STATEMENTS SUBMITTED TO THE SEVENTY-FIRST MEETING
OF THE DEVELOPMENT COMMITTEE

Chairman, Trevor Manuel  
Minister of Finance, South Africa  

Washington D.C.  
April 17, 2005

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NOTE ON THE SEVENTY-FIRST MEETING
OF THE DEVELOPMENT COMMITTEE

The Joint Ministerial Committee of the Boards of Governors of the World Bank and the Fund on the Transfer of Real Resources to Developing Countries – the Development Committee – held its seventy-first meeting on April 17, 2005, 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 Chairman and are also part of this volume. The session started at 9:00 am and ended at 12:45 p.m. The meeting was chaired by Mr. Trevor Manuel, Minister of Finance of South Africa.

The Agenda (Annex B) was adopted at the beginning of the session, followed by discussion of three topics: the first, “Global Monitoring Report 2005: MDGs: From Consensus to Momentum,” a summary paper prepared by staff of the World Bank and the International Monetary Fund. The full report was made available as a background paper. The second topic, “Financing the Development Agenda,” a joint paper prepared by the staff of the World Bank and the International Monetary Fund, including a background document entitled “Moving Forward: Financing Modalities Toward the MDGs.” The third topic on “Voice and Participation of Developing and Transition Countries,” includes a progress report and a background paper, both entitled “Voice and Participation of Developing and Transition Countries,” and a background note on the Status of IMF discussions on quotas, voice and participation, prepared by IMF staff.

With respect to the first item, a summary paper on the Global Monitoring Report 2005: MDGs: From Consensus to Momentum, plus a companion background paper have been provided to the Members. This report proposes a five-point agenda of accelerated and concerted actions by developing and developed countries – based on the Monterrey framework of mutual accountability.

On the second item, “Financing the Development Agenda,” progress on the Monterrey Agenda and the different options for mobilization of development finance have been set out. Financing for development encompasses many elements and progress is needed simultaneously on several fronts to achieve adequate and sustainable financing.

The third item on “Voice and Participation of Developing and Transition Countries,” was only briefly considered because of time constraints. The documents lay out the issues that have to be addressed to make further significant progress.

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

Introduction

2005 is a milestone year for the international development agenda. It marks a third of the way to the target year of 2015 for achieving the Millennium Development Goals (MDGs); world leaders will meet in September to evaluate progress on what has been achieved and what needs to be done if we are to meet the MDGs. The Development Committee is the first of a series of discussions we will be having on the development agenda in 2005, including the meeting of the Council of European Ministers later this month, the High Level Dialogue on Financing for Development and the ECOSOC meetings in June, the G8 Summit at Gleneagles in July, the High Level Plenary Meeting in September, and the WTO Ministerial Meeting in Hong Kong in December. Not all of the issues to be addressed can be resolved at the Spring Meetings here, but this Development Committee meeting provides an important opportunity to shape and give impetus to the 2005 agenda and secure political commitment for achieving results.

As you all know, for some time I have been saying that there is little disagreement on what needs to be done by the developing countries themselves, by their developed country partners, and by the multilateral institutions. The goals have been set at the Millennium Summit in 2000 and the elements of the bargain spelt out in Monterrey, Johannesburg and in Doha. Yet three years after Monterrey there is a sense that different parties are still waiting for others to make a move. We are now better positioned than ever before in the fight to eradicate poverty. If we fail to take the opportunity, the risks are great not only of not meeting the MDGs, but of failing to achieve the ultimate goal we all seek: the goal of a peaceful, prosperous and secure planet. 2005 is thus a year of great opportunity and also a year of grave risk.

We will have the opportunity to discuss all aspects of what needs to be done at our meeting on April 17. The annual Global Monitoring Report (GMR) – which the Committee first asked for three years ago, after Monterrey – sets out clearly what progress has been made, and what remains to be done. Along with the GMR, we have also prepared separate progress reports for the Committee on Financing the Development Agenda, and Voice and Participation of Developing and Transition Countries in Decision making at the World Bank and the International Monetary Fund. I look forward to our discussions and your guidance on all these issues.

There are additional risks to progress in the period immediately ahead from developments in the global economy. Over the last few years, developing countries in general have experienced a period of exceptional growth: 6.6 percent last year, compared with growth of 3.2 in high-income countries. This reflects very strong growth among some of the developing world’s largest countries (China, India and Russia grew 9.5, 6.8 and 7.1 percent respectively). Other developing countries in East Asia and Pacific, South Asia, and Europe and Central Asia also recorded strong growth; and in the Middle East and North Africa, Latin America and the Caribbean, where the pace of expansion was less, it was nevertheless much stronger than in the recent past. Even in Sub-Saharan Africa, where the pace of the expansion was lower, it was nevertheless much stronger than in the recent past. Following substantial structural and macroeconomic reforms during the 1980s and 1990s, trend growth rates in all developing regions have been rising.

But global growth is already decelerating with higher oil prices, rising interest rates and an end to the fiscal stimulus that boosted growth in the recent past, and this deceleration is projected to continue during the rest of 2005 and into 2006. Developing country growth will remain above 5 percent and per capita incomes in the globe’s poorest countries are expected to rise, but even so millions of people – particularly in Sub-Saharan Africa – will continue to live in poverty and the gap between their incomes
and those of individuals living in high-income countries will grow. Moreover, there are significant risks that large global imbalances, further volatility in oil and metals prices or a change in investors’ willingness to take on risk could result in a much more pronounced slowing of the global economy, with particularly adverse impacts on emerging market economies with significant levels of external short term debt, and on poor oil importing countries.

In keeping with past practice, in this note I am also reporting on progress and actions on some of the other issues the Committee has considered in the past. We will have opportunities to discuss some of these issues informally at the Committee’s lunch.

As this will be the last meeting of the Committee that I will attend as President of the World Bank, I would also like to take this opportunity to express my deep appreciation and thanks for the support and wise guidance that past and present members of the Committee have given over the last 10 years. It is one of the abiding strengths of this extraordinary institution that Paul Wolfowitz who will succeed me as President will be able to benefit from the same support and guidance in the future.

Assessing Progress on the Development Agenda

In September, world leaders will meet in New York to review progress on the commitments they made in the Millennium Declaration adopted at the UN Millennium Summit in 2000. 2005 offers perhaps a last opportunity to make adjustments, and further commitments needed if the MDGs are to be met. The Secretary General has in his own recent review of the Millennium Declaration given a compelling assessment of progress and what remains to be done. The recent report of the Commission for Africa, chaired by Prime Minister Tony Blair, gives a detailed assessment of progress and challenges in Africa – the continent most at risk of falling seriously short of meeting any of the MDGs. This meeting of the Development Committee is therefore a key stepping stone to the September Summit. The GMR, prepared by staffs of the Bank and the Fund with major inputs from the UN, WTO and other multilateral agencies, gives a sobering assessment of progress in implementing actions and policies needed to achieve the MDGs, and what further action is now needed. I believe it provides an excellent basis for the Committee’s discussion.

The framework underpinning the GMR is the Monterrey Consensus framework that describes the roles and responsibilities of developing countries, their developed country partners, and the multilateral institutions in achieving the MDGs. The GMR provides an assessment of performance and prospects against that framework and identifies an action plan to make the progress needed to achieve our goals. This year’s GMR confirms the assessment in the first report that we reviewed at the Development Committee meeting last spring: that most MDGs will not be met in most countries on present trends. While prospects are promising for meeting the income poverty goal at a global level, with particularly rapid progress in China and India and steady improvements in most other regions, the incidence of poverty in Sub-Saharan Africa rose between 1990 and 2001, and most countries in the region are likely to fall far short of the poverty goal. Indeed, Sub-Saharan Africa as a region is not on-track to achieve any of the MDGs by 2015 and is the only region where child malnutrition is increasing.

The risks of falling short are much more pervasive across regions with respect to the other MDGs. The world has already missed its first MDG target set for 2005: the achievement of gender equality in primary and secondary education. Most regions are falling short, some seriously, of the health related goals – reduction of child and maternal mortality, expansion of access to basic sanitation – and the number of people with HIV/AIDS continues to grow. In education, the pace of progress is too slow to ensure attainment of the universal primary completion goal in three of the six developing regions (i.e., South Asia, the Middle East and North Africa, and Sub Saharan Africa).
Looking ahead, and with just a decade to go to 2015, achieving all the MDGs, presents an enormous challenge. But we know that with the right policies and actions rapid progress is possible, and the success of the better performing regions and countries, including in Sub Saharan Africa, provides hope for others. So while it important to check that we do indeed have a common perception about progress so far, I hope we can focus our discussion on the key areas where we need to take action. I mean concrete decisions and actions that all of us – developing countries, industrial countries, and multilateral institutions acting together as a global community – agree on and begin to implement this year.

The GMR provides a good, if sobering, assessment here as well – of what we are doing well, and what more we need to do to get back on track to meeting the MDGs. It highlights the following five points.

- **Country Strategies.** Many of the poorest countries need to strengthen country-owned and -led poverty reduction strategies (PRSs), with better links with medium-term budgetary frameworks; more ambitious PRSs should provide the anchor for country actions to achieve the MDGs, and donors should act faster to align and harmonize their assistance around these strategies.

- **Investment Climate.** Many developing countries need to do much more to improve the environment for strong, private sector-led economic growth. Of particular importance in this regard are efforts to build deep, efficient and inclusive financial systems, strengthen fiscal management, with a focus on the structure of public spending; improve the enabling climate for private activity, by removing unnecessary regulatory and institutional constraints and strengthening economic infrastructure; and strengthen the quality of governance – upgrade public sector management and combat corruption.

- **Service Delivery.** We all need to do more to significantly scale up the delivery of human development services through a rapid increase in the supply of skilled service providers (health workers, teachers); increased and more flexible financing for these recurrent cost-intensive services; and improved governance along the service delivery chain to ensure that money produces results.

- **Trade.** We need bold actions to dismantle the barriers to trade to achieve an ambitious outcome of the Doha Round, which fully realizes its development promise, completing the Round no later than 2006, and by stepped-up assistance to poor countries to address behind-the-border constraints to their trade capacity, through investments in critical trade-related infrastructure.

- **Financing development.** Finally, the level and effectiveness of official development assistance needs to be increased significantly. In line with rising absorptive capacity, the GMR suggests that ODA should be doubled from current levels, particularly to low-income countries and Sub-Saharan Africa, and that proposals for additional HIPC debt relief should be brought to closure in 2005—and without cutting into new ODA commitments.

A Program of Action

2005 is a year for meeting key challenges. Our successors may look back and see 2005 as the year when decisions were made and commitments met that resulted in a more prosperous and secure world. Or they may look back and see it as a year of missed opportunity. There is no doubt in my mind that we would all prefer the former as our legacy. The question is whether we and the governments and
institutions we represent are ready to act to achieve it. Let me spell out in more detail the concrete actions that I see as needed, starting this year, if we are to succeed, including actions that the Bank must take to support the process.

