clean Development Mechanism.

The Statement adopted by the meeting is at Annex. The following summarizes the major messages of the HLM:

*Aid Volume*

My assessment, as Chair, is that there is now a growth momentum in official development assistance, which indeed reached a new peak in real terms in 2003, surpassing the previous peak of 1992, while representing only 0.25 percent of DAC members’ collective GNI. This is driven partly by increased debt write-off (which increased in 2002 to over $5 billion, compared with roughly $3 billion in previous years) and by start of reconstruction expenditure in Iraq (accounting for around $2 billion in 2003), so that the increase in real transfers to key regions falling short of the Millennium Development Goals is as yet very modest. We will examine the allocation of aid in more detail in our next Development Co-operation Report once the disaggregated figures are available for 2003. Meanwhile, Charts 1 and 2 show the longer-term trends in aggregate aid and in a proxy measure of bilateral financial aid compared to other types of aid.

Monterrey in 2002 implies a further real increase of at least 25 percent (see Table 1—now updated to show the required increase on 2003 ODA, at 2003 prices and exchange rates). This should provide for substantial real increases to regions falling short of the MDGs, particularly if some major traditional recipients continue to attract large volumes of non-ODA financing. Such an increase is not in my judgment out of the question, but the commitments do look very demanding in relation to current performance for a number of donors. Finance Ministers should ensure that the Monterrey commitments—which would raise ODA to 0.29 percent of DAC GNI in 2006, well below levels of a decade earlier—are given full weight in public expenditure discussions.
Table 1. DAC Members ODA prospects after Monterrey: Latest projections for 2006

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>503</td>
<td>0.20%</td>
<td>0.33%</td>
<td>2006</td>
<td>877</td>
<td>0.33%</td>
<td>374</td>
</tr>
<tr>
<td>Belgium</td>
<td>2 187</td>
<td>0.61%</td>
<td>0.7%</td>
<td>2010</td>
<td>2 120</td>
<td>0.65%</td>
<td>233</td>
</tr>
<tr>
<td>Denmark</td>
<td>1 747</td>
<td>0.84%</td>
<td>&gt;0.7%</td>
<td>n.a.</td>
<td>9 838</td>
<td>0.83%</td>
<td>90</td>
</tr>
<tr>
<td>Finland</td>
<td>556</td>
<td>0.34%</td>
<td>0.44%</td>
<td>2007</td>
<td>708</td>
<td>0.41%</td>
<td>152</td>
</tr>
<tr>
<td>France</td>
<td>7 337</td>
<td>0.41%</td>
<td>0.5% (0.7% by 2012)</td>
<td>2007</td>
<td>8 955</td>
<td>0.48%</td>
<td>1 618</td>
</tr>
<tr>
<td>Germany</td>
<td>6 694</td>
<td>0.28%</td>
<td>0.33%</td>
<td>2006</td>
<td>8 380</td>
<td>0.33%</td>
<td>1 686</td>
</tr>
<tr>
<td>Greece</td>
<td>356</td>
<td>0.21%</td>
<td>0.33%</td>
<td>2006</td>
<td>642</td>
<td>0.33%</td>
<td>285</td>
</tr>
<tr>
<td>Ireland</td>
<td>510</td>
<td>0.41%</td>
<td>0.7%</td>
<td>2007</td>
<td>813</td>
<td>0.61%</td>
<td>304</td>
</tr>
<tr>
<td>Italy</td>
<td>2 393</td>
<td>0.16%</td>
<td>0.33%</td>
<td>2006</td>
<td>5 092</td>
<td>0.33%</td>
<td>2 699</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>189</td>
<td>0.80%</td>
<td>1%</td>
<td>2005</td>
<td>250</td>
<td>1.00%</td>
<td>61</td>
</tr>
<tr>
<td>Netherlands</td>
<td>4 959</td>
<td>0.81%</td>
<td>0.8%</td>
<td>Already</td>
<td>4 240</td>
<td>0.80%</td>
<td>181</td>
</tr>
<tr>
<td>Portugal</td>
<td>208</td>
<td>0.21%</td>
<td>0.33%</td>
<td>2006</td>
<td>510</td>
<td>0.33%</td>
<td>211</td>
</tr>
<tr>
<td>Spain</td>
<td>2 030</td>
<td>0.25%</td>
<td>0.33%</td>
<td>2006</td>
<td>2 899</td>
<td>0.33%</td>
<td>869</td>
</tr>
<tr>
<td>Sweden</td>
<td>2 100</td>
<td>0.70%</td>
<td>Long term goal 1% (at least 0.87% in 2006)</td>
<td>2 785</td>
<td>0.87%</td>
<td>685</td>
<td>33%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>6 166</td>
<td>0.34%</td>
<td>0.4%</td>
<td>2005-06</td>
<td>7 772</td>
<td>0.40%</td>
<td>1 606</td>
</tr>
<tr>
<td>EU Members, Total</td>
<td>36 825</td>
<td>0.35%</td>
<td>0.39%</td>
<td>2006</td>
<td>47 880</td>
<td>0.43%</td>
<td>11 055</td>
</tr>
<tr>
<td>Australia</td>
<td>1 237</td>
<td>0.25%</td>
<td>0.25%</td>
<td>Already</td>
<td>1 313</td>
<td>0.25%</td>
<td>76</td>
</tr>
<tr>
<td>Canada</td>
<td>2 209</td>
<td>0.26%</td>
<td>8% annual increase to 2010</td>
<td>2010</td>
<td>2 783</td>
<td>0.30%</td>
<td>574</td>
</tr>
<tr>
<td>Japan</td>
<td>8 911</td>
<td>0.20%</td>
<td>2001-2003 av. level (US$ 9.5bn) in 2006</td>
<td>9 500</td>
<td>0.22%</td>
<td>589</td>
<td>7%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>169</td>
<td>0.23%</td>
<td>Future level is under review</td>
<td>2005</td>
<td>202</td>
<td>0.26%</td>
<td>33</td>
</tr>
<tr>
<td>Norway</td>
<td>2 043</td>
<td>0.92%</td>
<td>1%</td>
<td>2005</td>
<td>2 369</td>
<td>1.00%</td>
<td>326</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1 297</td>
<td>0.38%</td>
<td>0.4%</td>
<td>2010</td>
<td>1 359</td>
<td>0.38%</td>
<td>62</td>
</tr>
<tr>
<td>United States</td>
<td>15 791</td>
<td>0.14%</td>
<td>See footnote 4</td>
<td>2006</td>
<td>20 894</td>
<td>0.17%</td>
<td>5 103</td>
</tr>
<tr>
<td>DAC Members, Total</td>
<td>68 483</td>
<td>0.25%</td>
<td></td>
<td></td>
<td>86 300</td>
<td>0.29%</td>
<td>17 817</td>
</tr>
</tbody>
</table>

1 Assumes average real growth in GNI of 2% p.a. [3% for Canada, 4% for Greece and zero for Japan] from 2003 to 2006.
2 ODA/GNI ratio for 2006 interpolated between 2003 and year target scheduled to be attained.
3 As aid volume determined in annual budgets, assumes same ratio in forward years.
4 Assumes 5% nominal GNI growth and 2% inflation to 2006, and includes estimated $4 billion expenditure from Millennium Challenge Account in 2006.

In 2005, it will be timely to consider whether further medium-term commitments should be made collectively, as at Monterrey, taking account of any progress made on new methods of securing finance for international development and global public goods.

**Better Aid through Alignment and Harmonization**

Following the February 2003 Rome Forum on Harmonization, bilateral and multilateral agencies (including the World Bank, the Regional Development Banks, the UN System, and the IMF) are working together on the reform process, under the umbrella of the DAC’s Working Party on Aid Effectiveness. Fourteen developing countries are directly associated with this effort to turn the agreed principles of alignment and harmonization into effective practices at country level. Altogether, relevant activities are underway in some fifty countries. Moreover, there is ongoing work to address other issues closely associated with aid effectiveness—financial accountability, aid predictability, untying, building procurement management capacity, and post-Marrakech actions on managing for development results.

These efforts are encouraging. However, with a few notable exceptions, the alignment and harmonization agenda has not yet been sufficiently internalized by donors through changes in development agencies’ operational policies, procedures and staff incentives (we expect, with voluntary funding, to broaden our work into the latter area). Partner countries, for their part need to go further in providing firm leadership in articulating national priorities and development strategies and address capacity weaknesses, with support from donors. As a result, there is a continuing divide between overall agreed policy, detailed operational procedures (which need to be redesigned in some cases to facilitate harmonization), and country-level practices.

The preparatory process now underway for the Second High Level Forum to be hosted by the French Government in early 2005 should encourage a sense of urgency for taking concrete action. The High Level Meeting committed DAC members to deliver the action plans as follow up to the Rome commitments, and accepted that this will mean significant changes to the way donor agencies and field offices manage the delivery of aid in support of country-owned strategies. The continuing attention, encouragement and support provided by the Development Committee will also remain critical in the months ahead, in what I see as a model for joint efforts between bilateral and multilateral donors, and between the Development Committee and the DAC.
Managing for Development Results

The DAC High Level Meeting endorsed the Marrakech Memorandum on Managing for Development Results, and the Core Principles attached to it, as a basis for consultation with developing countries. Work will be carried forward by the DAC/World Bank Joint Venture on Managing for Results.

This work is very important not only for improving the effectiveness of the development effort, but also for sustaining the credibility of this effort for public opinion in both developed and developing countries. It needs to be matched by a further investment in the underpinning systems for measuring results in a way that is relevant to policy-makers and opinion formers.