**A country by country approach**

**First**, we all have to have to scale up our efforts on the ground, country by country.

In **low-income countries** (LICs) we have a sound basis for doing this, accepted by all partners, in the Poverty Reduction Strategy (PRS) approach. Forty-seven countries are now implementing PRSs as country-led frameworks for development and achieving the MDGs, providing an anchor for both domestic efforts and external support. But in most countries the process needs to be deepened further, in particular by strengthening the link with medium-term expenditure frameworks and annual budgets, increasing transparency and better articulation of agendas for spurring economic growth. In many countries there is scope for using PRSs to assess options for accelerating policy reform matched by extra external assistance. In all countries, those providing assistance can and should do more to align and harmonize their assistance with country policies and systems. In the Bank we are continuing to support this approach, and to adapt our own procedures and instruments accordingly. We are currently undertaking jointly with the Fund a review of five years of implementation experience, seeking to draw lessons and identify good practices; to identify recommendations for strengthening implementation; and to clarify an appropriate framework for monitoring results. We are also currently completing a review of experience with our core instrument for supporting PRSs, the Poverty Reduction Support Credit (PRSC). However, I believe that the level of ambition relative to PRSs can and must be raised: ambition on country actions to meet the MDGs, ambition on addressing capacity constraints and ambition on the volume and quality of financing needed to support country efforts.

We are also working with other development partners to improve the way we provide support to low-income fragile states, the so-called **low-income countries under stress** (LICUS). Effective international engagement with fragile states is essential for global security, for the well-being of the 500 million poor people living in these countries and for development in neighboring countries. There is increasing recognition by all that initial stabilization and peace-keeping efforts in the most fragile states need to be strengthened by building state capacity, state legitimacy, and viable economic recovery if these countries are not to slip back into conflict. Security and development linkages are very important in these countries. The Bank has collaborated with the UN Development Group to produce a new planning tool integrating political, security, economic and social issues in one unified results framework. In January, the Bank co-sponsored a **Senior Level Forum on Development Effectiveness in Fragile States** in London which helped develop a set of **Principles for Good International Engagement** in fragile states. We will also continue with our own internal reforms to strengthen and better support Bank country teams working in these countries, and to position ourselves better to move quickly when an opportunity for transition occurs, as it has in Haiti, Liberia and Sudan. The LICUS Implementation Trust Fund has helped fill a critical financing gap for countries in non-accrual with the Bank. The framework for IDA 14 includes a provision for exceptional assistance to failed states which do not fully meet the post-conflict criteria, as was the case with Haiti.

Successful and sustained development in **middle-income countries** (MICs) will also be crucial to meeting our global development goals. This highly diverse group of countries is home to almost 70 percent of the world’s poor, and some of these countries play key roles as regional anchor economies. As a group, their performance is critical to delivery of many global public goods, ranging from global environmental sustainability to global financial stability. They are the client base of the IBRD and regional development banks for non-concessional lending. In the Bank, we are successfully implementing the Management Action Plan for Enhancing Bank Support to MICs that we launched a year ago to
increase our responsiveness to clients' demand for high quality lending, risk management products, and knowledge services. It will be important globally, for all development partners including MDBs, to find ways to work more closely together and with MICs themselves to enhance the effectiveness of our joint efforts to support their development. We have to recognize that different parties have different objectives in providing support, and that the diversity of MICs means that approaches will differ greatly in different countries. But the potential gains from stronger cooperation are great, and over the months ahead we will be continuing a series of discussions with donors, other MDBs and the MICs to identify ways to enhance cooperation, including greater use of techniques that combine the instruments and aid modalities offered by different parties. As the separate paper on Financing the Development Agenda points out, greater use of a variety of techniques for blending donor grant support with MDB lending could be a way to greatly enhance the total flow of resources to support of MDG related investments in MICs.

We are also looking at the way the Bank supports policy reform in all three groups of countries in our current review of practice in the use of conditionality. This review – requested by the Committee at its last meeting – builds on previous reviews of policy-based lending, including the focus and effectiveness of conditionality, which eventually led to an update of the Bank’s policy in September 2004, when Development Policy Lending replaced adjustment lending. Through consultations and surveys we are seeking to reflect not only the Bank’s own experience but also the views and experience of borrowing countries, bilateral partners and civil society organizations (CSOs). The conclusions of the review will be presented at the Annual Meetings. Although conditionality has been a controversial topic for many years, I believe that we are reaching a point where it may be becoming something of a misnomer. What we are now implementing in most countries is a partnership with a mutual commitment to support medium-term policy and institutional changes, in which the country decides and implements its own reform agenda, as in PRSs; the Bank and IDA, and in many cases other donors also, advise on and support good policy reform agendas – with associated frameworks for measuring results – as appropriate with policy based loans and grants. These must be based on a few critical measures that embody real ownership and that will produce better results, rather than on an exhaustive list of conditions.

Country actions to improve the environment for stronger growth

Second, progress at the country level – in both low- and middle-income countries - hinges above all on policy decisions and actions taken by countries themselves, critically the implementation of policies that provide a supporting environment for faster, private sector led growth. Achieving faster economic growth must be at the center of the strategy. To meet the MDGs, Africa needs to double its growth rate.

I have been saying this for years: nothing will work unless countries strengthen governance and tackle the cancer of corruption. The Commission for Africa report gives the same message, correctly drawing attention to actions that advanced countries can also take to help the process. All Bank country assistance strategies (CASs) now address governance issues, with lending volumes linked to progress in governance and anti-corruption. In some of the higher risk countries, governance and anti-corruption have become the anchors for the entire country program. Some 20 percent of our lending commitments are now for good governance, public sector reform, and rule of law. We have also developed governance indicators and other diagnostic tools which are being increasingly used by other development partners such as the Millennium Challenge Account (MCA) of the United States as guides for their operations. And we have also addressed issues of corruption at home: so far, more than 300 companies and individuals have been sanctioned from doing business with the Bank, and their names and sanctions posted on the Bank’s external website. It will be important for advanced country governments to do all they can to assist by tackling potential sources of corruption in their own countries and increasing transparency. The World Bank Group has continued to strongly support the Extractive Industries Transparency Initiative (EITI) by providing on-the-ground support to governments who have embraced the initiative and wish to move to make their extractive industry revenues transparent.
Developing country governments need to take further actions on two fronts to create an enabling climate for private activity, which is key to accelerating growth and poverty reduction.

- First they need to act to remove unnecessary regulatory and institutional constraints, simplifying regulations on starting a business, securing property rights and strengthening contract enforcement and the rule of law. Access to finance also needs to be improved. Countries can and should use improved diagnostics and metrics of the private business environment that the Bank has helped develop – the Doing Business indicators, country investment climate surveys – to guide action and monitor progress. Similarly, countries should build on the findings of the FSAP and ROSC programs – to improve their financial sector infrastructure and regulatory capacity. The Bank is also beginning to support such actions with lending operations. In addition, the Bank Group is committed to building inclusive financial systems that work for all members of society and has committed $1.35 billion in support of micro-, small and medium enterprises (MSMEs) so far in FY05.

- Second, countries should substantially increase investment in the physical infrastructure needed to support private activity, recognizing that the bulk of the increase in infrastructure investment, particularly in Sub-Saharan Africa, will need to come from the public sector.

Macro economic policies that deliver stability and growth are also central. Particularly in poor countries, it is clear there is much to be done to deepen macroeconomic management, with a focus on fiscal management, the structure and planning of public spending, and ensuring debt sustainability. In this context a move towards more grant finance is welcome, so long as the present-value of future aid flows is not negatively affected. So too is the recognition of the interrelationship between fiscal policy and long-run growth. While fiscal policy has legitimately been viewed as a tool for short-run economic stabilization, recent policy debates (including the discussion of "fiscal space") have asked whether its effect on long-run growth should not be re-emphasized. This comes at a time when private flows have receded and the links between infrastructure investments, competitiveness, and growth are seen as being important aspects of the poverty reduction challenge. In this context, the Bank will renew its work on fiscal composition and help countries in examining their infrastructure needs in the context of viable and financable development strategies.

Improving delivery of human development services

Third, we need to help countries act to achieve a major scaling up in delivery of education and health services, areas where there is greatest danger of failing to meet the MDGs in most countries. Primary education, basic health care and control of diseases such as HIV/AIDS, women’s access to education and health care, and water and sanitation infrastructure closely linked to health outcomes, are all priorities. The shortfalls are most serious in Sub-Saharan Africa. Critical elements in scaling up include increasing the supply of skilled service providers, mobilizing flexible and predictable financing and improving management of the service delivery chain to ensure that money produces results.

In accelerating progress in meeting the health-related MDGs, new partnerships and global initiatives that have emerged in the past five years are providing a new impetus and a fresh flow of funds for specific public health issues. But not being integrated into national policies and institutions, their effectiveness is limited and could threaten their sustainability. Too much donor assistance flows outside the normal country budget processes, creating transactions costs for countries and often undermining country ownership. The third High Level Forum on health-related MDGs, to be held in November in Paris, will discuss these issues and seek to build consensus on actions to address them. HIV/AIDS poses a special threat: with 40 million people now infected with HIV, over 20 million already dead, and more
than 15 million AIDS orphans worldwide, HIV-AIDS is destroying the development effort of decades in many countries, especially in Africa. The international community has substantially increased its commitments to fighting the epidemic – from about $300 million annually ten years ago to $4-5 billion last year. While more resources are needed, especially for treatment, the most immediate challenge is implementation: ensuring that existing commitments are used quickly, efficiently and effectively. We are seeking to define the Bank’s contribution to this global effort in a new World Bank HIV-AIDS Action Program, building on our areas of comparative advantage such as strengthening HIV advocacy and program planning at country level; providing strategic funding to increase impact and fill gaps; enhancing country implementation systems, and collecting and disseminating knowledge to improve performance.

In education the Education for All (EFA) Fast Track Initiative (FTI), launched in 2002, has emerged as the key instrument for donor harmonization and support to countries in meeting the education MDGs. The FTI embodies the Monterrey Consensus, with both country and donor performance monitored against agreed indicators. Challenges remain, however, both to ensure sustainable financing for the 13 FTI-endorsed country programs (Ethiopia has been recently added), and to meet financing needs of 25 additional countries with sector programs which may be endorsed in 2005. The latter alone will require a $2 billion increase in ODA. Despite overwhelming evidence that teaching children how to read, write, and count can break the cycle of poverty that haunts the lives of too many of the world’s children, boost economic growth and blunt the spread of AIDS, the financial support needed for the FTI is still lacking. World leaders will have to make good on the very public pledges they made in 2000 that “no country seriously committed to Education for All will be thwarted in its achievement of universal primary education by 2015 due to lack of resources.” Action is also needed to strengthen the effectiveness of such assistance, especially by improving its predictability and availability to finance recurrent costs. Beyond EFA, helping countries accelerate development of higher-level skills needed to promote competitiveness and economic growth is a further priority for the Bank; and the Bank’s 1999 education sector strategy is being updated to enhance the effectiveness of Bank assistance and its responsiveness to client needs.

Delivering the development promise of Doha

Fourth, for all countries success also hinges on the progress we can make this year on the Doha trade agenda. 2005 will be a milestone year for trade and development leading up to the Hong Kong Ministerial in December. At the moment the prognosis is not good. There are serious risks that the Doha process, even if concluded formally this year, will not achieve the initial ambitions for development. The trade talks have been largely inconclusive since last July’s framework agreement revived the process, and in the worst case, that agreement could result in an outcome that achieves very little. The challenge of realizing the development promise of the Doha round is becoming increasingly daunting as we approach the Hong Kong Ministerial meetings.

As highlighted in the background note prepared for the Development Committee, facing that challenge requires a serious increase in the level of ambition, centered on a transformation of agricultural trade policy in OECD countries, devoting greater attention to reducing the trade-restricting effects of non-tariff measures, and safeguarding and expanding the scope for developing countries to compete in services markets. Given trade restrictions on average are much higher in developing than developed countries, significant further liberalization by developing countries is also required to realize the full potential of trade for development. Middle income countries are likely to benefit most from liberalization of agricultural policies, but in turn will have to open up their markets and contribute to the gains for poorer countries more broadly. It will also be important to provide assistance to the poorest countries so that they can fully engage in the negotiations, and are able to meet commitments and undertake

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1 *Aid for Trade: Competitiveness and Adjustment*, Joint Staff Note by the Staffs of the IMF and the World Bank.
necessary reforms and adjustment. We need to significantly expand “aid for trade” through technical assistance and support for capacity building and financial and other assistance to tackle behind the border constraints. And in all these areas we must act now if we are to have any chance of achieving a successful pro-development outcome in Hong Kong.

In the Bank we are providing practical help on a number of fronts, and will continue to do so, with an expanding work program aimed at helping developing countries exploit the potential gains from trade. There is a growing lending program for trade-related activities. Projected commitments for new trade operations in the FY04-06 period are significantly larger than in earlier years, with trade facilitation related lending becoming a major growth area. Comprehensive studies on how to improve trade policies and explore trade opportunities – in the context of the Integrated Framework for Trade Related Technical Assistance – have been launched in more than 35 countries in the past two-and-a-half years. These studies are complemented by regional studies that look at issues for several countries at a time. The World Bank Institute has also increased its training and capacity building in trade-related activities. We have given advice and assistance to a number of countries seeking WTO accession. And Bank financial support for trade-related operations has picked up significantly: fresh commitments for new trade-related operations are expected to reach US$3.8 billion during the period FY04-06.

Increasing the effectiveness and amount of development assistance

Fifth, we need to act now to increase the amounts and quality of development financing. The Monterrey Consensus represented an important milestone in framing the financing for development agenda. Since then, there has been considerable work on both assessing financing needs and on the different options for mobilizing development finance. The separate note on Financing the Development Agenda and the background paper Moving Forward: Financing Modalities Toward the MDGs discuss the issues in more detail. Let me just highlight a few key messages.

Developing countries can and must do more to mobilize domestic resources – raising revenues through faster growth and better revenue administration, and releasing resources by improving efficiency in public spending. They must also build on progress in reforms that enhance their ability to attract private non-debt capital flows, especially foreign direct investment (FDI). In addition, many countries have been benefiting from stronger flows of remittances. Recent analysis in the Bank on the related issues of migration and remittances suggests that financial flows from remittances are now very substantial – possibly double the $126 billion of recorded flows in 2004 – and further work is under way to improve data, assess net benefits and develop ways to strengthen integrity of transactions while reducing costs.

But while FDI, remittances and exports are important sources of foreign exchange, they are no substitute for official development finance. Aid and other forms of development finance play a critical and special role, providing resources to support the public policy reforms and investments needed to underpin successful private sector development, economic growth and enhanced delivery of human services – and hence progress in meeting the MDGs. As the analysis in the GMR makes clear, an increasing number of developing countries are significantly raising their capacity to absorb effectively substantial increases in aid – and with a little assistance others can similarly raise their absorptive capacity. I have little doubt that if we can double effective volumes of development assistance in the course of the next five years the resulting flows can be used and used well. Indeed, if we fail to do so we will be failing on the promise of the Millennium Summit and the series of commitments made at Monterrey and elsewhere. As I see it, the world faces a series of challenges for the providers of development assistance – challenges that have to be met, and met now, if 2005 is to be a year of success rather than one of failure.
We must deliver on the promises of aid that have been already made; this is the most immediate and credible step to augment aid financing to meet the MDGs. If the commitments made at Monterrey and since to materialize, official development assistance will increase by around $18 billion in real terms in the next two years to 2006. Delivering on that promise will be an important test of the commitment of the developed countries to do their part. Targeting this increased aid to where it is most needed is the next step, to the poorest countries for program and project expenditures needed to scale up progress towards the MDGs. Accounting of debt relief and donors’ strategic and security objectives towards fulfilling ODA objectives will need to be agreed upon. To meet the test, this increased aid needs to be truly incremental aid to meet the real financing needs for the MDGs—for HIV/AIDS, for education, for water and sanitation, for roads and infrastructure.

There has been a welcome reversal in ODA following a decade of almost continuous decline, but with little incremental cash financing for the poorest countries. According to the Development Assistance Committee (DAC) of the OECD, ODA levels rose in nominal terms from $52 billion in 2001 to $68 billion in 2003 and to $78.6 billion in 2004; in real terms, this represents a 4.3 percent rise from 2003 to 2004, following a 4.8 percent increase from 2002 to 2003 after taking into account inflation and the decline in the dollar’s value. The total represents 0.25% of Development Assistance Committee (DAC) members’ combined gross national income (GNI), the same level as in 2003. While the reversal in ODA commitments is noteworthy, the increase of aid to finance MDG needs in the poorest countries to date has been modest. The detailed breakdown for 2004 aid outcomes is not yet available, but as pointed out in the Global Monitoring Report the bulk of the $8.5 billion increase in bilateral ODA during 2001-03 represents debt relief, technical cooperation, and other special purpose allocations including for strategic and security objectives, and the increase in flexible forms to finance project and program expenditure in recipient countries was a modest $0.2 billion which was more than offset by exchange rate and price changes. We must not lose sight of the target of increasing aid to help countries meet the MDGs: that is the metric against which to measure success or failure.

In this context I very much welcome the successful conclusion of the fourteenth replenishment of IDA. I also applaud the policy directions staked out for the IDA14 period and appreciate the signal of trust in the Bank’s commitment, our effectiveness in achieving results on the ground, and our experience and expertise. The commitment to a 30% increase in IDA 14 is indeed welcome, and while so far firm commitments only amount to a 20% increase, I hope that IDA donors can soon confirm commitments to make the 30% increase a reality. The enhanced resource envelope of IDA14 can provide an anchor for accelerating global efforts to meet the MDGs in the poorest countries. Additional financing from bilateral sources that could be linked with IDA operations could help leverage the role of IDA and provide the financing needed to match country efforts to scale up investments and programs to meet the MDGs.

2005 offers an important opportunity to raise sights higher for the future and to set goals on aid delivery, for example for 2010. Since Monterrey six countries have committed to meet the 0.7 percent ODA to GNI target in addition to the five that have already reached this target. Progress towards the 0.7 percent target must remain the central goal in mobilizing the concessional resources needed to meet the MDGs. While the short-term focus must be on delivering these immediate commitments, I believe we can and must raise the bar for the future. It is indeed gratifying that five new countries have adopted timetables for achieving the 0.7 percent ODA target. While I am acutely aware of the difficulties that countries face in raising their aid budgets, I hope that more countries will make 2005 the year in which they commit to joining or at least moving towards the 0.7 percent club.

We also need to continue to work on ways to increase the pool of resources for development through innovative mechanisms. 2005 provides an opportunity to make tangible progress on at least some fronts. Although the International Finance Facility may not be an applicable or feasible instrument for all donors, I hope that it will prove feasible for some, starting with the pilot program on immunization. I
hope that we can take forward discussions on international taxes and other means to provide long-term financing for global public goods including development. I hope that we will put in place better mechanisms for mobilizing voluntary contributions: the public response around the world to the Indian Ocean tsunami disaster demonstrates the tremendous potential, but also the institutional challenges of private charity. And I hope that we can find ways to expand the scope of blending multilateral bank loans with bilateral grants to augment resources for tackling the MDG agenda in middle income countries. The Bank and the Fund are continuing to work on these options, but in the end it is governments – the member countries represented in this Committee – who have to decide whether or not to take them forward.

We need to address the issue of additional debt relief for the poorest countries. There are a number of proposals that have been put forward, and also agreement in the G7 to make progress. There are three main objectives that motivate the proposals for additional debt relief: (i) to reduce the debt overhang in low-income countries consistent with long term debt sustainability considerations, and end the “lend and forgive cycle”, which may cause some countries to stay in a continuous “debt trap”; (ii) to protect countries from exogenous shocks, which cause temporary payment difficulties as well as longer-term debt sustainability problems; and (iii) to provide debt service relief (equivalent to grants) until 2015 as a means to augment the financing for the MDGs. Additional debt relief can make a positive contribution for many of the poorest and most vulnerable countries. I see three main benefits: immediate resources that debt or debt service relief would provide for development needs; predictability that comes with the certitude of debt relief; and efficiency that comes with the flexibility and reduction in transactions costs.

But additional debt relief also needs to meet some important tests: (i) true additionality—it has to be fully financed and cannot be at the expense of other flows; (ii) equity—it is essential that additional debt relief be provided equitably across countries; (iii) efficiency—given the limited amount of new financing, debt relief needs to be provided where it is most needed measured by aggregate financing needs and debt sustainability, and linked clearly to standards of good governance; (iv) it should not undermine the financial viability of multilateral institutions, and to that end should be fully financed by additional donor contributions, and (v) debt relief in the context of IDA should be supportive of progress made under IDA14 towards providing grants based on debt sustainability. We have a new debt sustainability framework can serve as a useful basis for guiding not only debt relief but the coordination of assistance by all donors and creditors to ensure long-term debt sustainability.

Most important of all, we have to make aid more effective and more predictable. Improving the quality of aid is just as important as increasing its quantity. As highlighted in the Global Monitoring Report aid is often fragmented and volatile, not well aligned with country priorities, and entails high transactions costs. Fortunately, these issues are now receiving more attention and progress is being made, but it has been slow and uneven. As was requested by the Development Committee in its Communiqué of October 2004, the Paris Declaration, which was adopted by 90 countries and 27 development institutions, agreed on 50 commitments to improve the quality of aid, which will be monitored by 12 quantitative indicators. Participants agreed to set targets for 2010 which can help track and encourage progress on implementing these commitments by donors and partner countries. Five preliminary targets were agreed upon: these will be reviewed, and 11 targets will be agreed upon by the time of the United Nations’ five year review of the Millennium Declaration in 2005. The challenge ahead is to translate these agreements into results on the ground which will require concerted and cooperative efforts on the part of all. In country after country, and sector after sector, we have learned the power of aligning aid better with country priorities; strengthening and where possible using country budget and financial systems and

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2 Paris Declaration on Aid Effectiveness: Ownership, Harmonization, Alignment, Results and Mutual Accountability, Background Note for the Development Committee Meeting (DC2005-0002).
processes; providing the assurance of predictable and flexible aid flows over a period of years so that
countries can embark on long term programs, for example in education and health; and in some
circumstances financing recurrent costs. Today only a very few donors are able to make medium-term
aid commitments. I recognize that in many cases countries will only be able to implement this agenda in
full if they can persuade parliaments to permit changes in the way their aid is delivered and accounted for.
I hope we can agree on the importance of making the effort. Better alignment of aid with country
priorities and the harmonization of aid practices should not be celebrated just in Mozambique, but should
be the norm for all countries.

*Addressing cross cutting, regional and global issues*

While the focus of action must be at the country level, there are a number of challenges that cut
across countries.

We need to focus on the special development challenges in Africa. The report, published last
month, of the Commission for Africa chaired by Prime Minister Tony Blair contains a comprehensive
analysis and set of recommendations. I am sure the Committee will want to discuss these at our meeting,
and I know that the UK plans to make the report a focus for discussion at the G8 summit in July. The
Bank has already strongly endorsed the report. I hope that we can all agree to try to advance its principal
recommendations. In the Bank we have already started to assess the recommendations more closely over
the next few months, and the implications for our own operations. The Bank has prepared a preliminary
Indicative Action Plan for Africa that was considered by the Board. This Action Plan sets out options on
how the World Bank Group can support faster implementation of the Monterrey Consensus in Africa,
building on the achieved scaling up of Bank Group support to Africa since FY2000 and the Bank’s
Strategic Framework for IDA in Africa (SFIA). I very much hope that, based on further guidance from
shareholders, and consultations with Africa’s leadership and development partners, this action plan can
provide the basis for strengthened World Bank Group’s support to Sub-Saharan Africa.