I wish therefore finally to draw the attention of the Development Committee to the need to develop the statistical systems of most developing countries to improve very considerably the availability of timely, reliable and policy-relevant statistics to their leaders and people. This is also necessary if we are to have adequate accounting at a world level of the progress of the development effort. This requires developing countries and donors to give due priority to statistics for policy setting and monitoring in their budgets. A good start would be to ensure the full funding of the recent joint appeal for medium-term support for the World Bank’s Trust Fund for Statistical Capacity Building and for the Partnership in Statistics for development in the Twenty-First Century (PARIS21, hosted by OECD’s Development Co-operation Directorate), which is seeking to ensure that all developing countries have national strategies for development of statistics by 2006, while also promoting the various initiatives for better statistics at sectoral and sub-national level.
Annex

Statement adopted by Members of the OECD’s Development Assistance Committee (DAC)

High Level Meeting, 15-16 April 2004

Development Co-operation Ministers and Agency Heads of DAC Members met in Paris on 15-16 April 2004 along with the Administrator of the UNDP, Mr. Mark Malloch Brown, senior representatives of the World Bank and IMF, and of non-DAC OECD Members. The meeting was chaired by Mr. Richard Manning, Chair of the DAC. They agreed on the following statement:

1. In anticipation of a high-level plenary meeting to review the implementation of the Millennium Declaration, to be held by the UN in 2005, we took stock of the trends in Official Development Assistance (ODA), noting that the real increase over the last two years has been 11 per cent, reversing the declines in aid of the previous decade. In the context of the 2002 Monterrey Conference on Financing for Development, a large number of DAC members have now set timetables for reaching an ODA/GNI ratio of 0.7 percent or are committed to significant increases in their ODA volume, and some members are proposing a new mechanism for financing an early doubling of development assistance.

We agree that the consensus reached in Monterrey in 2002 and the pledges made by a large number of DAC countries, remain the basis for decisions on aid budgets in the context of tackling the internationally agreed development goals set out in the Millennium Declaration (MDGs). These pledges represent a further prospective increase in aid of around 25 per cent between 2003 and 2006. We note that while some among us are making faster than expected progress, others will need to lift ODA levels rapidly in order to meet commitments made. In addition to ODA, we reaffirmed the importance of mobilizing in a coherent manner a variety of resources, including domestic resources and foreign direct investment. We also recognize that capacity development in partner countries, and their ownership of development strategies, are essential for the achievement of the MDGs. We note that countries in the sub-Saharan Africa region face particular challenges in reaching these goals, and we are committed to supporting their own co-operative efforts, notably in the context of NEPAD.

2. We recognise the compelling need to increase the effectiveness of our aid as an integral part of the Monterrey Consensus and for delivering scaled up aid programmes to support achievement of the MDGs. We welcome the work in hand in the DAC, with the participation of the Multilateral Development Banks, the UN, and developing country partners, to turn the principles of harmonisation and alignment—agreed at the Rome High Level Forum in 2003—into reality on the ground. It is vital to see concrete results from this work, and from other parts of the aid effectiveness agenda, by the time of the follow-up Paris High Level Forum in early 2005.

We commit our agencies and our field staff to implement the action plans that each of us has undertaken to introduce and implement as part of the follow-up to Rome. We accept that this will mean significant changes to the way our agencies and field offices manage the delivery of aid. We emphasise the need for all donors, multilateral and bilateral, as well as the global funds, to participate in harmonisation and alignment initiatives. We encourage developing countries to lead strong local co-ordination processes on the basis of their own development strategies and medium-term budget frameworks. We endorse the 2004 joint Marrakech Memorandum on Managing for Development Results, and the Core Principles attached to it, as a basis for consultation with developing countries. The proposed action plan should also be included in these consultations. We call for thorough preparation of the Paris High Level Forum and request the DAC Senior Level Meeting, to
be held in December 2004, to identify where more progress in changing actual donor
practices is needed, in the light of the report it will receive on progress since Rome.

3. We recognise the fundamental importance of broad-based economic growth to raising millions of
poor people out of poverty, as demonstrated in the sustained growth in many Asian countries over recent
decades. We are concerned that the growth prospects in many other countries are well below what should
be attainable in today’s world and well below what is needed to reach the MDGs in many poor countries,
particularly in Africa. New efforts are needed to connect poor people into the growth and development
process, especially the large proportion of poor people located in rural areas. Accountable and
well-functioning legal and financial systems, as well as sound public management, are basic
requirements.

We agree to give renewed priority to assisting partner countries to launch a dynamic
growth process that decisively reduces poverty. We support the work in the DAC and
elsewhere to understand better how to help generate sustained broad-based growth,
through country-specific reforms which stimulate local entrepreneurship and trade
capacity and create synergies between private sector development, trade, and investment
in agriculture and infrastructure. Such growth strategies should be embedded in Poverty
Reduction Strategies (PRS), investment in agriculture and infrastructure should receive
renewed attention in this context. We also recognise the importance of assisting the
emergence of a knowledge economy in developing countries. We welcome the interest
and activities of other policy communities in the OECD in development co-operation,
and their engagement in working for greater coherence of OECD policies impacting on
trade, growth, and development prospects. We look forward to collaborating more
closely with them in promoting an international environment facilitating development.
Trade is key and we emphasise the importance of fulfilling the objectives of the Doha
Development Declaration.

4. We recognise that security and development are inextricably linked. Conflict kills the prospects for
broad-based growth. The DAC’s 2001 Guidelines on Poverty Reduction identified human security as one
of the five main dimensions of poverty. Without security in its broadest sense, the MDGs will not be
attainable for millions of the poor. And without development, there can be no sustainable human security.
There is a need for more integrated development and security policies, with greater civilian involvement
and oversight of security systems. Security systems should seek to provide freedom from violence and
fear. They should be people-centred, locally-owned frameworks, based on democratic principles, human
rights and the rule of law. These principles are at the core of the concept of security system reform,
which provides a new framework to structure co-operation to address security challenges facing states and
their populations.

We endorse “Security System Reform and Governance: Policy and Good Practice”, a
DAC policy statement and reference paper that includes recommendations for donors to
work on Security System Reform through whole-of-government approaches; strategic
planning frameworks; and facilitation of reforms that are owned and led by developing
country partners. We note that this guidance is in line with the conclusions of the final
report of the Commission on Human Security submitted to the UN Secretary General in
2003, which we support.

5. The question of ODA eligibility in relation to conflict prevention, peace building and security-
related activities has become more significant as our Governments and our developing country partners
give greater attention to issues around peace, security and development, and reflect on the best use of
development funds for this purpose. At the same time, we are committed to maintaining credibility of the
definition of ODA and the role of the DAC as its guardian.
Against this background, we agreed that the definition of ODA relevant areas would need to be adjusted and clarified and we discussed a number of proposals. We decided to adjust and clarify ODA reporting guidelines relating to preventing recruitment of child soldiers, enhancing civil society’s role in the security system, and civilian oversight and democratic control of the management of security expenditure. We also agreed to continue work and discussion on other items, bearing in mind the need to maintain the credibility of ODA and to protect the integrity of ODA budgets. We have asked the competent DAC bodies to report to the Senior Level Meeting in December 2004, with a view to reaching a consensus by the time of the 2005 High Level Meeting.

6. A substantial amount of ODA is devoted to humanitarian assistance, often in the context of crisis situations.

We encourage the DAC to see how it might best contribute, in the framework of its Peer Reviews, to meeting and improving standards in the area of Good Humanitarian Donorship.

7. The case of ODA eligibility of assistance for projects that would qualify under the Clean Development Mechanism (CDM) of the Kyoto Protocol poses important issues of how to support this instrument for sustainable development, while guarding against the risks of aid diversion.

We confirm our commitment to the Marrakech agreement as the basis for our consideration. We note that it is the host party's prerogative to confirm whether a CDM project assists it in achieving sustainable development, and that the recipient country will need to approve each project including its source of financing. We agree that the value of any Certified Emission Reductions (CERs) received in connection with an ODA-financed CDM project should lead to a deduction of the equivalent value from ODA, irrespective of whether the CERs are sold or retained by the donor. We also rule out the possibility of counting as ODA funds used to purchase CERs. We request the DAC’s expert groups on environment and statistics to continue work to clarify remaining unresolved issues and formulate a practical approach in time for the next reporting cycle. This approach would be subject to review within three years.

8. To conclude, we believe that, more than ever, development co-operation is a key instrument for achieving a world which offers decent and secure lives for all. As we approach the UN review in 2005, we are resolved to build on the new impetus to gear aid volume and effectiveness, as well as other development-related policies, to achieving the MDGs and to ensure that our publics are properly informed on the outcomes of these efforts.
Statement by Mr. Lennart Båge, President of the International Fund for Agricultural Development (IFAD)

At the Millennium Summit in September 2000, world leaders set specific targets to halve the number of people living on less than one dollar a day, provide clean water and basic education for all, reverse the spread of HIV/AIDS and reach other development goals by 2015. The MDGs provide the foundation for a new global partnership to reduce poverty. But meeting them requires that international and national resources be focused on where poor people live and on the basis of their livelihoods. Three quarters of the world’s extreme poor, some 900 million poor men and women, those living on less than USD 1 per day, live in rural areas in developing countries and mainly depend on agriculture for their living. Even in 2025, when the majority of the world's population is projected to live in urban areas, 60 percent of poverty will still be rural poverty and most of the ‘dollar poor’ will still be rural.

The rural character of poverty is especially important in Africa. The share of the population living in poverty ranges between 25 percent in Zimbabwe to over 60 percent in Mozambique. In the low-income countries of Lesotho, Malawi, Tanzania and Zimbabwe, some 80-90 percent of the poor live in rural areas, where they have limited access to land and water.

Poverty is also primarily a rural problem in Asia and the Pacific. Over eighty per cent of the poor live in rural areas in the major countries of the region but of course rural poverty trends vary considerably from country to country. East Asia and South-East Asia have made impressive progress in reducing rural poverty over the last three decades. Rural poverty is still extensive in South Asia. In the Latin American and Caribbean region, poverty rates are worse in the countryside than in the cities: two out of three rural dwellers are living in poverty and rural poverty rates in the region have held steady during the past decade despite heavy rural-urban migration. Even more alarming is the statistic that six out of ten rural residents are poor - far higher than the urban figure.

In order to achieve the Millennium Development goals it is clear that the world must invest more in rural and agricultural development. Yet, the proportion of ODA devoted to agriculture and the rural sector has fallen sharply in recent years - by almost 50 percent between 1988 and 1999. Today, only 12 percent of ODA goes to agriculture, compared with 20 percent in the late 1980s. While there are signs that both donor countries and member countries are shifting their focus to the rural poor, much more emphasis to rural poverty and agricultural development is essential for meeting the Millennium Development Goals.