Across all developing countries there are massive needs for new infrastructure investment,
which will be critical in supporting achievement of the MDGs, poverty reduction and economic growth.
Meeting the MDGs in Sub-Saharan Africa would require a doubling from about 4.7 percent of GDP in
recent years to 9.2 percent over the next decade—implying annual spending on infrastructure of about
$20 billion and an associated need for additional external financing of about $10 billion a year.
Recognizing these needs, the Bank Group’s Infrastructure Action Plan—launched in July 2003—
committed us to re-engage in supporting infrastructure investments, rebuild country-level diagnostic
work, and strengthen the Bank’s instruments and approaches.

We are on track in implementing the Action Plan, and expect a sustained increase in our
infrastructure business and results over the medium-term. In the first half of FY05, total lending
commitments amounted to $4.1 billion, doubling the amount for the same period in FY04, with
commitments split almost evenly between IBRD and IDA, reflecting the massive demands in both low-
and middle-income countries. We have also strengthened our analytic work, with greater emphasis on
cross-cutting infrastructure diagnostics, working jointly with regional multilateral development banks.
We are exploring options to allow the Bank Group to engage more effectively at the sub-sovereign level.
And we are working with the IMF to find solutions to issues of limited fiscal space in client countries for
infrastructure investments.

Environment and climate change is another key issue for 2005. The UK Presidency has
pledged to make climate change a priority on the G8 agenda in 2005 as one of the most serious challenges
of the 21st century. The Kyoto Protocol came into effect in February this year, and nations will begin
discussions on future global action on climate change. The Intergovernmental Panel on Climate Change
has estimated that a three degree Celsius change in global temperatures could lead to a loss of 2-9 percent of GDP in developing countries per year, as well as resulting in devastating effects on human health and welfare, and fragile ecological systems. In the last decade, it is estimated that more than two billion people have been adversely affected by changes in climate: from South Africa to Central America, and from Bangladesh to Afghanistan, poor people bear the consequences of droughts and floods. To meet the challenge all countries, and especially developing countries, must integrate climate concerns into policy planning and improved governance in key sectors such as energy, water and transport.

The Bank Group is supporting the process in many countries through our own operations, with a focus on strengthening country policies and systems, and through the Global Environmental Fund (GEF) which we manage. We are also making a key contribution through the Bank’s carbon finance business which leverages new and private investment into projects that reduce greenhouse gas emissions. We have more than $410 million under management in six funds, including the Prototype Carbon Fund which is a public private partnership of 17 companies and 6 government entities pioneering the market in greenhouse gas reductions, the Community Development Carbon Fund that extends carbon finance to small scale projects, and the BioCarbon Fund that applies carbon finance to agro-forestry and land-use projects.

The effort to ensure global financial stability is a further continuing challenge. Bank-Fund cooperation remains central to the global efforts on crisis prevention and resolution. The joint Bank-Fund Financial Sector Assessment Program (FSAP) and the Reports on Observance of Standards and Codes (ROSC) are two central pillars of this effort. They provide a valuable framework for helping countries strengthen their financial systems and institutions, underpinnings that are critical to successful economic development and poverty reduction as well as to financial stability. In the five years since the programs were initiated, much has been accomplished. As of end-2004, about 120 countries – two-thirds of the membership – have participated in the FSAP program or agreed to participate in the near future. The ROSC exercise has also been remarkable, with 600 modules completed covering 120 countries from all regions of the world and at various stages of development.

For the future, the key task is to help countries implement systematic follow up to these assessments – to build capacity and institutions and to mobilize technical and financial resources for the task. Greater selectivity and tailoring of assessments to country circumstances is also called for, given the increasing participation in the program of smaller economies and lower-income countries whose financial systems present special gaps and development challenges. To this end, we are increasingly more targeted in our assessments, carrying out this work in collaboration with others; at the same time, we are focusing on core areas needed to inform the dialogue with member countries and to underpin Bank’s lending and the Bank’s country assistance strategies. In this context, I would like to thank the donors of the Financial Sector Reform and Strengthening Initiative (FIRST) which is already providing significant support to countries strengthening their financial sectors and following up from FSAP and ROSC assessments.

Anti-money laundering and combating the financing of terrorism (AML/CTF) also remains a special concern. Protecting national economies and financial systems against criminal abuse requires the adoption of highly elaborate and multi-sectoral prevention and control regimes. We have – with the Fund – proposed steps to support international efforts to curb money laundering, including through close collaboration with the relevant international bodies, notably the Financial Action Task Force (FATF) and the UN bodies. With agreement a year ago that AML/CTF should become a regular part of the Bank’s work and on the revised standard and its assessment methodology we have been working to expand our strategy for helping member countries enhance the integrity of public and private institutions through effective AML/CFT regimes, providing technical assistance to client countries through individual country and regional programs, and raising awareness through Global Dialogues. The Bank has thus far completed five assessments this year as part of the FSAP program, with two more underway. The Bank
has also stepped up its TA activities as well as its collaboration with FATF-Style Regional Bodies (FSRBs).

There are a number of other cross-cutting and global issues where I believe the Bank must remain engaged because of their importance to development and relevance to our work at country level. Nearly half the people of the world today are under 25 years old; nine out of ten of these young people live in developing countries, and a billion of them will need jobs in the next decade. So youth is one such issue. Disability is another. Fighting poverty more effectively must include efforts to empower and utilize the human and economic potential of the 400 million disabled people in developing countries, most of whom are the poorest of the poor. Attention to disability issues is growing among client countries, an increasing number of them are now involved in inclusive education programs; India is the site of a major project on empowering disabled people. In 2004, Afghanistan, Bolivia, China, Ecuador, Kenya, and Uzbekistan have all requested assistance in conducting disability-related research. Human rights is a third issue. The Bank has long recognized that sustainable development requires both economic growth and social equity. There is, moreover, widespread recognition of the strong link between human rights and development. The connections between human rights and the attainment of the MDGs are also significant. The Bank’s work substantially contributes to the realization of rights of people in a number of areas, such as health, education, gender, participation, accountability, environment, institutional reform activities and, above all, the fight against poverty itself as a fundamental denial of human rights. Other Bank activities also contribute to the realization of human rights: these include fighting corruption, increasing transparency and accountability in governance. The Bank is currently reviewing its role with a view to making a more explicit link between human rights and our work, while at the same time remaining fully in compliance with our Articles of Agreement.

A final challenge for 2005 will be to respond effectively to the disaster that dominated the news as the year began. The tsunami disaster affecting countries in and bordering the Indian Ocean was one of the worst natural disasters in modern times. The damage in affected areas is extreme. Governments have responded effectively, and the support from donors, and private citizens round the world has been astonishing and unprecedented. The Bank has been able to use its comparative advantages – in-house expertise on recovery and reconstruction, knowledge of the overall economies of these countries, sectoral knowledge from operations and analytic work, procurement and financial management skills, and experience with donor coordination and reconstruction financing – in assisting countries in formulating their recovery plans. Three principles have guided our efforts: the governments of the affected countries must have the central role and ownership; communities should be involved in assessing their needs and designing recovery programs; and the international community must act in coordination. As the needs assessments are completed, we will finalize work on emergency reconstruction credits and grants for the most affected countries that have asked for assistance: India, Indonesia, Maldives, and Sri Lanka. We expect to report back to the Board on the overall reconstruction efforts. Beyond the immediate relief efforts, it is clear that a concerted World Bank Group-wide effort, also involving IFC and MIGA, will be necessary to meet the broader reconstruction needs of the affected countries.

The Role of the Bank: Strengthening Bank Group’s Effectiveness

Before turning to ways to strengthen our effectiveness as an institution, I should report briefly on developments in IFC and MIGA since the Committee’s last meeting.

IFC

IFC has been making progress in implementing its strategic directions, including significantly strengthening its investment and technical assistance operations in Africa and implementing a new technical assistance facility to support private sector development in the Middle East and North Africa.
region with significant support from donors. In addition, the IFC has enhanced its strategic approach to technical assistance, with new monitoring and evaluation procedures and a new funding mechanism. Other internal improvements include a significant reduction in non-performing loans, a growing net worth, and improvements in risk management, human resources systems and environmental and social capabilities.

Looking forward, IFC will continue to perform a crucial role in infrastructure development (including public-private partnerships and municipal programs), in countries or regions not well-served by private sector finance, in innovative product areas such as housing finance, and by addressing critical needs related to the sustainability agenda, including enhancing the social impact of its projects and financing sustainable projects in energy efficiency, extractive industries and agribusiness.

MIGA

MIGA’s business has been expanding steadily, with the outstanding portfolio now standing at $5.5 billion. The agency has undergone significant changes in recent months, with a new business model that focuses on putting the agency on a financially and operationally sustainable path over the long-term. It centers on MIGA’s unique role as a multilateral risk mitigator, drawing on its governance structure to support development in ways that add value and complement the activities of others. This implies a focus on areas that public and private entities cannot serve as well, such as higher-risk markets, and other areas where MIGA has a unique comparative advantage. Underpinning the new model is a belief that proactive measures by MIGA can make a difference in terms of affecting investor perceptions and decisions about investment. Greater availability of information about investment opportunities and local operating conditions makes market entry decisions quicker and easier for investors. And attractive tools to mitigate risks – particularly those risks beyond an investor’s control – can make an important difference between whether investments take place and whether they do not.

**Strengthening the Bank Group’s effectiveness**

Given the scale of the challenges discussed above, I believe, and hope the Committee will agree, that the Bank Group is more important and more relevant than ever in the past. So it is more important than ever that we be effective and efficient in what we do. Chapter 6 of the GMR contains an assessment of the contribution being made by multilateral institutions, and many good suggestions for improvement. It also, rightly, stresses the importance of strong and effective cooperation and coherence between institutions. Let me set out my view on the Bank’s strategic direction for the future.

The Bank’s agenda, as I see it, is to contribute effectively, using our comparative advantages and working in partnership with others, to the challenges set out above.

The Bank’s poverty reduction mandate, coupled with the lessons we have gleaned from the growth experience of developing countries in the past decade, form the basis of a strategic framework that continues to be highly relevant for our work within countries, and in global programs. The twin pillars of the framework – empowering people and promoting a favorable investment climate – can help to identify priority areas for the Bank’s work. Further guidance on identifying strategic priorities is provided by a framework for selectivity within countries, across countries and for global programs. The major strategic challenge the Bank faces is one of implementation – across the continuum of client countries, in the mix of lending and non-lending services, in the degree of engagement, and in the choices of global programs and partnerships. In addition, key implementation challenges include the way in which we are organized and how we deploy our resources.
In our support to countries we must recognize the diversity in country circumstances and needs. The approach to development partnership and support is most advanced for low-income countries, with broad agreement that country-owned Poverty Reduction Strategies are the best means for more ambitious pursuit of development results. As noted, processes are underway to identify and give impetus to how the international community and the Bank can support development in middle-income countries and fragile states. There is a strong case for the Bank to remain engaged across the spectrum of developing countries, although the mix of services—knowledge, capacity development and financing including its concessionality—will vary across and within these sub-groups of developing countries.

In addition, globalization and the need for global collective action have led to a growing agenda of global issues where the Bank is being asked to play both direct and catalytic roles. This includes long-standing agendas such as trade, debt relief, aid coordination and effectiveness, financial stability, and new ones such as migration and remittances, combating the financing of terrorism and climate change. In these and other areas, major international efforts are underway and the Bank is actively engaged based on its mandate and strengths. Much of these new demands is for knowledge and advisory services and not directly linked to lending.