Poor access to markets is a major problem for many rural people. While trade liberalization and globalization present opportunities for the rural poor, they cannot take advantage of them unless they can compete on an equal footing. It has been estimated that the potential gains from freer trade in agriculture - the sector that most closely affects the rural poor - could mean an annual increase in global welfare in developing countries by 2015 of US$160 billion. Meanwhile, subsidies for agriculture in the OECD countries are soaring, and are equivalent to more than six times total ODA.

The other challenge is enabling poor people to gain access to both the resources and services that they need to better their lives. Strong national policies, improved market access and institution building all work to reduce rural poverty. The development of small enterprise groups can benefit rural economies because they help promote growth in rural areas. In addition, the promotion of rural entrepreneurs also helps revitalize local economies through the development of various activities aimed at satisfying the basic needs of rural households, manufacturing and repair workshops, garment making, hairdressing, small traders and the like.

While poverty has largely been seen as an issue for public action, the role of the public sector is diminishing. Private investment needs to play a larger role, especially as market forces are becoming the
major resource-allocation mechanism. The challenge is to establish a mutually reinforcing relationship between the smallholders and medium, even larger private sector entities.

My final comment regards the discussion of debt sustainability. As the note to the Committee mentioned, successful implementation of the HIPC Debt Initiative is key to maintaining debt sustainability in low-income countries. IFAD is fully committed to participating in the HIPC Debt Initiative. The cost of IFAD’s participation is currently estimated at about US$469 million, with a present value of US$308 million. IFAD so far has not had access to the core resources of the World Bank HIPC Trust Fund. Bilateral contributions to IFAD for HIPC total about US$45 million. Thus IFAD is internalizing 90 percent of its HIPC burden which will affect its capacity to provide new assistance significantly, especially in the coming five years. IFAD has substantial exposure to heavily indebted poor countries covered by the Initiative especially in Africa. Taking this into account, IFAD should receive treatment on its HIPC participation comparable to that accorded, for example, to the African Development Bank as well as the Inter-American Development Bank. Furthermore, if a lack of additional external resources for IFAD’s participation in the Debt Initiative were to lead to a reduced lending program, Africa and the group of highly concessional borrowers, accounting for over 70 percent of IFAD’s lending, would be seriously affected. I hope the Development Committee, which has a major responsibility for the HIPC Debt Initiative, will respond in an appropriate way.

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

I share the sense of relief that the recovery in the global economy is strengthening and broadening. The economic and social difficulties experienced by many developing countries during the downturn that began in 2000 had once again underscored the importance of maintaining high and stable growth in the global economy.

Yet in spite of the current cyclical upturn fundamental problems remain unresolved. As the World Economic Outlook emphasizes, the task of ensuring the orderly resolution of global financial imbalances remains a critical challenge. Unless this challenge is met there will be continuing uncertainty over growth prospects for the global economy and economic tensions over issues of market access and job losses are likely to intensify. These are potentially troubling for the sustainability of the current process of globalization which has to deliver in terms of higher and more stable growth and of expanding opportunities for decent work for all.

Against this background, as the Global Monitoring Report on the achievement of the MDGs states ‘on current trends, most MDGs will not be met by most countries’. Particularly disturbing is the fact that income poverty in Sub-Saharan Africa will increase significantly on current trends. It is indeed sobering that even these minimal goals that the international community set for itself at the beginning of the new millennium are unlikely to be met.

It is also relevant to note that there had been little improvement in the global employment situation over the last decade of accelerating globalization. China and a few other countries are an exception. Open unemployment remains high in many parts of the world, underemployment is still endemic in many developing countries, problems of employment insecurity linked to informalization and structural adjustment have intensified, and strong tensions have arisen over the distribution of jobs and migration between countries. The informal economy is growing almost everywhere.

There is clearly a need for some fundamental rethinking on how the global economy in its current phase of globalization can be better governed in order to deliver economic and social progress to all countries and people. The ILO took a first step in that direction two years ago in setting up an independent World Commission on the Social Dimension of Globalization. This Commission was co-chaired by two serving Heads of State, President Mkapa of Tanzania and President Halonen of Finland,
and the 26 commissioners were broadly representative of the diverse and contending actors and issues that characterize globalization today. The members of the Commission included a Nobel Economics laureate, politicians, parliamentarians, social and economic experts, and representatives of business and multinational corporations, organized labor, academia, and civil society.

The Report of that Commission, entitled *A Fair Globalization: Creating Opportunities for All*, was published in February. It sends a positive but critical message about globalization. It recognizes the immense potential for good from globalization but at the same time it highlights the fact that too many countries and people are not sharing in the benefits. Accordingly, the report calls for major reforms in the governance of globalization. It contains a large number of recommendations ranging from the need to improve national governance to reforms to the current system of global governance.

Some of the issues it deals with are, or have recently been, before the IMFC and the Development Committee. For example, the Global Monitoring Report on the MDGs to the present meeting recognizes the need for developed countries to adopt ‘macroeconomic and financial policies conducive to robust growth in the global economy and increased attention to key global public goods’. It recognizes the urgency of increasing ODA if the MDGs are to be met. The related paper on Financing Modalities toward the MDGs discusses the proposed IFF as well as various global taxation proposals. In this connection it may be of interest to note that the Commission supported the IFF and recommended that ‘the idea should be pursued’.

The Global Monitoring Report on MDGs also emphasizes the importance of ‘a coherent overall approach to supporting development’, noting that in many cases ‘there are contradictions in policies, with support in one area undercut by actions in another’. Similarly, it notes the importance for the IFIs of ‘improved coordination to achieve greater systemic coherence and effectiveness’.

The Report of the World Commission does indeed attach great importance to this issue of policy coherence at both the national and international level. But it takes a wider view of this issue than that of the two examples cited above. One of its key recommendations relates to the need to achieve greater policy coherence within the multilateral system of international organizations as an important means of bringing about a fair and inclusive globalization. Towards this end, it proposes that ‘Policy Coherence Initiatives should be launched by the relevant international organizations to develop more balanced policies for achieving a fair and inclusive globalization. The objective would be to progressively develop integrated policy proposals that appropriately balance economic, social, and environmental concerns on specific issues. The first initiative should address the question of global growth, investment, and employment creation and involve relevant UN bodies, the World Bank, the IMF, the WTO, and the ILO.’

The choice of the subject for the first initiative reflected the conviction of the Commission that the ‘jobs issue’ was at the heart of people’s priorities worldwide. It arrived at this position as a result of 25 local dialogues it held with a wide spectrum of organizations in all continents during the course of its work. It therefore proposed that ‘decent work for all should be made a global goal and be pursued through coherent policies within the multilateral system. This would respond to a major political demand in all countries and demonstrate the capacity of the multilateral system to find creative solutions to this critical problem’.

A first step would be for all the agencies concerned to agree on the key issues which need to be examined and on how they could work together to develop new policy options, which would in turn be brought back to the Governing Councils of each organization concerned. With each agency acting within its own mandate, they could agree to evaluate the real possibilities for policy coherence to contribute to achieving better growth, investment, and employment outcomes in the global economy.
Statement by Mr. Amadou Boubacar Cisse, Vice-President (Operations) of the Islamic Development Bank (IsDB)

The Islamic Development Bank (IsDB) has the pleasure and honor to participate in the 69th Meeting of the Development Committee, which will discuss, among other things, Education for All (EFA) – Fast Track Initiative (FTI) as well as its financing modalities. Obviously, this agenda item assumes special significance for all the eligible countries for FTI support and their development partners, including ten IsDB member countries: Burkina Faso, Guinea, Mauritania, Mozambique, Niger, The Gambia, Uganda and Yemen among the original 18 eligible countries, and Bangladesh and Pakistan among the five countries offered technical support through the FTI process to prepare plans for achieving universal primary completion, given their large out-of school population.

Since its launch in June 2002, the EFA-FTI focused on the implementation of sustainable policies in support of universal primary education and the required resource mobilization. It is, therefore, considered at the moment when we continue to address the substantive issue of achieving the Millennium Development Goals (MDGs) by accelerating progress towards education for all.

The agenda of our meeting also cover other important issues, which require further discussion and are related to the collaboration between Bretton Woods institutions and other multilateral financial institutions, including the IsDB Group. These issues include long-term debt sustainability in low-income countries.

As our member countries are expecting fruitful debate and suitable decisions from our gathering, the IsDB would like to briefly give its view on recent economic performance and trends in the transfer of resources and comment on each item on the agenda, highlighting its current position and identifying areas for further cooperation and partnership.

Recent Economic Performance

To begin with, the fifty-five IsDB member countries, like other developing countries, have benefited from the improved global recovery sustained by the developing countries in 2002 and 2003, particularly the renewed global recovery of the second half of 2003. The global GDP growth recovered from the short-lived recession rate of 2.3 percent in 2001 to 3.0 and 3.2 percent in 2002 and 2003, respectively, and is projected to increase further to 4.1 percent in 2004. With this economic recovery, accompanied by improved business and consumer confidence, and coupled with a turnaround in high-tech markets in industrial countries and subdued inflationary pressures, world trade in goods and services increased in volume terms by 2.9 percent in 2003 and is projected to increase further by 5.5 percent in 2004.

Concomitant with the world economy, the real GDP growth rate of IsDB member countries as a group increased from 3.3 percent in 2001 to 4.6 percent in 2002 and is projected to grow at a rate of 4.9 percent in both 2003 and 2004. Although the overall economic performance of member countries in terms of GDP growth rate was higher than the growth rate of the world as a whole, it remained below the growth rate of developing countries. The real GDP growth rate for the developing countries as a group increased from 4.1 percent in 2001 to 4.6 percent in 2002 and is projected to exceed 4.9 and 5.6 percent in 2003 and 2004 respectively. Nonetheless, the IsDB Least Developed Member Countries (LDMCs) were able to surpass and sustain the average GDP growth rate of the developing countries: registering growth rates of 5.1, 5.4 and 6.9 percent in 2002, 2003 and 2004 respectively.

Of the fifty-five IsDB member countries, twenty-three countries are classified as LDMCs, and of these, fourteen countries are implementing economic reforms and structural adjustment programs as part of the IMF’s Poverty Reduction and Growth Facility (PRGF). As a result of implementing such reforms, the LDMCs continued to outperform the other IsDB member countries. Despite sustaining a growth rate
in excess of 5 percent annually since 1998, the majority of the LDMCs were not expected to achieve the MDG target of halving the number of people living below $1 a day by 2015, according to the Human Development Report of 2003.

**Achieving the MDGs and Related Outcomes**

Regarding the first major item on the agenda of our meeting this year, the IsDB expresses its concern about the significant gaps in the achievement of the MDGs, particularly in sub-Saharan African and the CIS countries. Accordingly, the IsDB supports the efforts for developing a framework for monitoring policies and actions aimed at achieving the MDGs in general, encouraging and forging international initiatives to support targeted programs for achieving the MDGs targets in LDCs, as well as at scaling-up activities in education for all. The IsDB is confident that all these efforts will contribute to accelerating the progress and mitigating the risks towards attaining the MDGs. No doubt, this acceleration is crucial for the credibility of multilateral commitments made in various fora, including the Doha WTO Ministerial Conference, Monterrey Conference, Johannesburg Conference, Rome High-Level Forum on Harmonization and more recently the November 2003 FTI partnership meeting in Oslo, which helped in moving the FTI forward.

**A Framework for Monitoring Policies and Actions**

Although the IsDB has not been directly involved in the elaboration of the conceptual framework for the monitoring of the essential policies and actions for achieving the MDGs and for assessing the status of their implementation by developing and developed countries, it agrees with the general approach and shares the idea of instituting a regular reporting mechanism to the Development Committee. In reality, the priorities for action highlighted by the Bretton Woods institutions in the proposed framework are already subject to a large consensus. No doubt, better progress in achieving the MDGs may be made possible if priority is given to accelerate economic growth, enhance the capabilities of the poor to participate in growth, improve the environment for the private sector by strengthening the rule of law and infrastructure, improve the quality of governance and the capacity of public sector, increase the effectiveness of the delivery of affordable services to poor people, provide better market access to developing countries, and improve aid effectiveness.

While the IsDB is confident that adequate solutions will be found for resolving the technical issues related to the development of a monitoring and reporting framework for tracing implementation of agreed policies and strategies, it expresses its interest to be associated with this process along with all concerned stakeholders. In this context, we fully agree with the idea to give the leadership for monitoring work in a specific area on the basis of institutional comparative advantage and expertise. As one of the partner agencies, the IsDB stands ready to contribute to impact analysis of its development assistance towards achieving the MDGs targets within its available financial and human resources. Among others, the IsDB may participate in enhancing the statistical capacity building of its least development member countries (LDMCs) through its technical assistance and cooperation programs.

In this context, the IsDB Group will also continue to distill and learn from the experience of Bretton Woods institutions and other multilateral institutions in monitoring policies, actions and outcomes related to the achievement of the MDGs. Obviously, learning from this experience is very useful for the IsDB Group, which is currently adopting a new vision, mission and strategic framework and, in turn, is embarking on studying ways and means for increasing the development impact of its technical and financial assistance.

**Progress Report and Critical Next Steps in Scaling-Up**

Like other stakeholders, the IsDB is aware of the difficulties encountered in achieving outcomes commensurate with the scale of the challenges in the MDGs agenda in general and education for all, in
particular. It fully supports the efforts at national regional and international levels for accelerating the process of scaling-up in this crucial area. However, the IsDB does share the view of adopting a performance-based approach and reciprocity principle to scaling-up if this approach does not lead to tougher conditionality and remains flexible enough to cover slippages due to exogenous shocks or external factors.

The IsDB supports the efforts for scaling-up and would like to remind on the need to quadruple the external support for primary education in low-income countries from an average of $1 billion to about $3.7 billion a year in order to ensure adequate concessional resources for funding universal primary completion, in addition to increasing levels of domestic resource allocation to education. During the last two decades, public spending in the education sector in IsDB member countries has stagnated or declined. For member countries where data is available, public expenditure in education increased from 3.6 percent of GDP in 1980 to 4.6 percent in 1990, but declined to 4.1 percent in 2000. In member countries where the requirement is six years of compulsory education, public expenditure in education varies from as low as 2 percent of GDP in some sub-Saharan African countries to an average of 5.3 percent in the Middle East and North Africa (MENA) region 2000, the latter is the highest in the world. This partly corroborates the evidence that primary school enrollment rates in many IsDB member countries from the Arab region have exceeded 100 percent. Similarly, nine girls for every ten boys were enrolled in primary schools across the region, while 74 percent of girls, compared with 77 percent for boys, were enrolled in secondary school; suggesting, inter alia, that these countries are well on their way to meeting the MDG target of bridging the gender gap in primary and secondary enrolment by 2015. In contrast, the primary school enrolment rates in many member countries from Africa are less than 50 percent.

For countries in Sub-Saharan Africa, mobilization effort is called for to fill the financial gap to finance the scaling-up in the context of education for all. In this regard, the IsDB considers that a realistic approach should be adopted because raising undue expectations on resource mobilization may lead to frustration and loss of momentum. Moreover, the IsDB wishes that the resources to finance the cost of scaling-up in these specific areas should complement rather than substitute the resources needed for financing programs aimed at achieving other MDGs objectives, especially poverty reduction targets. Given the critical situation of LDCs in the African region, where the enrolment rates are less than 50 per cent in many countries, the IsDB contributed in the scaling-up of development assistance in the context of NEPAD Initiative.

As a development financing institution, IsDB Group extended a cumulative amount of $11.26 billion for project, trade, special assistance and technical assistance financing. US$44.65 billion or more than 40 percent of the total financing was allocated for project financing in the African region, more than 60 percent of which was on concessional terms to the least developed member countries including the African region. The outcome of IsDB’s developmental assistance in the African region resulted, among others, in the building more than 3300 classroom, 200 health care centers, 3700 water points, 6000 kilometers of roads, and a quarter million of hectares of irrigated land.

In partnership with NEPAD, the IsDB Group has committed to an overall financing of $2 billion of the Bank resources to be allocated to African LDCs over a period of five years, as stipulated in the Ouagadougou Declaration on “IsDB Group Cooperation with Africa”.

The IsDB Board of Governors requested the Executive Directors to adopt policies and procedures so as to ensure expeditious and efficient utilization of financing resources, integrate financing aspects with the required supporting measures, and to focus project financing in line with the NEPAD sectoral priorities. While seeking to accelerate economic growth, the focus of IsDB’s development assistance in the African least developed member countries will be in the areas of technical education and vocational training, spreading the system of primary health care, development of water resources in agriculture sector, and promotion of private sector activity, particularly at the level of small and medium size enterprises. All these areas of focus are expected to provide a sustainable basis for wider access to
affordable services in education, health, water, sanitation to the poor, as well as improving employment and income-generating capacity in rural areas.

Education for All

The IsDB attaches great importance to the ongoing activities aimed at promotion education in developing countries, including mainly actions taken so far for implementing the Education for All Fast Track Initiative. In this regard, the Progress Report on “Education for All (EFA) – Fast Track Initiative” requested by the Development Committee at its meeting in Dubai in September 2003, is timely and important to follow up progress, learn lessons from implementation and build on good practices to enhance returns to education investments along the road of attaining the MDGs in education. In this context, the IsDB shares the concern arising from the high number of countries that are at risk on achieving universal primary completion by 2015. But, at the same time, the IsDB shares the idea that the achievement of the MDGs in this area remains within reach because it is always possible to increase primary completion rates by 3 percent yearly as has been successfully achieved by many countries during the 1990s, supported by their development partners. Of course, this requires a transformation of the existing education systems, taking into consideration the situation and conditions of each country.

The IsDB is pleased to learn that by January 2004, among the twelve (out of the original eighteen) countries which had been formally endorsed the incremental financing support through the Fast Track Initiative (FTI) process, seven are members of the IsDB. These are: Burkina Faso, the Gambia, Guinea, Mauritania, Mozambique, Niger and Yemen. The IsDB will continue to support other member countries, which are behind the MDGs target of universal primary completion, in their efforts to develop good education policies and be, therefore, included in the Initiative for receiving quick and additional technical and financial support from the development community. It is highly commendable that in the first year of implementation of the FTI, there has been significant progress.

It is gratifying to note that significant progress has been reported under the FTI in several areas. One important contribution of the Initiative has been to galvanize global momentum on Education for All and embedding that framework in the PRSP. The FTI is result-oriented (i.e., focus on universal primary completion). Significant progress has also been made on effective partnership and coordination between countries and donors, particularly towards budget support. However, given the low levels of current funding, the experience of the first FTI countries suggests that one of the main FTI challenges relates to financing.

Since inception, the IsDB has made serious efforts to promote education and support education financing increasingly over the years in its member countries as part of its overall human development strategy. Since 1980, the IsDB approved 244 educational projects, grants and technical assistance, amounting to 11.5 percent of its total financing to all sectors. Such an allocation is considered the highest percentage among other sister development finance institutions. Indeed, the LDMCs have benefited from nearly a third of total approvals of education projects and technical assistance, particularly in primary and vocational education, which were mainly financed through concessional financing from IsDB’s ordinary resources as well as through the Special Assistance Operations in non-member countries.

Long-Term Sustainability in Low-Income Countries

Concerning the second item of the agenda on “long-term debt sustainability in low-income countries”, in tandem with the progress in the implementation of the HIPC Debt Initiative, while we would like to express our satisfaction for the success of six LDMCs, namely Benin, Burkina Faso, Mauritania, Mali, Mozambique and Uganda in reaching their completion point under the enhanced HIPC Initiative, eight more IsDB member countries which are eligible to receive debt relief have not reached their completion points, suggesting that the process is still not as fast as expected. It is to be noted that
since the launching of the enhanced HIPC Debt Initiative in 1999, only eight out of twenty-seven eligible developing countries have reached their completion points.

For its part, the ISDB has already committed itself to support its fourteen member countries, which have qualified so far debt relief under the enhanced HIPC initiative. For these countries, the cost to the ISDB is estimated at around US$136 million in NPV-terms. In this context, the ISDB has approved and in some cases fully implemented debt relief packages for Benin, Burkina Faso, Cameroon, Chad, Gambia, Guinea, Mali, Mauritania, Mozambique, Niger, Senegal, Sierra Leone and Uganda.