As the GMR stresses, the breadth and interconnectedness of the development agenda on the ground and at the global level places a high premium on partnership and coherence. Accordingly the Bank has and is continuing to strengthen its collaboration with the IMF, the MDBs, the UN agencies, the WTO, other bilateral and multilateral institutions, with the private sector and with civil society organizations. I have devoted much effort over the last few years in trying to strengthen these partnerships between institutions. I believe that across the Bank there is now recognition that we can do more by working as partners with others than we can by working alone. Although significant challenges remain, I believe this message is now taking hold across the international system. More than ever, successful development results depend on harmonization of efforts based on comparative strengths.

To further strengthen our effectiveness in addressing this agenda I see a range of areas where we need to continue to pursue an agenda for change.

- **Managing for Results.** Effective delivery, quality and results are at the core of Bank’s strategic objectives and are the focus of our management systems. There have been long standing efforts to improve delivery management, operational quality and aid effectiveness within the Bank. Between 1996 and 2004, the Bank reduced the average time for project preparation from 24 months to 16 months, and the rate of satisfactory project outcomes increased from 69 percent to 79 percent. The agenda on managing for results that was defined in the course of 2002 will help strengthen the Bank’s contribution to the development community’s efforts to sharpen the focus on development outcomes. This includes the adoption of results-based country assistance strategies and a results framework for IDA, supporting country demand and capacity to manage for results, addressing the need for better statistics to evaluate performance and results measurement, and fostering a global partnership on the results agenda.

- **Budget Reform.** While growing demands have been accommodated within a budget that has remained virtually flat in real terms over the past decade, a robust process for the examination of tradeoffs and appropriate flexibility in use of resources will be key in allowing the Bank to

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3 The Presidents of the other MDBs and I have just sent the fifth Update on Cooperation Among Multilateral Development Banks jointly prepared by all the MDBs, to our Boards. The note highlights the important role that MDBs collectively play in the development architecture and the joint efforts to strengthen our contribution and effectiveness.
respond to evolving needs. To ensure that strategy drives resource allocation, we have put in place a major reform of the budget with more focus on performance management, clearer identification of trade-offs and simplified and streamlined processes. The three core principles of the reform are: (i) to strengthen the multi-year framework; (ii) to give management the flexibility and room to manage, and (iii) hold them accountable for performance. Business planning and monitoring processes will be simplified, and the focus of attention will gradually shift from hitting absolute targets at each fiscal year-end towards supporting continually improved management of resources in pursuit of medium-term goals. To strengthen accountability for decisions on strategy and use of resources, we are focusing on strategic performance indicators and embedding accountability in a multi-year framework that is better aligned with actual project time frames.

- **Improving Organizational Effectiveness.** Over the past year, the Bank has undertaken a major review of how to strengthen its organizational effectiveness and its impact upon Bank operations. On the basis of the review, Management is proceeding with a number of recommendations including strengthening the Bank’s delivery of client services and its work on global issues; simplifying internal planning and budgeting; and improving human resources management policies and practices. Some other recommendations on the more structural aspects will be considered following the current Presidential transition.

- **Governance.** To complement these steps, there may also be a need to consider ways to strengthen the Bank’s governance system to further improve institutional effectiveness and to reflect modern practices, with clear accountability and benchmarks, and with appropriate representation of all stakeholders. The Committee continues to discuss issues of voice and participation, and while these are issues for shareholders and not management I do believe it is crucial to address them if in the longer run the institution is to retain the accepted legitimacy that is so important to its effectiveness. These are difficult issues that shareholders have been grappling with, and progress will be key to the long-term efficiency and effectiveness of the institution.

**Conclusion**

It has been a privilege to serve this remarkable institution for the last ten years. Over that time we have made some progress. I believe there is now a widely shared understanding of what needs to be done if we are to achieve our mission of eradicating poverty. It has also been a period of change at the Bank. There are further changes to be made, but the Bank is well placed to continue to contribute effectively to what has to be a global effort, in this critical year and in future. The Bank is a unique institution, with a superb and dedicated staff; its role in eradicating poverty and meeting our common aspirations for a better world for all has never been more important. I am confident that under the leadership of Paul Wolfowitz, the Bank will continue to rise to the challenge.
Statement by the Managing Director of the International Monetary Fund, Mr. Rodrigo de Rato, to the Development Committee

Introduction

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). Continued recovery in global growth provides a good opportunity to address medium-term vulnerabilities emanating from higher oil prices and large global imbalances, which would otherwise have an adverse impact on future prospects for growth, employment, and poverty reduction.

The year 2005 represents an important milestone on the way toward the MDGs in 2015, especially as the international community prepares for the UN General Assembly meeting in September. This year’s Global Monitoring Report, prepared by the Bank and Fund staffs, provides an update on progress that countries are making toward establishing appropriate policies and institutions, and examines key policies and actions needed to achieve the MDGs. It emphasizes four areas for action: spurring and sustaining growth; scaling up the delivery of human development services; increasing aid and its effectiveness; and reducing trade barriers. In this context, it puts a special focus on the challenges faced by sub-Saharan Africa. While developing countries are making progress toward implementing stronger macroeconomic policies, more is needed, particularly on establishing a sound environment for private sector-led growth, governance, and the provision of human development services. The report notes that the developed countries should substantially increase the level and effectiveness of official development assistance, and pay further attention to cooperative actions to sustain global growth over the medium term. Collective action from all countries will also be needed to further the trade reform agenda and achieve a timely and ambitious conclusion of the Doha Round. The report also emphasizes that multilateral financial institutions need to strengthen and sharpen their support to low-income countries, including by deepening their involvement in achieving the MDGs within the poverty reduction strategies (PRS) framework, adapting their instruments to better respond to the needs of member countries, providing better assistance for building capacity and institutions, and by strengthening the focus on results and accountability.

The Fund is considering how it can best position itself in the years ahead to meet the challenges of the global environment. The recent Board discussion of the Fund’s medium-term strategy revealed considerable agreement on the Fund’s core mission of promoting a healthy global financial system and sound economic policies and performance in member countries. After eliciting the views of IMFC members on the strategy at the Spring Meetings, we will identify the operational and organizational implications, including priorities and potential tradeoffs among the Fund’s main activities, in time for the 2005 Annual Meetings. In this statement, I shall summarize the Fund’s assessment of the world economic outlook and explain in more detail the Fund’s efforts to review, refine and strengthen its activities to help low-income member countries accelerate growth and make good progress toward achieving the MDGs.

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4 Global Monitoring Report 2005—MDGs: From Consensus to Momentum (SM/05/102, 3/14/05).

5 The Fund’s Medium-Term Strategy—Framework and Initial Reflections (SM/05/78, 3/04/05).
Overall Outlook and Policy Response

The global expansion remains broadly on track, with global growth in 2004 reaching its highest annual rate—5.1 percent—in nearly 30 years. This reflected strong growth in some industrial countries, and rapid expansion in developing economies, notably in China. Growth has been underpinned by supportive macroeconomic policies and benign financial market conditions. In 2005, global growth is expected to moderate somewhat to 4.3 percent, due to a narrowing of output gaps, some withdrawal of accommodative macroeconomic policies and higher oil prices.

After falling to unusually low levels in mid-2003, inflation has picked up somewhat in all regions, reflecting a combination of stronger growth and higher commodity prices. The risk of a further increase in inflation appears moderate in most countries, given ongoing monetary tightening in some industrial countries and reasonably well-anchored inflationary expectations. Financial market developments have been dominated by changing expectations about the pace and timing of monetary tightening in the United States. To date, market adjustment to the rise in long-run interest rates has been orderly.

The risks to the short-term outlook have shifted to the downside, including the possibility of a further sharp increase in oil prices, of an increasingly unbalanced global expansion, and of higher-than-expected inflationary pressures, which would affect financial market conditions, particularly in the U.S. Specifically, conditions in oil markets are likely to remain tight for the foreseeable future, with spare productive capacity at historical lows and demand continuing to rise. Moreover, the unbalanced nature of the global expansion, should it persist, could increase the risk of an earlier-than-expected slowdown of global growth. Finally, if inflationary pressures were to prove stronger than expected, this would hasten the pace of monetary tightening, with a potentially significant impact on financial markets, and especially the housing market. In any case, the inevitable transition toward higher interest rates will need to be managed through clear communication to markets to safeguard economic expansion and facilitate orderly adjustment.

A number of medium-term vulnerabilities are increasingly affecting the short-term global economic outlook. Global current account imbalances have increased further and little improvement is expected in the near future. This may increase the risk of abrupt movements in exchange rates. Also, although fiscal consolidation is underway in many countries, fiscal positions in some countries remain very difficult, posing a significant medium-term threat to macroeconomic stability. Moreover, structural weaknesses constrain growth in key areas and increase vulnerability to shocks.

The broadly favorable economic outlook provides an opportunity to address these medium-term vulnerabilities by:

- addressing global current account imbalances, including through medium-term fiscal consolidation in the United States, continued structural reform in the Euro Area and Japan to boost domestic demand and growth, further strengthening of the financial sector in Japan, and steps toward greater exchange rate flexibility in Asia;

- stepping up the pace of structural reform in developing countries so that they can increase their resilience to shocks and have more flexibility to take advantage of the opportunities

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6 World Economic Outlook: Prospects and Policy Issues (EBS/05/35, Supplement 1, 3/17/05).
provided by globalization; also, countries with access to capital markets should take advantage of the favorable conditions in these markets to further strengthen their positions;

- promoting competitiveness through opening markets via successful and appropriately ambitious trade liberalization under the Doha Round, including improved market access for developing countries; and

- strengthening medium-term fiscal positions in both industrialized and developing countries to address, among other things, changing demographics.

Regional Outlooks and Policy Response

The expansion continues to be sustained by the United States. While business investment remains strong, private consumption could slow down as the impetus from past macroeconomic policy stimulus and mortgage refinancing abate. Given relatively benign inflationary pressures, a measured pace of tightening of monetary policy in the United States remains appropriate for now. Significant fiscal consolidation will be needed to ensure medium-term sustainability and boost domestic savings for an orderly adjustment in global imbalances. The 2005 forecast for the Euro Area has been adjusted downward, as the modest recovery of the recent years lost momentum in the second half of 2004. With core inflation trending downwards, monetary policy in the Euro Area should remain accommodative until a self-sustaining recovery materializes. Also, further action will be required to redress fiscal imbalances and cope with the fiscal pressures of ageing populations. In Japan, the economy stalled for most of 2004 but a range of indicators suggests that growth should pick up in 2005, reflecting improved fundamentals in the financial and corporate sectors and in the labor markets. The upturn also provides a favorable environment for budgetary savings and further reform in the corporate and banking sectors. However, the accommodative monetary stance should be maintained until deflationary expectations are clearly dispelled.

In emerging markets, economic performance was strong in 2004.

- In Emerging Asia, growth continued to be robust, reflecting the combined influence of the global upturn, accommodative macroeconomic policies, and vigorous domestic demand growth. In varying degrees, countries may wish to continue with gradual monetary tightening, which would be more effective if accompanied by greater exchange rate flexibility. While regional growth is expected to be slightly weaker in 2005, much will depend on developments in China.

- In Latin America, growth exceeded expectations and is likely to be robust this year. The recovery was supported by a favorable external environment, sound economic policies, high commodity prices and, more recently, by an upturn in domestic demand. High external financing requirements remain an important vulnerability—particularly if global interest rates rise—that should be neutralized by reducing public debt ratios.