While for Mozambique the ISDB has no exposure at the country’s decision point, debt relief packages for three other member countries, namely Guinea, Sierra Leone and the topping-up for Burkina Faso were also approved by the ISDB Board of Executive Directors. The only country yet to be approved by the Board of Executive Directors is Guinea Bissau, which is currently engaged in a dialogue to find an appropriate mechanism to deliver the ISDB’s share of debt relief. While debt relief packages have been fully implemented for Uganda, Mauritania and Niger, Benin is expected to start as of June 2004. The implementation of the debt relief packages for Burkina Faso and Mali are currently in progress. Moreover, five countries (Comoros, Cote d’Ivoire, Somalia, Sudan and Togo) are still be considered for relief.

As a general policy, the ISDB will continue to provide its debt relief in the form of rescheduling of the debts over a period of 25 years, applying the frontloading of debt assistance to arrive at reasonable repayment timeframe and providing, if necessary, additional concessional loans targeted at programs identified in Poverty Reduction Strategy Papers. Additional concessional loans are provided when there are shortfalls in debt relief through rescheduling and when the concerned country has adequate repayment capacity.

Other Business

Concerning the harmonization under other business, ISDB has been actively associated in this endeavor with other partner Multilateral Development Banks (African Development Bank, Asian Development Bank, Inter-American Development Bank and the World Bank) since the 24-25 February 2003 High-Level Forum, held in Rome. The importance of harmonizing operational policies, procedures and practices with partner countries to improve development effectiveness and contribute to meeting the MDBs can hardly be over-emphasized. Through our collective efforts to harmonized approaches, particularly among the MDBs, the transaction costs of doing development business will be significantly reduced and more importantly scarce capacity of partners will be freed and, in turn, channeled and utilized in more productive activities. Such simplification and harmonization of processes will not only reduce their associated costs, but also enhance fiduciary oversight and public accountability.

In this process, the ISDB has revised guidelines related to procurement and consultancy services with the assistance of the World Bank. The ISDB also participated in related fora, such as the World Bank Fiduciary Forum, held in Washington, 8-11 March 2004 and the Fourth Meeting of the MDBs on Financial Management, hosted by the Inter-American Development Bank, 4-5 March 2004.

Consequently, the ISDB Group is revising and streamlining its guidelines on financial management, procurement and disbursements; with the aim of reaching common operational approaches. Such a daunting task, would, among other things, reduce the burden on partner countries and at the same time rationalize the costs of doing business.

In conclusion, all the items on the 69th Meeting of the Development Committee are helpful and important to the ISDB and its member countries, particularly for the Least Developed Member Countries in their quest for achieving the Millennium Development Goals. Indeed, the focused discussions in this meeting have availed an opportunity for the ISDB and its member countries to share development knowledge and institutional experiences, with the view to further coordinating and focusing concerted
efforts in enhancing the effectiveness of our development financing. The discussions in the 69th Meeting of the Development Committee would not only help in advancing consensus on the framework and programs required to achieve the MDG of universal primary education, but also on utilizing the Education For All – Fast Track Initiative as a model to accelerate the implementation of other MDGs targets.

**Statement by Mr. Suleiman J. Al-Herbish, Director-General of the OPEC Fund**

*Enhancing Long-Term Debt Sustainability in Low-Income Countries: The Unresolved Issues*

The two issues for consideration by this 69th Development Committee Meeting – long-term debt sustainability in low-income countries (LICs) and progress towards the poverty reduction and related U.N. millennium development goals (MDGs) - are by no means new items on the agenda. The Committee has long been grappling with the inter-related problems of debt and poverty which, despite overall progress, have remained largely unresolved.

The need to curb debt and fight poverty is particularly pressing for severely indebted LICs, a highly diverse group of mostly African nations which rely predominantly on official aid to meet their development financing requirements. Unsustainable levels of external debt, low savings and investment, limited access to external sources of financing, high export concentration, and HIV/AIDS continue to depress output growth in these countries, which are characterized by very weak policies, institutions, and administrative capacities. In a concerted attempt to reduce the external debt and debt-service burdens of eligible LICs to sustainable levels, the international development finance community in September 1996 launched the Heavily Indebted Poor Countries (HIPC) Initiative. The HIPC Initiative aimed at providing a solid foundation for debt sustainability in LICs. By removing the debt overhang, the Initiative would enhance access to new resources for development finance, help generate savings and investment, and jump-start the development process.

The OPEC Fund for International Development (the OPEC Fund) actively participated in the new Initiative from the start and contributed its fair share of the burden, even as the eligibility criteria were broadened to provide deeper and faster debt relief to a larger group of countries. Out of the 24 LICs for which the Fund approved debt relief by the end of 2003, thirteen had received full or partial disbursement. This relief has been truly additional financing drawn from the Fund’s resources. In October 2003, the Fund hosted the second annual meeting of multilateral development banks (MDBs) at its headquarters in Vienna, Austria.

Experience suggests that despite broader, faster, and wider debt relief, and multiple measures taken by LICs themselves to device national strategies to expand their economic opportunities, the impact of the HIPC Initiative on long-term debt sustainability in LICs has been limited to date. Debt relief and reduced debt service notwithstanding, debt burdens in “graduated” HIPCs have risen again, partly as a result of commodity price declines, and debt ratios in other LICs also increased. Many LICs remain dependent on grants and concessional loans, and will unlikely be able to meet their debt-service obligations should official aid recede. Progress in almost a dozen other potentially eligible HIPCs has been stalled by violent conflict. Consequently, providing debt relief and/or increasing the grant component of MDB operations is, in itself, not a guarantee for long-term debt sustainability. Even after full implementation of the suggested switching from loans to grants, HIPCs would likely continue to face unsustainable debt and need more debt relief, which could lead to a continual cycle of lending and forgiving.

Achieving long-term debt sustainability requires a combination of sound debt, investment, and macro-economic management policies. Even if macro-economic and debt management systems were to be strengthened, and the design of the Initiative were to be further refined, long-term debt sustainability in LICs, once attained, would remain fragile at best. This is because efforts to free LICs from the scourges
of poverty and debt can have lasting effect only to the extent to which they are supported by a fully inclusive and equitable world economy which can smoothly integrate the LICs, as called for by world leaders in the March 2002 Monterrey Consensus.

Limited progress has been made to date towards implementing the Monterrey Consensus, and bridging the gap between rich and poor. This gap has continued to widen, with the ratio of per capita income between the top and bottom 20 percent of the world’s population more than doubling from 30 to one in 1960 to 74 in 1999. The world’s poorest countries, which have increased in number from 21 in 1971 to 49 in 2000, have suffered most, and threaten to become increasingly marginalized from the mainstream of the world economy. Countries that have so far lost out in the development race are more prone to systemic violence, as poverty and debt may cause war, and war may cause debt and poverty. Declining state capabilities have fuelled socio-economic instability, civil unrest, and armed conflict.

The importance of a peaceful and secure environment for sustainable development is fully underscored by OPEC member countries, which over the past 40 years have been at the forefront of global efforts to create and maintain a stable international political and economic climate. They have carried out this task in two major ways. First, they have ensured the adequacy of global oil supplies, and thus, helped safeguard the stability of the international economy. Second, they have provided a constant stream of financing for development, driven by the common and shared vision that fighting poverty is a necessary investment in peace and stability for the whole of mankind. The development aid provided by OPEC member countries has been financed mainly from the revenues of oil - a commodity on which their economies continue to be heavily dependent, and which they know shall be depleted one day - in spite of their own domestic political and economic difficulties and in some cases high external debt, and has constituted a true sacrifice.

In the current international economic environment, LICs are trapped in a corner: neither trade, nor aid, nor FDI seem to offer a way out of the vicious circle of poverty, debt, disease, and violent conflict. Despite several mega-summits organized around the turn of the millennium, the level of ODA has declined, trade negotiations have stalled, and private capital inflows to developing countries have receded. Decisive action needs to be taken at the global level to address poverty reduction from the perspective of finance as a coherent and integrated whole - as called for in the Monterrey Consensus – by making structural and lasting changes at the global level. A series of interventions could be taken by the global community to create a more development-friendly, inclusive, and participatory international economy that could smoothly integrate the LICs, and help them realize the MDGs and long-term debt sustainability. While some measures have already been taken, further action is urgently required in particularly the following areas:

- **Diversifying the Export Base**: Means should be explored to enhance the competitiveness and diversify the economic and export base of LICs, which remains very narrow. Agriculture continues to be the most important economic activity in Africa, contributing a third to national outputs, occupying some 60 percent of the labor force, and providing a major share of export earnings and government revenues. However, agriculture and rural development in LICs have not sufficiently developed due to various reasons. These include: (i) inadequate infrastructures, (ii) limited access to land, credit, information, appropriate technologies, fertilizers, and improved seeds varieties, and (iii) adverse weather conditions. The sector has also not received adequate attention of the international donor community, with the proportion of ODA going to agriculture dropping from about 20 percent in the late 1980s to about 12 percent today. Per capita food production in Africa has fallen by 23 percent over the last 25 years, and 200 million Africans continue to be malnourished;

- **Reducing Vulnerability to Exogenous Shocks**: A country’s capacity to service debt depends on its ability to use resources effectively for development and pro-poor growth, and its vulnerability to exogenous and largely unpredictable shocks, including the impact of commodity price
fluctuations in world markets. The export performance and growth of LICs continues to be heavily influenced by developments in the prices of a few primary commodities on which they are typically dependent, such as coffee and cotton, and their commodity export dependency ratio (defined as the ratio of the three main commodities in total exports) averages about 60 percent. This, in turn, is related to macro-economic uncertainty and low investment. There remains a clear need to safeguard the economies of LIC against the impact of exogenous price shocks;