- In Emerging Europe, growth was at its strongest since the transition to market-based systems began and, in some countries, there may be a need in the near term to guard against overheating. For the medium term, countries need to continue structural reforms to further improve investment climates as well as competitiveness, and further develop the institutions that are needed in fully market-based economies.
In the Middle East and Central Asia, growth in 2004 was strong on the back of high energy and metal prices. In 2005, growth is expected to moderate, but the region will potentially benefit from global expansion and trade liberalization. Given the high unemployment rates in parts of the region, it will be critical to accelerate broad-based reforms to enhance the investment climate with a view to putting countries on a sustainable high growth path.

In sub-Saharan Africa, growth in the last year was at an eight-year high and the outlook continues to be strong, supported by improved macroeconomic policies, higher commodity prices, lower external debt burdens, and progress with structural reforms. While most countries continue to undertake reforms, on current trends they are likely to fall significantly short of meeting the Millennium Development Goals. They need to further their reform efforts by promoting private sector activity, developing infrastructure, and strengthening institutions.

Supporting Low-Income Member Countries

The Role of the Fund in Low-Income Member Countries

The Fund remains fully engaged in efforts to help low-income member countries increase growth, reduce poverty, and achieve the MDGs. As an international financial institution with near universal membership, the Fund is in a unique position to help implement the Monterrey Consensus. The Fund assists its low-income members in establishing macroeconomic and financial stability and building institutions in its core areas to foster sustainable growth and poverty reduction. The Fund’s support includes policy advice, capacity building, and financial assistance. In addition, the Fund is a strong advocate for more and effective international support to low-income countries, and plays a role in its coordination.

In September 2004, the Board identified various issues related to the Fund’s role on which further work was needed before conclusions could be reached. Recent work has focused on operationalizing the framework for achieving the MDGs, strengthening the instruments for engaging with low-income members, and helping members achieve and maintain debt sustainability. However, it has become increasingly clear that the various elements of this work will require a comprehensive approach. For example, recent discussions regarding further debt relief have raised significant questions relating to cost and possible sources of financing, possible implications for future PRGF operations, and the ongoing needs of low-income members. Thus, a key priority for the Fund in the coming months will be to unify the work on the Fund’s involvement in the PRSP process, PRGF program design, signaling, and debt relief in a single framework, which will further clarify the Fund’s role in low-income countries.

Supporting Low-income Countries’ Efforts for Achieving the MDGs

This year’s Global Monitoring Report (GMR) noted that, despite the improved growth performance, meeting the MDGs will be an enormous challenge for most countries—especially in Sub-Saharan Africa. Thus, bold actions are urgently needed if these development goals are to be realized. The report emphasizes a five-point agenda of accelerated and concerted actions by developing and developed countries:

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7 IMF Executive Board Reviews the Role of the Fund in Low-Income Member Countries, Public Information Notice (PIN) No. 04/110, September 30, 2004.
• Anchor actions to achieve the MDGs in country-led development strategies, which should set medium-term targets for progress toward the MDGs and link them to medium-term budget frameworks;

• Improve the environment for stronger, private sector-led economic growth;

• Scale up human development services through a major expansion of education and health services and of water and sanitation infrastructure;

• Substantially increase the level and effectiveness of aid; and

• Dismantle barriers to trade, improve market access, and reach a timely conclusion of the Doha Round.

The Fund, within its mandate and expertise, stands ready to help turn the recommendations of the report into reality. The Fund is already working, with other development partners, to ensure that the PRS approach provides an operational tool for implementing and coordinating efforts to foster growth, poverty reduction, and progress towards the MDGs. The Fund’s involvement in the PRS process is an important factor shaping the Fund’s policy advice. In this context, operational changes have been made to enhance the effectiveness and country ownership of poverty reduction strategies. To enhance further the operational dimensions of the PRS approach, the Fund, together with other development partners, is preparing an in-depth review of the approach that will draw lessons from the experience of countries in implementing poverty reduction strategies and of donors in supporting these efforts.

The Fund is also working with low-income country members and the international community to put in place appropriate policies, and build capacity and institutions. The Fund has been helping countries maintain macroeconomic and financial stability through policy advice, technical assistance, and financing. Currently, there is a particular focus on the challenges of managing a significant scaling up of foreign assistance. The Fund continues to assist countries in building sound institutions, which strengthens the capacity of the public sector to mobilize domestic revenue and improve budgetary management, which are essential for scaling up public services. Moreover, the Fund is helping member countries improve governance, including legal and regulatory reforms in its area of expertise, which is important for a vibrant private sector. The Fund is also helping its members to observe best practices in fiscal transparency, including through the Extractive Industries Transparency Initiative.

**Modalities for Financing the MDGs**

Financing for the MDGs figures prominently on the international agenda this year, especially as the international community prepares for the United Nations Summit on the Millennium Development Goals, to be held in September. The Global Monitoring Report concludes that official development assistance (ODA) remains well below the level that developing countries need and can use effectively. It notes that ODA should be at least doubled in the next five years to support the MDGs, particularly in low-income countries and Sub-Saharan Africa—through expanding aid budgets and exploring other

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innovative mechanisms. However, the pace of the scaling up of aid should be aligned with recipients’ absorptive capacity. Equally important is improving the quality of aid by making firm implementation of the Paris Declaration on Aid Effectiveness a central part of the agenda. As higher aid inflows could pose significant macroeconomic challenges for recipient countries, the Fund is playing its part by looking closely at ways of helping developing countries manage such inflows.

The most effective way to generate additional resources for the MDGs would be for donor countries and multilateral institutions to increase their ODA contributions. However, if the international community is unable to achieve a sufficient increase in development financing through current avenues, consideration should be given to alternative mechanisms, including innovative modalities such as the International Finance Facility (IFF) and global taxes. At the request of the Development Committee, a paper was prepared by the Fund and World Bank staffs that reports on progress in taking these mechanisms forward. It notes that it is essential that any alternative financing mechanism should increase total development aid, rather than simply crowd out contributions from current sources. There may be potential for some of the alternative mechanisms proposed to increase aid volumes given sufficient political support, but many operational hurdles, including some legal issues, would need to be resolved.

Refining the Fund’s Policy Advice and Strengthening its Instruments

The Fund’s 2004-05 conditionality review identified important lessons for the Fund’s policy advice to low-income member countries. In particular, the review noted that greater attention needs to be given to the impact of exogenous shocks on external adjustment and debt sustainability, and to the appropriate financing mix for low-income countries. This analysis will be complemented by the review of PRGF program design currently underway. The latter review, which will be discussed by the Board in mid-2005, will consider the linkages between institutions and growth, examine monetary and fiscal policy design in countries where stabilization has been achieved, and investigate the macroeconomic challenges of managing increases in aid flows. A pilot project is already underway to develop alternative macroeconomic scenarios for individual countries based on different projections of aid flows.

Emergency assistance for natural disasters: The Executive Board agreed in January 2005 to subsidize emergency assistance for natural disasters to PRGF-eligible members. Members that have previously received emergency assistance for natural disasters, but have not yet fully repaid such assistance will be able to benefit from this initiative, as well as members affected by the recent tsunami who have used such assistance. To help these latter members and others affected by the tsunami, the Fund moved quickly to provide an assessment of the macroeconomic impact of the natural disaster. These efforts also facilitated the Paris Club creditors’ recent decision to provide a one-year moratorium on debt service.

Shocks Facility: Following interest expressed by Ministers, options are also being explored to help low-income countries without PRGF arrangements adjust to exogenous shocks.

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10 Moving Forward—Financing Modalities Toward the MDGs (SM/05/104, 3/17/05).

11 Aid Effectiveness, and Financing Modalities (SM/04/329, 9/22/04). Also, Moving Forward—Financing Modalities Toward the MDGs (SM/05/104, 3/17/05).

12 IMF Executive Board Approves Proposal to Subsidize Emergency Assistance for Natural Disasters for PRGF-Eligible Members, Public Information Notice (PIN) No. 05/8, January 27, 2005.
Post-program monitoring and Access: The Executive Board adopted in March 2005 a decision extending post-program monitoring to PRGF resources. As part of the implementation of the Executive Board’s decision to adopt norms for tapered access to PRGF resources under successive arrangements, operational guidance has been finalized clarifying the policy on blended use of PRGF resources and resources from the General Resources Account, and on the augmentation of PRGF arrangements in response to shocks.

Signaling: Understanding how the Fund delivers signals to countries, donors, and markets about low-income members’ policies is important to ensure that the Fund has the appropriate instruments to assist low-income members. A paper that explores the scope for improving the Fund’s signaling in low-income countries is being prepared for discussion after the Spring Meetings. It draws on extensive consultations with donors and low-income members on their needs, outlines current practice and experience, and considers whether there is scope for improvement, either by modifying existing arrangements or through new instruments. In addition, another paper is being prepared which will consider how to strengthen the Fund’s role in donor coordination within countries in support of PRSP.

PRGF Financing Needs: In order to maintain adequate capacity of the PRGF instrument to meet future needs, work is underway on estimating the financing requirements of the PRGF beyond 2006, and on assessing the available resources. Both will be influenced by a number of related considerations, including the possible provision of further debt relief beyond HIPC and proposals for new instruments to assist low-income countries. The Executive Board will return to the issue of the future financing needs of the PRGF and options for moving toward a self-sustaining PRGF later this year.

Debt Relief and Debt Sustainability

Further progress has been made in implementing the enhanced HIPC Initiative. Since September 2004, 4 more countries—Honduras, Madagascar, Rwanda, and Zambia—have reached the completion point, bringing the total to 18 countries. In order to give additional countries the opportunity to benefit from HIPC debt relief, the Executive Boards of the Fund and the World Bank decided in September 2004 to extend the sunset clause under the HIPC Initiative to 2006 and to ring-fence its application to low-income countries with unsustainable debt as of end-2004. As part of the next report on progress in implementation of the Initiative, staff will present a preliminary list of countries that meet the criteria, with the objective of extending the Initiative’s coverage, while preventing it from becoming a permanent facility.

However, to preserve the potential benefits of debt relief, especially in light of many low-income countries’ ongoing financing needs, it will be critical to help countries avoid excessive borrowing. This is the purpose of the new debt sustainability framework for low-income countries initially discussed by the Executive Boards of the Fund and the World Bank last year. At that time, the key elements were endorsed, including a standardized forward-looking analysis of debt and debt service indicators, an assessment of sustainability informed by indicative policy-dependent debt burden thresholds, and a consistent financing strategy. Since then, work has continued on the details of the debt-burden thresholds to be used and the modalities of collaboration between the two institutions in deriving a common assessment of sustainability. Revised debt-burden thresholds and the modalities for Fund and World Bank collaboration were agreed upon during a Board meeting on April 11, 2005.

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13 Extension of Post-Program Monitoring to Cover the Use of PRGF Resources (SM/05/86, 3/14/05).
Beyond this, at the last Annual Meetings, Ministers called on the Fund to consider further debt relief and its financing. Since that time, some countries have expressed their support for providing as much as 100 percent multilateral debt relief on a case-by-case basis. The Executive Board held a seminar in March to consider how debt relief can play a role in helping low-income countries tackle their problems and progress toward the MDGs. Further debt relief would ease concerns about debt sustainability while attracting additional financing to achieve the MDGs, and would also provide predictable resources with low transaction costs. However, debt relief is only one way to use scarce resources, and it is one that allocates them on the basis of past borrowing rather than current policies or needs. Therefore, the benefits of debt relief need to be weighed against other potential uses of scarce resources. Executive Directors stressed that the Fund should only provide further debt relief in the context of a broader international initiative, without jeopardizing future PRGF lending operations, and not without first securing adequate financing of its contribution. This is especially important as the Fund’s commitments under the HIPC Initiative are not yet fully funded.