- **Liberalizing Trade in Agriculture**: The HIPC Initiative recognizes the importance of exports and market access for long-term debt sustainability in LICs. Trade in agriculture could offer many LICs real opportunities for growth, if not hindered by high agricultural subsidies in the North. Africa’s share in world exports fell from 6.3 percent in 1980 to 2 percent in 2000. Its share in world primary non-fuel exports dropped from 6 percent to 4 percent over the same period, highlighting the importance of enhancing the region’s competitiveness and access to global markets. However, multilateral trade negotiations in Cancun, Mexico, September 2003 ended in stalemate, reflecting deep rifts on implementation of the Doha Development Agenda, notably on market access for agricultural products from the South. Efforts towards long-term debt sustainability, if to be successful, must be supported by a more fair and balanced rule-based multilateral trading system, and a reduction of trade barriers on products in which LICs have a comparative advantage in the post-Cancun round of multilateral trade negotiations;

- **Increasing the Volume and Effectiveness of ODA**: Most LICs continue to depend heavily on ODA to meet their basic social and development needs. However, ODA fell back to US$49.1 billion in 2002, less than half the US$100 billion required each year to achieve the MDGs, and was outpaced by worker’s remittances as a source of external financing for development. More effort should be made to raise the level of ODA from its current 0.22 percent of gross national product to reach the U.N. target of 0.7 percent (or more), and to improve its overall effectiveness through harmonization, alignment, and by adopting a more results-oriented approach;

- **Attracting a Higher Share in Private Investment Inflows**: The 42 HIPCs attracted a negligible share of 0.002 percent in aggregate global portfolio direct investment flows and less than 0.5 percent of world FDI flows in 2001 - the latter being directed mainly towards the extractive rather than productive sectors – which again bears evidence of their marginal status in the world economy. Without higher shares in long-term private investment flows, the vicious circle of low growth and export diversification, and high debt and vulnerability will likely continue.

In view of ongoing developments, the OPEC Fund for its part has taken steps to strengthen its analytical capacity, diversify its tools and instruments, and considerably expand the level of its financial assistance in order to be able to continue to provide an adequate response to the changing needs and priorities of its client base.

**Statement by Mr. José Antonio Ocampo, Under-Secretary-General for Economic and Social Affairs of the United Nations**

Since 2000, two major United Nations events have changed the prism through which we look at development cooperation. One was the United Nations Millennium Summit, which took place in New York in 2000 and led to the adoption of the Millennium Declaration and the Millennium Development Goals. The other was the United Nations International Conference on Financing for Development two years ago, during which the Monterrey Consensus was adopted. Both documents constitute the main guide for sustained development and poverty reduction efforts in the United Nations system, and have also become a central point of reference for the activities of the Bretton Woods Institutions.
International Cooperation

The partnership which is intrinsic to the Monterrey Consensus demands efforts by all actors: donor countries, recipient countries and multilateral institutions. The Global Monitoring Report 2004 by the Bretton Woods Institutions presented to these meetings indicates that by and large developing countries are fulfilling their pledge at Monterrey while the performance of developed countries is uneven.

International trade, in particular, is an area where no tangible progress has been achieved, although movement in negotiations in some of the substantive elements of the Doha agenda has taken place recently. Ensuring that the Doha agenda becomes truly a development agenda is critical for accelerated growth in developing countries and the achievement of the Millennium Development Goals. Some of the major issues are clearly identified in the report, particularly the elimination of export subsidies and significant limits (or even the elimination) of production subsidies that distort agricultural trade, the significant reduction of tariff peaks and escalation in manufactures, and an effective opening up to temporary movement of people for the provision of services in which developing countries have a comparative advantage. We should add two issues that figure prominently in United Nations debates: the particular problems faced by commodity producing countries and the space for active development policies that should be maintained in a development friendly multilateral trading system.

In other areas of the Monterrey Consensus, particularly those dealing with international financial cooperation, we are encouraged by some initial positive results regarding the volume of aid and aid coordination. But much remains to be done in these areas. The new momentum in international discussions on innovative sources of finance for development, with the participation and support of a number of Ministers of Finance of some large industrial and developing countries, is certainly a step forward. This issue will be taken up by the United Nations General Assembly in its next session.

We also have unfinished work in improving how the international community deals with unsustainable external debt in many developing countries, which must take into account the impact on progress in achieving the Millennium Development Goals and other development objectives. There has been some progress in reducing debt-servicing payments through the Heavily Indebted Poor Countries (HIPC) initiative. However, despite reaching “completion point” some of these countries have not achieved debt sustainability. Also, an expansion of the HIPC initiative to incorporate other low-income countries with heavy debt burdens merits consideration. Going forward, for many low-income countries, maintaining debt sustainability requires that future official financing be mainly provided in the form of grants. Debt problems of middle-income countries also require further attention.

In the April 2003 special high level meeting of the United Nations Economic and Social Council (ECOSOC) and in the October 2003 High-level Dialogue on Financing for Development, the importance of strengthened and effective participation of developing countries in international decision-making was underscored. We welcome the ongoing work in the Bretton Woods Institutions on the issue of voice and participation of developing countries in the international financial institutions. Nonetheless, progress have been limited and it is time for action. We hope that the consideration of the road map on procedures and on the next steps to be taken on these issues requested by the Development Committee in Dubai last year could lead to concrete steps forward in the near future.

Developing Country Policies

The evaluation of developing country policies in the report determines many areas where progress has been made. We certainly share the emphasis placed on accelerating human development, strengthening public sector governance and institutional development, and welcome the renewed focus of the World Bank on infrastructure investment. We also agree on the emphasis placed on macroeconomic stability, but would like to underscore that a broad framework of macroeconomic stability should be the basis of any analysis in this area, including not only price stability and sustainable fiscal accounts, but
also sustainable external accounts, healthy financial systems and, particularly, stable rates of economic growth and employment creation, an issue which has received much less attention in recent views of what macroeconomic stability means.

We should also be cautious about the widespread use of quantitative indicators in areas of governance and institutional development, as well as relying on only one side of the debate in unsettled academic controversies, such as that which links economic growth in developing countries to the extent of their trade liberalization. In this regard, it is clear that the creation of export capacities is crucial to the success of developing countries in a globalized world, but it is unclear whether those capacities are the automatic result of trade liberalization. Rather, given the frustrated growth experience of many developing countries that have extensively liberalized their trade regimes in recent decades, more active policies towards productive sector development, the creation of export capacities, the links of exports to other domestic activities, and more active technological transfer, adaptation and creation, seem to be called for.

In many of these areas, there should also be a clear recognition that the historical experience of different countries, the different challenges they face, the diverse preferences of their peoples and the lack of unique solutions to many of the development challenges indicate that diversity will continue to be a central feature of the international system, one that would only be enhanced by an effective promotion and strict respect for the principle of ownership of development strategies and policies.

The Dialogue Between the UN and the BWIs

As already mentioned progress in the implementation of the Monterrey Consensus requires efforts by all actors. The deliberations and decisions of the Executive Boards of the World Bank and the Fund and the outcome of the Development Committee and the IMFC meetings are critical in this endeavor. One of the aspects that the Consensus emphasized was the need to enhance the coherence and consistency of the international monetary, financial and trading systems in support of development. On 26 April, ECOSOC will meet in New York with the Bretton Woods Institutions, WTO and UNCTAD. The respective country representatives, including members of the Board of the Fund and the Bank, will address coherence issues particularly in reference to the implementation of the Monterrey Consensus and the outcome of these Spring meetings in Washington. We call all of you to participate actively in this dialogue.

Statement by Mr. Mr. Rubens Ricupero, Secretary General of the United Nations Conference on Trade and Development (UNCTAD)

A few days ago, when presenting the new World Economic Outlook to the press, our IMF colleagues had good reason to talk about "the springtime of recovery": after some two years of stagnant performance and pessimistic figures, economic performance seems to be "blooming" now in many countries of the world, including in developing and transition economies. The IMF’s increased forecast for global growth in 2004 and 2005 relies on positive signals sent by the dynamic economies of China, in the first place, but also the United States, India, Japan, Brazil, Argentina and Russia. Particularly, the long-anticipated recovery of private investment spending in the United States appears to be gaining momentum and, combined with sustained consumer spending, looks as if it will generate stronger growth this year and have a positive spill-over to the rest of the world. The basic policy challenge, from a global perspective, is thus one of moving from the initial recovery into a phase of sustained expansion of global incomes under stable monetary conditions.

A cause of concern is the fact that a new form of imbalance accompanies the prospects for global recovery: the increasing differences in growth rates between regions and even within regions. Indeed, the improved situation in the global economy has been the result of exceptionally good performance in only a
handful of countries. For example, while the US appears to be experiencing a strong recovery, this has not yet had a major impact on growth in its major trading partners, as both Mexico and Canada have barely achieved positive results in 2003. The long-awaited recovery in the rest of Latin America has been due to cyclical upturns from financial and political crises, accompanied by primary commodity prices increasing from historically low levels. In Asia, recovery from the 1997 financial crisis has remained strong, but the current acceleration has been the result of growth in China, which has been expanding at rates substantially above the already high averages that it has experienced in recent years. China has had a positive impact on the rest of the region, has played a substantial role in Japan’s recovery and is one of the major sources of increased demand for commodities from Latin America. India has also improved its performance. Nevertheless, the region also shows some disparities in this regard, with smaller economies exhibiting relatively low growth rates. Although growth in Africa is again improving, substantial regional disparities in performance also are evident.

As was the case in previous periods of recovery, some of these major economies are playing, and will continue to play, the role of "locomotives" for developing countries. The challenge now is to ensure that the positive development impulses will reach all developing regions. All efforts should indeed be made to turn the current decade into a growth decade for developing countries.

There are number of requirements for achieving this goal. First, in order for the global recovery to be sustained, appropriate macroeconomic policies need to be put in place by all players, and particularly the major ones. Macroeconomic policies alone, however, will not be sufficient. If we are to bring the growth benefits of the global recovery to developing countries, trade can play a pivotal role. The impulse given by the recovery needs to be buttressed also by mutually supportive national and international development policies.

The objective must be to bring about an international economic environment in which developing countries can take advantage of new market access, more productive investments, appropriate technology as well as improved financing for development, and can translate these into effective development gains.

Let me now turn to an issue that is critical for the practical implementation of the objective that I have just outlined, namely increased policy coherence. Bringing high growth to developing countries and avoiding the experience of the 1980s will require a different approach to eliminating global imbalances. This was one of the main goals of the Monterrey consensus and has been a recurrent theme in the follow-up discussions. What is urgently needed now are more concrete proposals to ensure that the adjustment process does not have a tendency to reduce global demand and output growth. The sensitivity of private inflows to developing countries to interest rate and exchange rate expectations makes them vulnerable to changes in the monetary policy stance that are being discussed in the industrialized countries.

The task is doubly important now that most developing countries are actively involved in the international trading system, since the major benefits that are derived from opening to trade depend on the available resources being fully employed. Developing countries also need to overcome the constraints they are facing in expanding their supply capacity in goods and services. Macro-economic policy coherence among the advanced economies is a precondition for the Doha round delivering on its promise of beneficial consequences for developing countries. Concrete actions in terms of financing for development are also needed to support developing countries' efforts to integrate in the world trading system.

In this context, it is important to emphasize the significance of the new "Fund Support for Trade-Related Balance of Payments Adjustments" (the so-called "Trade Integration Mechanism" (TIM)) recently adopted by the IMF Executive Board. This is an example of an innovative approach recognizing the need to help developing countries meet the short-term costs of trade liberalization and a commendable effort at addressing an important aspect of the issue of coherence. As the report prepared by the IMF staff
says, "the TIM would represent a concrete expression of policy coherence, in the context of what is arguably the single most important item on the multilateral economic agenda over the coming period".

Two additional initiatives could be considered:

First, the World Bank could envisage long-term financial operations and trade-related assistance that may build on the short-term balance of payments support provided by the TIM. As UNCTAD has mentioned in various fora, what needs to be addressed are the structural weaknesses of developing countries' supply capacity in order to balance the costs and benefits of trade liberalization. It is in this area that international policy coherence needs to be achieved *pari passu* with the negotiating process of the Doha Round.

Secondly, implementation of the TIM could involve the expertise of a range of agencies. All the available trade-related knowledge should be utilized in this endeavor. For instance, the triggering criteria of the TIM – i.e. the impact of eroding trade preferences, tariff reductions, and the elimination of textiles and clothing quotas – are traditional areas of UNCTAD expertise. Indeed, the IMF report describing the functioning of the TIM specifically quotes a recent UNCTAD study on the utilization of LDCs' preferences. UNCTAD welcomes the TIM and is willing to cooperate in its implementation and in future international actions in the area of trade-related assistance.

The forecast of a recovery of the world economy is a welcome source of optimism for all of us. But of course it should be seen only as the beginning of our task: development needs pose a wide range of urgent and long run problems, the solution of which is still lies ahead of us. All available international instruments should now be put at work to address them. We in UNCTAD are making all possible efforts for our eleventh conference, to be held in São Paulo in June, to play a constructive and decisive role in this endeavor.
WASHINGTON D.C., APRIL 25, 2004

DEVELOPMENT COMMITTEE COMMUNIQUE

1. The strategies and decisions agreed in Doha, Monterrey and Johannesburg set out a framework for fighting poverty and achieving the internationally agreed goals of the Millennium Declaration, based on countries pursuing sound policies and good governance, combined with stronger international cooperation and support. We met today to assess progress based on the first Global Monitoring Report. We welcomed the report which provides a good basis for our yearly review. Building on this work, future reports should focus on the agenda of monitorable actions in the identified priority areas in order to reinforce accountabilities and enhance cooperation amongst all development partners.

2. We recognize that there has been progress on many fronts, including significant reforms undertaken by developing countries and important gains in reducing income poverty. However, we are very concerned that, based on current trends, most Millennium Development Goals (MDGs) will not be met by most developing countries, particularly in sub-Saharan Africa. All parties, developing and developed countries and the international institutions, must urgently enhance concerted action to accelerate progress towards these goals.

3. Sustainable and inclusive growth needs to be accelerated in many developing countries, in particular through: improving the enabling climate for private sector activity; strengthening reforms, capacity and results focus in public institutions and improving the quality of governance; scaling up effective investment in infrastructure; and ensuring access to healthcare, education and other basic social services and fighting the HIV/AIDS epidemic.

4. Specific priorities must be determined at the country level in the context of country-owned and monitored development strategies, as reflected in the Poverty Reduction Strategy Papers (PRSPs) in the case of low-income countries and respective national strategy frameworks.

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1. Eradicate extreme poverty and hunger; Achieve universal primary education; Promote gender equality and empower women; Reduce child mortality; Improve maternal health; Combat HIV/AIDS, malaria, and other diseases; Ensure environmental sustainability; Develop a global partnership for development.
in middle-income countries (MICs). We look forward to reviewing progress on the Bank’s efforts to enhance its support for development in MICs at a future meeting. Given the centrality of faster and more equitable economic growth for making greater progress on the MDGs, we welcomed the efforts of the Bank to support stronger investment climates in developing countries and we intend to discuss improving the climate for private sector activity at our next meeting. As we have noted previously, infrastructure investment within the right policy environment makes a fundamental contribution to economic growth and achievement of the MDGs. The implementation of the infrastructure action plan of the Bank has been reviewed by the Board of Directors and we look forward to a discussion on progress at our next meeting.

5. Developed countries must meet their commitments to help accelerate progress. Sustaining stable, balanced and strong growth in the global economy is a prerequisite. Ensuring a successful, pro-development, and timely outcome to the Doha Development Agenda is critical to global growth and the economic prospects of developing countries. We stressed our commitment to a constructive and determined effort to move the multilateral trade agenda forward. We again stressed that it is essential for developed countries to do more to liberalize their markets and eliminate trade distorting subsidies, including in the areas of agriculture, textiles and clothing, which are of particular importance for developing countries. At the same time, we emphasized the importance of trade facilitation and liberalization efforts in developing countries. We welcomed the Bank’s continuing efforts to promote trade facilitation and the Integrated Framework, as well as the IMF’s recently adopted Trade Integration Mechanism, which will provide additional support and assurances to developing countries as they integrate further into the global trading system. We also urged continued efforts to tailor Bank lending activities to support capacity building and country-owned trade initiatives. We welcomed the Bank’s continuing efforts to promote trade facilitation and the Integrated Framework, as well as the IMF’s recently adopted Trade Integration Mechanism, which will provide additional support and assurances to developing countries as they integrate further into the global trading system. We also urged continued efforts to tailor Bank lending activities to support capacity building and country-owned trade initiatives. We welcomed the Bank’s continuing efforts to promote trade facilitation and the Integrated Framework, as well as the IMF’s recently adopted Trade Integration Mechanism, which will provide additional support and assurances to developing countries as they integrate further into the global trading system. We also urged continued efforts to tailor Bank lending activities to support capacity building and country-owned trade initiatives.

6. More aid is also required. It should be predictable, timely, long-term and more effective. We urged developed countries that have not done so to make concrete efforts towards the target of 0.7 percent of GNP as ODA. A substantial and timely agreement on the funding of IDA 14 will be a critical affirmation of our commitment to mobilize the resources for our support for strong, results-oriented action by partners in the poorest countries.

7. We noted a progress report on financing modalities and we look forward to a report at our next meeting on aid effectiveness, absorptive capacity, results-based measurement mechanisms and elaboration of policy options and financing mechanisms for mobilizing additional resources (including examining an international finance facility, global taxation and other proposals). More aid can only be sustained by showing positive results. This requires a strengthened effort to implement the Declaration of the Rome High Level Forum on Harmonization and the Core Principles of Marrakech including strengthening country capacity to manage for results. We support the work by the OECD/DAC, jointly with development partners, to address the continuing divide between agreed global policies and detailed operational procedures and country-level practices.
8. We also recalled that the IFIs are accountable for their contribution to implementing the Monterrey consensus. Key areas for action include harmonization, managing for results, and responsiveness to clients. We urged them to increase their efforts to identify and meet needs of client countries. Taking into account fiscal constraints facing clients, we encouraged the Bank to consider new innovative products, improve internal efficiencies and simplify the application of lending policies in order to reduce the costs of doing business while respecting fiduciary and safeguard standards.

9. In April 2002, we endorsed the plan to help make primary education a reality for all children by 2015 and achieve gender equality in primary and secondary education by 2005. The Fast Track Initiative (FTI) was designed to address the data, policy, capacity and resource gaps that constrain progress in achieving Education For All. Its implementation has highlighted the potential as well as the challenges associated with scaling up the MDG agenda more generally and in particular, the need for credible, effective and predictable financing in support of adequate policies and programs. The experience of FTI so far has demonstrated that it should be anchored in countries’ Poverty Reduction Strategies if it is to be effective. We urged all countries, developed and developing, to take the additional steps required to make this initiative succeed and requested the Bank Board to continue to monitor progress.

10. We also reviewed implementation of the HIPC Initiative and recalled the importance of full creditor participation for its success. Thirteen countries have reached the completion point and another 14 are between decision and completion point. However, 11 countries, several of which are affected by conflict and some with protracted arrears, are either yet to reach the decision point or to begin establishing a track record under a Fund-supported program. We urged the Bank and the Fund to help facilitate these countries’ rapid access to HIPC debt relief when their outstanding issues are addressed. We also urged that careful consideration be given to options to deal with the HIPC sunset clause which is scheduled to take effect end-2004.

11. We broadly supported the principles underlying the proposed framework for debt sustainability in low-income countries while acknowledging that the modalities and operational implications remained to be clarified. We stressed the need for a consistent and coordinated approach among borrowers, creditors and donors, to ensure that resources to low-income countries are provided on appropriate terms, including the degree of concessionality and level of grant financing. This must build on full implementation of the HIPC initiative. We also welcomed work by the Fund and the Bank on measures and instruments to assist low-income countries deal with exogenous shocks and urged them to accelerate their work, in close collaboration, for early consideration by the Boards.

12. Strengthening the voice and participation of developing and transition countries in the work and decision making of the Bretton Woods institutions remains a major challenge. We welcomed the further progress, particularly on capacity building, made since our last meeting, including the establishment of an Analytical Trust Fund to support the African Chairs and a secondment program at the Bank. We look forward to receiving reports from our Boards on all aspects of this issue and to further discussion at the 2004 Annual Meeting.