Doha Negotiations and the Trade Integration Mechanism

An ambitious and timely conclusion to the Doha Round remains one of the most obvious contributions that could be made to bolstering global growth, including for low-income members, over the medium term. At last year’s Annual Meetings, Ministers stressed the need to translate agreed WTO frameworks into tangible results. Since then, the Fund has examined the trade-related challenges facing its members, and associated Fund policy advice. Achieving a successful outcome of the Doha Round requires commitment by developed and developing countries. In recognition of the potential adjustment costs in some developing countries and the broader need for appropriate complementary policies, Fund activities in support of trade adjustment have been significantly strengthened.

The Fund’s Trade Integration Mechanism (TIM) was developed in 2004 to help provide financial assistance to members facing balance of payments pressures resulting from multilateral trade reforms. Bangladesh and the Dominican Republic have received support under the TIM, and discussions are underway with several other countries. The Fund has also sharpened its surveillance of countries with potential trade-related vulnerabilities and continues to provide technical assistance in this area. Looking forward, we are examining the use of floating tranche under Fund arrangements to support trade reforms. We are also working with our partners in the Integrated Framework in order to further strengthen its ability to serve as a mechanism enabling increased donor support for trade adjustment while ensuring country ownership and donor coordination.

Voice and Participation of Developing Countries and Countries in Transition

The Fund continues to consult with its shareholders toward needed consensus on the critical questions of quota, voice, and participation. In recent discussions of the Fund’s medium-term strategy, Directors agreed that voice and participation issues should remain a key element of the strategy going forward, and that the period of the 13th General Review of Quotas would provide an important opportunity to make progress on these issues. Given the different positions and perceptions of members in this area, Directors agreed that the Fund’s membership must consider closely and in a cooperative manner how best to take these issues forward. Many Directors suggested that this also include exploring prospects for pursuing various suggestions that would facilitate progress even in the absence of a general increase in Fund quotas.

\[15\] Review of Fund Work on Trade (SM/05/47, 2/7/05), and The Acting Chair’s Summing Up (BUFF/05/45, 3/15/2005).
Highlights of Ministerial Statements

Statement by Mr. Trevor Manuel, Chairman of the Development Committee, Minister of Finance of South Africa

Global Monitoring Report 2005: From Consensus to Momentum

There is a broad consensus among the international community on what needs to be done to reach the Millennium Development Goals. Ministers view 2005 as a decisive year for all parties to the Monterrey Consensus to consolidate their shared vision of development and strengthen their resolve to achieve the MDGs by 2015. Ministers welcome the second Global Monitoring Report (GMR), which recognizes the encouraging progress made and the sobering challenges ahead. They commend the quality of the analytical work presented and endorse its main messages.

Five-Point Agenda

Ministers broadly support the GMR’s five-point agenda, describing it as a realistic, pertinent, and comprehensive set of steps which, if countries accept its implications, can pave the way for the attainment of the MDGs. They agree that the key for future prospects is implementation, an area where political will as well as resources are crucial.

Anchor Actions to Achieve the MDGs in Country-led Development Strategies

Ministers welcome the emphasis on anchoring actions to achieve the MDGs in country-led development strategies. Ownership gives countries the freedom to choose their own path to development. Country ownership of reform programs also signals the seriousness of a country’s development vision, which stimulates public and private investment flows. Ministers stress the importance of each country’s setting practical goals toward achieving the MDGs, set out in their own poverty reduction strategies.

Improve the Environment for Stronger, Private Sector-led Economic Growth

Ministers agree that economic growth is the key to poverty reduction. They note that growth in developing countries overall has improved, and last year it reached its highest in three decades. Macroeconomic management improved in all regions and budgetary allocations for health and education have increased.

Ministers support the actions proposed to improve the climate for broad-based, private sector-led growth, including, inter alia, improving macroeconomic management, strengthening fiscal management, removing regulatory constraints, modernizing infrastructure, respecting property rights and the rule of law, liberalizing trade policies, improving governance, and combating corruption.

Ministers call on developing countries to create the conditions for economic growth, and on donors to support developing countries’ efforts to implement reforms. They applaud the Bank’s increased attention to investment climate issues through its analytical work and its lending and policy advice. They urge the Bank to give this issue even greater priority in the future.

Scale Up Human Development Services

Ministers agree that effective service delivery is essential for achieving the human development goals of health, education, and gender equality. Many Ministers underscore the urgent need for flexible and predictable financing for building health and education systems. They note the disconnect between
the need for financing for recurrent costs and the modality of aid, including aid delivered in the form of technical assistance. Ministers agree that providing aid in the form of budget support should be related to the country’s capacity to manage the funds transparently.

Ministers stress the need to build capacity in order to improve public service delivery, particularly in Sub-Saharan Africa, where 2/3 of all people with HIV/AIDS reside. They urge the Bank to help countries eliminate user fees in education and primary health care, which can greatly improve education and health outcomes.

**Dismantle Barriers to Trade**

Ministers highlight the crucial role of improved market access for developing countries in boosting economic growth. They concur with the report’s recommendation that multilateral, reciprocal, non-discriminatory trade liberalization offers the best way for all countries to win from trade. They urge developed countries to lead by eliminating subsidies and reducing other trade-distorting barriers in heavily protected agricultural markets, which would boost GDP in low-income countries by around 2 percent.

Ministers stress the need for specific solutions to help developing countries reap the benefits of trade. These include helping countries that lose the advantages of tariff preferences granted to the poorest countries, simplifying rules of origin, encouraging South/South trade, increasing aid for trade, promoting financial sector liberalization in developing countries, and mainstreaming trade-related capacity building. Ministers encourage the Bank’s efforts to step up its work in support of trade capacity building, intra-regional trade, trade facilitation, and infrastructure development.

**Substantially Increase the Level and Effectiveness of Aid**

Ministers reiterate their call to developed countries to fulfill their commitments to the Monterrey agenda by doubling ODA in the next five years. Noting that many developing countries have increased their absorptive capacity considerably and that capacity can be increased further, they believe that absorptive capacity should no longer be cited as a reason for slowing the scaling up of aid. They welcome the conclusion of IDA14, the largest-ever replenishment. They note the progress made by some developed countries toward the 0.7% of GNI target.

Ministers endorse use of IDA grants for countries at risk for debt distress. Several Ministers also welcome the report’s emphasis on developing countries mobilizing more domestic resources to support growth and progress toward the MDGs and other non-debt, non-aid flows, to anchor future structural reforms. They also stress that the quality, timeliness, and effectiveness of financial flows for development are as important as their amount.

Ministers welcome the GMR’s useful recommendations on improving the effectiveness of aid. These include implementing donor commitments on harmonization and alignment with country-owned development strategies, untangling aid, providing aid in the form that it is most needed, including to cover recurrent costs, reducing conditionality, lowering transaction costs, and monitoring progress on poverty reduction.

**Priorities for International Financial Institutions**

Ministers agree with the priorities for action spelled out in the GMR and stress the pivotal role of IFIs in supporting developing countries’ efforts to meet the MDGs. Ministers are encouraged by the progress made on the Bank’s modernization and simplification agenda. They emphasize the need for
additional work to coordinate and harmonize donor processes and operations to lessen the financial and administrative burden on clients. They call for clearer definitions of the roles of each IFI and stronger accountability for their internal use of resources.

Additional strategic challenges for IFIs highlighted by Ministers include the continuing negative net flows to IBRD, suggesting that the Bank should do more to reduce transaction costs; the need to find better ways of assisting LICUS countries; and the need to further pursue and strengthen the orientation of their global programs, such as support for energy efficiency and renewable energy. Ministers endorse the institutions’ paying more attention to the specific needs of client countries, including middle income countries. They look forward to additional resources being extended to help overcome the shortfall that countries face in achieving the MDGs.

The Challenge of Africa

Ministers support the focus of the international development community on the challenges faced by Sub-Saharan Africa. They find the five-point agenda to be especially appropriate for Africa, where the challenges of reaching the MDGs are greatest. They commend recent strides made by many African countries, including faster growth, single-digit inflation, improved governance, and increased political stability. However, despite the progress that has been achieved, including on policy performance, Africa will be the only region that is off-track on all MDG targets and where the number of the poor in 2015 is expected to increase instead of fall.

Ministers applaud the Bank’s role in promoting economic growth in Africa and welcome IDA’s decision to continue to allocate half of its resources to benefit Africa during the IDA14 period. They broadly agree that more aid is needed to reduce poverty in Sub-Saharan Africa, and that broad-based economic growth, based on private sector development, is necessary. This requires improving the investment climate and developing infrastructure.

Guidance on Future Global Monitoring Reports

Ministers strongly support continuing the GMR, which they see as a useful tool to monitor the commitments made at Monterrey. Some Ministers prefer that it focus on specific issues that can be implemented quickly while maintaining the broad picture of the global development agenda. The focus of each year’s GMR should be informed by the progress toward the MDGs. Ministers’ suggestions include giving equal emphasis to problems facing every region, paying more attention to environmental issues, better explaining the lessons learned from working with LICUS, and devoting next year’s GMR to public sector financial management and anti-corruption. A Minister suggests that the report would benefit from a clearer account of the actions taken during the previous year and more detail on what is expected of each party to the Consensus by 2015.

Other Issues

Infrastructure: Ministers emphasize the central role of infrastructure in enhancing growth prospects, improving the investment climate, and accelerating poverty reduction. They applaud the shift in the Bank’s approach to infrastructure, emphasizing service delivery, pro-poor growth, and balance between private and public sector financing. They stress the need for vastly increased investment in infrastructure in both low-income and middle-income countries in order to achieve the MDGs.

Middle Income Countries: Some ministers stressed the importance of development in middle income countries, including for progress on the MDGs and global public goods, and urge the Bank to strengthen its policy and overall support for these countries.
**Small States:** Some Ministers stress that efforts to advance the development agenda should take into account the special challenges of small states. They welcome management’s commitment to undertake knowledge activities and increase regional approaches, and they urge further efforts to attract the best staff to work on small states.

**Financing the Development Agenda**

Ministers acknowledge that mobilizing sufficient resources to support development programs remains a pressing challenge. They urge developed countries to honor their commitments to increase ODA to 0.7 percent of GNI. They welcome the positive conclusion of the IDA14 negotiations, and commend the commitments of the Paris Declaration to improve the quality of aid. They endorse the report’s suggestion to developing countries that they exert stronger efforts to mobilize more domestic resources and that they implement reforms that enhance their ability to attract private, non-debt capital flows. They note the importance of remittances as a source of external financing and welcome the Bank’s role in seeking ways to enhance the development impact of remittances flows and its research on remittances and migration flows.

**Progress on the Doha Round**

Ministers share the Bank’s priority for rapid completion of the Doha Round. In parallel to the Doha Round, they urge a collective commitment to trade liberalization as an integral component of facilitating private sector-led growth and a key building block for financing development. A good agreement that lowers tariffs and non-tariff barriers in both developing and developed countries could lift some 140 million people out of poverty and generate up to US$600 billion in additional income worldwide. They urge the Bank to continue its research and advocacy work in support of a constructive, pro-development outcome to Doha and to continue to strengthen its “aid for trade” activities.