13. The next meeting of the Committee will be held in Washington, D.C. on October 3, 2004.
NOTICE OF MEETING

The 69th meeting of the Development Committee will be held on Sunday, April 25, 2004, commencing at 9:00 a.m. in the Preston Auditorium, The World Bank Main Complex, Washington, D.C.

PROVISIONAL AGENDA¹

I. Achieving the MDGs - Global Monitoring Report 2004
   • including Education For All – Fast Track Initiative Progress Report as well as the background progress report on Financing Modalities

II. Long-Term Debt Sustainability in Low-Income Countries

III. Other Business

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.

On this occasion there will only be one session of the Committee – from 9:00 a.m. until 12:45 p.m. There will also be a Chairman’s Lunch for Members (1:00 p.m. – 3:00 p.m.) in Room MC13-121 of the World Bank Main Complex.
DEVELOPMENT COMMITTEE MEETING

Sunday, April 25, 2004
Washington, DC, United States

CONSTITUENCY LIST

As of April 24, 2004
4:00 p.m.
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<td>Governor to the World Bank</td>
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<td>Switzerland</td>
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<tr>
<td>Oscar Knapp</td>
<td>Delegates for Trade Agreements</td>
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<td>Head, Directorate “Development and Transition”</td>
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<tr>
<td>Ralph Goodale</td>
<td>Marcel Massé (Bank)</td>
<td>Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines</td>
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<tr>
<td>Minister of Finance</td>
<td>Ian E. Bennett (Fund)</td>
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<tr>
<td>Canada</td>
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<tr>
<td>Aileen Carroll</td>
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<td>Minister International Cooperation Canada</td>
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<td>Horst Grebe López</td>
<td>Alieto Guadagni (Bank)</td>
<td>Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay</td>
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<tr>
<td>Minister for Economic Development Bolivia</td>
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<td>Guillermo Le Fort (Fund)</td>
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<td>Aleksei Kudrin</td>
<td>ZHU Guangyao (Bank)</td>
<td>China</td>
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<tr>
<td>Minister of Finance</td>
<td>WANG Xiaoyi (Fund)</td>
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<tr>
<td>Russian Federation</td>
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<tr>
<td>Per Stig Moller</td>
<td>Alexey G. Kvasov (Bank)</td>
<td>Russian Federation</td>
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<tr>
<td>Minister of Foreign Affairs</td>
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<td>Denmark</td>
<td>Aleksei V. Mozhin (Fund)</td>
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<tr>
<td>Allen Ingolfsson (Bank)</td>
<td>Jon A. Solheim (Fund)</td>
<td>Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden</td>
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<td>Members</td>
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| Nor Mohamed Yakcop  
*Minister of Finance*  
Malaysia | Rapee Asumpinpong  
(Bank)  
Ms. Sri Mulyani Indrawati  
(Fund) | Brunei Darussalam, Fiji, Indonesia, Lao People’s Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Vietnam | 11 |
| Ngozi N. Okonjo-Iweala  
*Minister of Finance*  
Nigeria  
*Alternate Member*  
*Joseph Sanusi (attending)*  
Governor, Central Bank of Nigeria | Louis A. Kasekende  
(Bank)  
Ismaila Usman  
| Fathallah Oualalou  
*Minister of Economy and Finance*  
Morocco | Tanvir Ali Agha  
(Bank)  
Abbas Mirakhor  
(Fund) | Islamic State of Afghanistan (informally), Algeria, Ghana, Islamic Republic of Iran, Iraq, Morocco, Pakistan, Tunisia | 13 |
| Antonio Palocci Filho  
*Minister of Finance*  
Brazil | Octaviano Canuto  
(Bank)  
Murilo Portugal  
(Fund) | Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Panama, Philippines, Suriname, Trinidad and Tobago | 14 |
| Didier Reynders  
*Minister of Finance*  
Belgium | Kurt Bayer  
(Bank)  
Willy Kiekens  
(Fund) | Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, Turkey | 15 |
| Abdulla Hassan Saif (not attending)  
*Minister of Finance and National Economy*  
Bahrain  
*Alternate Member*  
*Ghassan El-Rifai (attending)*  
Minister of Economy and Trade  
Syria | Ismail Aljazzaf  
(Bank)  
A. Shakour Shaalan  
(Fund) | Bahrain, Arab Republic of Egypt, Jordan Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Republic of Yemen | 16 |
| Nicolas Sarkozy (not attending)  
*Minister of Economy, Finance and Industry*  
France  
*Alternate Member*  
*Xavier Darcos (attending)*  
Minister of Cooperation, Development and Francophone Affairs  
Ministry of Foreign Affairs  
France | Pierre Duquesne  
(Bank and Fund) | France | 17 |
<table>
<thead>
<tr>
<th>Members</th>
<th>Executive Directors</th>
<th>Countries</th>
<th>Group</th>
</tr>
</thead>
</table>
| Jaswant Singh (not attending) Minister of Finance India Alternate Member  
D.C. Gupta (attending) Finance Secretary Government of India | Chander Mohan Vasudev (Bank) 
B.P. Misra (Fund) | Bangladesh, Bhutan, India, Sri Lanka | 18    |
| John W. Snow Secretary of the Treasury United States | Carole L. Brookins (Bank) 
Nancy P. Jacklin (Fund) | United States | 19    |
| Pedro Solbes (not attending) Second Vice President of the Government and Minister of Economy and Finance Spain Alternate Member  
Rámon Guzmán (attending) Director General for Int’l Finance Ministry of Economy & Finance | Per Christer Kurowski (Bank) 
Luis Martí (Fund) | Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, República Bolivariana de Venezuela | 20    |
| Sadakazu Tanigaki Minister of Finance Japan Alternate Member  
Zembei Mizoguchi Vice Minister of Finance for International Affairs Ministry of Finance | Yuzo Harada (Bank) 
Ken Yagi (Fund) | Japan | 21    |
| Giulio Tremonti (not attending) Minister of the Treasury Italy Alternate Member  
Antonio Fazio (attending) Governor of the Bank of Italy | Biagio Bossone (Bank) 
Pier Carlo Padoan (Fund) | Albania, Greece, Italy, Malta, Portugal, San Marino, Timor-Leste | 22    |
| Heidemarie Wieczorek-Zeul Federal Minister for Economic Cooperation and Development Germany | Eckhard Deutscher (Bank) 
Karlheinz Bischofberger (Fund) | Germany | 23    |
<table>
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<tr>
<th>Members</th>
<th>Executive Directors</th>
<th>Countries</th>
<th>Group</th>
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<tr>
<td><strong>Gerrit Zalm (not attending)</strong>&lt;br&gt;Minister of Finance&lt;br&gt;Netherlands&lt;br&gt;Alternate Member&lt;br&gt;<strong>Agnes van Ardenne (attending)</strong>&lt;br&gt;Minister for Development Cooperation&lt;br&gt;Ministry of Foreign Affairs&lt;br&gt;The Netherlands</td>
<td>Ad Melkert  (Bank)&lt;br&gt;Jeroen Kremers (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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<tr>
<td>Organization</td>
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<tr>
<td>African Development Bank</td>
<td>Mr. Omar Kabbaj, President</td>
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<tr>
<td>Arab Bank for Economic Development in Africa</td>
<td>Mr. Medhat S. Lotfy, Director General</td>
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<tr>
<td>Arab Fund for Economic and Social Development</td>
<td>Not attending</td>
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<tr>
<td>Arab Monetary Fund</td>
<td>Dr. Jassim Al-Mannai, Dir General, Chairman of the Board</td>
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<tr>
<td>Asian Development Bank</td>
<td>Ms. Patricia Moser, Deputy Director, North American Representative Office</td>
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<tr>
<td>Commonwealth Secretariat</td>
<td>Mr. Winston Cox, Deputy Secretary General</td>
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<tr>
<td>Cooperation Council for the Arab States of the Gulf</td>
<td>Not attending</td>
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<tr>
<td>Council of Europe Development Bank</td>
<td>Not attending</td>
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<tr>
<td>Development Assistance Committee</td>
<td>Mr. Richard Manning, Chairman</td>
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<tr>
<td>European Bank for Reconstruction &amp; Development</td>
<td>Mr. Willem Buiter, Chief Economist</td>
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<td>European Commission</td>
<td>Mr. Geert Heikens, Minister Counsellor for Development</td>
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<td>European Investment Bank</td>
<td>Mr. Philippe de Fontaine Vive, Vice-President</td>
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<td>Food and Agriculture Organization</td>
<td>Mr. Charles Riemenschneider, Director</td>
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<tr>
<td>Inter-American Development Bank</td>
<td>Mr. Enrique Iglesias, President</td>
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<td>International Fund for Agricultural Development</td>
<td>Mr. Lennart Bage, President</td>
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<td>International Labour Organisation</td>
<td>Mr. Eddy Lee, Director of the Int’l Policy Group &amp; Econ Adv</td>
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<td>Islamic Development Bank</td>
<td>Mr. Amadou Cisse, Vice President, Operations</td>
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<td>Nordic Development Fund</td>
<td>Ms. Carin Wall, Senior Vice President</td>
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<td>Nordic Investment Bank</td>
<td>Mr. Jon Sigurdsson, President and CEO</td>
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<td>OPEC Fund for International Development</td>
<td>Mr. Suleiman J. Al-Herbish, Director-General</td>
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<td>Organization for Economic Co-operation and Dev</td>
<td>Mr. Michael Roeskau, Director, Dev Cooperation Directorate</td>
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<td>United Nations</td>
<td>Mr. Jose Antonio Ocampo, Under Sec for Econ/Social Affairs</td>
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<td>United Nations Conference on Trade and Development</td>
<td>Mr. Jan Kregel, Interregional Adviser, Div on Globalization &amp; Development Strategies</td>
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<td>United Nations Development Programme (UNDP)</td>
<td>Mr. Michael Marek, Director</td>
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<td>West African Development Bank</td>
<td>Mr. Boni Yayi, President</td>
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<td>World Health Organization</td>
<td>Mr. Andrew Cassells, Director, Dept of MDGS, Health and Development Policy</td>
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<td>World Trade Organization</td>
<td>Mr. Supachai Panitchpakdi, Director General</td>
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