**Additional Debt Relief**

The HIPC Initiative has done much to rid the world’s poorest countries of their debt burdens, but more can and should be done. Echoing the GMR, Ministers urge closer on current proposals for additional debt relief in 2005. They call for full financing and implementation of HIPC. If it is necessary to extend debt relief beyond HIPC, it should be guided by the principles of additionality, preservation of the financial viability of IFIs, conditionality to avoid moral hazard, and coherence with the new debt sustainability framework. Many Ministers call for additional debt relief by IDA, other multilateral development banks, and possibly the IMF. Some Ministers propose that debt relief be available to all IDA-only countries, which would guarantee equal treatment, and that it be provided only to countries with sound budget policies. They stress that debt relief should be additional to other funding and should be financed through new resources and should not erode the financial viability of the IFIs.

**Debt Sustainability**

Ministers stress that debt sustainability is an important part of the broader debate on global financing for development. They welcome the new Bank-Fund Debt Sustainability Framework. Some Ministers are of the view that the shift toward greater use of grant financing by IDA and AfDF, together with relief of 100 percent of debt stock relief of IDA and AfDF obligations for HIPC countries will put poor countries on a sustainable path without risking the capacity of IFIs to provide net resource transfers to good-performing countries going forward.
Responding to Exogenous Shocks

The tsunami disaster exemplifies the vulnerability of many developing countries to natural disasters. Ministers welcome the Bank’s efforts to mainstream disaster risk reduction into CASs and the steps taken to promote its integration into PRSs. They also welcome the Bank’s role in helping members respond to shocks with a view to developing proposals for discussion at the IDA14 mid-term review.

Innovative Financing Mechanisms

The strong consensus in the international community that more aid is needed to achieve the MDGs, coupled with the slow progress in raising and delivering adequate amounts of ODA, has prompted the exploration of innovative financing mechanisms to fill the financing gap. Ministers welcome these proposals but remain divided on the timeliness and feasibility of their implementation.

International Finance Facility: Ministers commend Bank and Fund staff for the thorough analysis of the IFF. Several Ministers believe that enough preparatory work has been done for the IFF to be launched this year, whereas some other Ministers believe that important issues remain to be fully analyzed. Many Ministers note the pilot International Finance Facility for Immunization (IFFIm), which will test the feasibility of the IFF mechanism.

Global Taxation: Several Ministers endorse the idea of global or internationally coordinated taxes, including an international solidarity tax on aviation fuel, which they believe is technically feasible and would add to development resources. Other Ministers point out that these ideas still lack the necessary political support, and their adoption could result in higher costs for developing countries by negatively affecting travel and tourism.

Voluntary Contributions: Ministers note that the extraordinary outflows in response to the tsunami disaster demonstrate the potential for voluntary contributions, although the issues of predictability and alignment with development priorities have yet to be addressed.

Blending Arrangements: Ministers support further development of blending arrangements, which enhance the responsiveness and flexibility of ODA increases the leverage of development funding. They can be tailored to fit different country circumstances, and can help to bring about greater donor harmonization and collaboration. Some Ministers urge the Bank to set up a specialized “third window” to scale up this blending strategy in low- and middle-income countries.

Voice and Participation of Developing and Transition Countries

Ministers favor enhancing the voice of developing and transition countries in accordance with the Monterey Consensus. They note progress on a number of practical reforms, such as the establishment of the Analytical Trust Fund, the Bank’s secondment program, the country-owned poverty reduction strategy approach, greater decentralization, capacity building in Executive Directors’ offices, and improved Board effectiveness. However, many Ministers recognize that the structural aspects of voice and participation of developing and transition countries must remain on the agenda of Bretton Woods institutions. Other initiatives mentioned that would enhance participation include the addition of new positions to multi-country chairs, the creation of a second alternate executive director for multi-country chairs, the extension of mandates for executive directors, greater diversity in the ranks of senior management, and an overhaul of human resource management policies and practices.

Ministers agree that broadening and strengthening the participation of developing and transition countries in the decision-making process at Bretton Woods institutions is an important principle of the
Monterey Consensus and is vital to retaining the Bank’s credibility. Many Ministers call for a resolution of the outstanding issues related to quota and share allocations. Some believe that the IMF quota formula should be simplified and urge the Fund to take bold steps in this direction. Consistent with past practice, they believe that changes at the IMF and the Bank should occur in parallel, and that the forthcoming IMF quota review should be taken as an opportunity to make progress.

Many Ministers advocate an increase in basic votes for developing and transition countries. Some Ministers suggest increasing the use of the special majority of 70 percent to approve decisions on policy issues, and introducing “double majorities” for decisions on operational or staffing matters. Ministers support the efforts of the Development Committee to work continuously on this issue and urge the Boards of Bank and the Fund to come up with feasible options to enhance the representation of developing and transition countries.
Prepared Statements Circulated by Members

Statement by Mr. Ahmed bin Mohammed Al Khalifa, Minister of Finance, Bahrain

Five years after the adoption of the Millennium Declaration by the UN Summit the year 2005 is rightly seen as pivotal for stocktaking and charting the way ahead in the efforts to achieve the Millennium Development Goals which have been at the center of the global development agenda since then. Several aspects of this agenda are being subject to substantive reports and discussions at various international fora that will culminate later in the year at the UN Summit in September and the December meeting on the Doha Round.

The Global Monitoring Report exercise, which is the main topic of our deliberations today, is to be seen in this wider context and in this respect the Report should make a vital contribution to the ongoing global dialogue. We commend the quality of the analytical work that has been presented to us and endorse its main messages.

We share the main message that, notwithstanding the progress that has been made, the prospects of achieving the MDGs, especially for Sub-Saharan Africa and for social targets, are at serious risk and there is a pressing need to accelerate progress and generate momentum for implementation of the Monterrey Consensus. We also share the contention that at stake are prospects not only for hundreds of millions of people to escape poverty, disease and illiteracy, but also prospects of the long-term objectives of security and peace that are linked with development.

To scale-up efforts to achieve the MDGs we particularly commend the suggested five-point agenda that sets a comprehensive array of concerted actions for both developing and developed countries. The agenda includes all the familiar areas that have been at the core of development cooperation and are likely to remain so for a long time to come. What the GMR contributes is a solid analytical underpinning, a wealth of country experiences and a clear indication of areas where progress has not and will not be adequate unless a new momentum is generated. The key for future prospects is implementation, an area where political will as well as resources are obviously crucial.

On the first three points in the agenda, country-led strategies, private sector-led growth and human development services, developing countries have taken substantial actions to improve policies and managed to achieve important gains. Indications of such progress include the increasing number of countries, especially in Sub-Saharan Africa, which have been adopting Poverty Reduction Strategies. Growth in developing countries has improved and last year it reached its highest in three decades. Macroeconomic management improved in all regions and budgetary allocations for health and education have increased.

Improvement in policy performance in developing countries has been understandably uneven and there are still large gaps. But the response from developed countries has also fallen far short of expectations on both trade and aid, the other two components of the five-point agenda. On trade, despite the substantial gains that may accrue for both developed and developing countries from the ambitious Doha Round, there is now a significant risk, as the Report rightly warns, of a limited outcome that would greatly reduce the scope for increased trade to help achieve the MDGs.

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16 On behalf of Bahrain, Arab Republic of Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Republic of Yemen.
Similarly, and notwithstanding recent improvements in ODA commitments and the heightened donor attention to aid quality, development aid has been far short of what can be effectively used and what has been envisaged at Monterrey. This is at a time when even the doubling of ODA would represent only 0.2 percent of high-income country national incomes. No one would suggest that it is easy for these countries to move dramatically on the trade and aid fronts, given the substantial political support that needs to be mustered, but hopefully the momentum of this year will lead to tangible progress, especially for setting timetables for achieving the 0.7 percent ODA target. Otherwise the credibility of the Monterrey compact will be increasingly compromised.

Such tangible progress is particularly needed for Sub-Saharan Africa which is rightly at the focus of this Report. What is particularly disturbing is that despite the progress that has been achieved, including on policy performance, it will be the only region that is off-track on all MDG targets and where the number of the poor in 2015 is expected to increase instead of falling. The challenges that face the region in order to achieve the MDGs are immense, including the doubling of GDP growth over the next decade, and the need to mobilize additional external financing. We endorse the particular attention to the region, including the work of the Commission for Africa.

We welcome the more extensive coverage of the role of Multilateral Development Banks in the present Report, something which was keenly needed. These institutions have a crucial role in helping countries achieve the MDGs in view of their operational country experience, financial resources and analytical capacity. The analysis rightly covers the institutions’ approaches to country ownership of strategies, financial support and capacity building support. We particularly endorse the institutions paying more attention to specific needs of client countries, including middle income countries. We look forward to additional resources being extended to help overcome the shortfall in resources countries face in achieving the MDGs.

Finally, financing of the development agenda remains a significant challenge and there is a need for a concerted effort by all development partners on all the main sources of financing, especially official development assistance, domestic resources, private flows, trade as well as remittances flows. We commend the recent agreement on IDA14 replenishment and the commitments of the Paris Declaration to improve the quality of aid. We also point out to the aid efforts of donor countries in our region and to the continued flow of remittances that they facilitate. We also welcome the further analytical work that our two institutions have submitted to us on new financing modalities. In this respect we remain doubtful on the prospects of taxations mechanisms in view of the difficult conceptual and operational issues they raise. On the other hand, the proposed International Financing Facility, though not free of difficulties, might provide some good prospect for meeting immediate needs and we look forward to the work on the pilot facility for immunization that is being worked on.

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

I would like to extend thanks and gratitude to Mr. Wolfensohn in recognition of his excellent leadership of the World Bank Group and for the many contributions he has made, over the past ten years, in pushing the development agenda forward. I would also like to welcome Mr. Paul Wolfowitz, as the next President of the World Bank, and wish him success in leading an enhanced fight against poverty.

Turning to the main agenda item: The Global Monitoring Report 2005 (GMR). I fully support the report’s main message on the need to build momentum to meet the Millennium Development Goals (MDGs), especially given the fast approaching 2015 deadline. The GMR presents a candid account of the challenges facing all parties to the Monterrey global compact. Clearly, the report is less upbeat than other
recent reports\textsuperscript{17} about the prospects for meeting the MDGs, especially in Africa, and hence is more realistic about the work that lie ahead, not least the need to secure the needed additional resources and using them more effectively.

I commend this focused and action-oriented report and agree with its five-point agenda recommendations, which constitute in my view a solid basis for moving forward. The proposed priorities for action are very pertinent, namely: country-led development strategies; private-sector led economic growth; scaled-up service delivery; ambitious outcomes for the Doha Round; and increasing the level and effectiveness of development assistance, including the role of the International Financial Institutions. However, and to help sharpen accountability, the report should have benefited from a clearer account of what actions were taken over the past year, and perhaps further details on what is expected from each party to the consensus by 2015. We should not lose sight of the reputational risk for all involved if progress towards the goals goes seriously off-track.

Developing countries should shoulder the bulk of the responsibility in creating the conditions for economic growth. Favorable global economic conditions, better macroeconomic policies and improved governance helped developing countries across the world achieve record economic growth performances over the past couple of years. Sustaining this performance is of the essence to many developing countries’ ability to break the poverty trap and achieve their development potentials. The report presents a very convincing case in this regard and I fully concur with the list of policy recommendations to be undertaken by developing countries in order to sustain episodes of growth acceleration, including deepening progress on macroeconomic progress, improving the enabling climate for private sector activity and strengthening public sector governance. The challenge, however, lies in ensuring successful implementation. Country specific-priorities and well-sequenced policies that account for the country’s political economy and social context have a chance of yielding results. The responsibility of donors is to support countries meet these implementation challenges.

Developed countries should be more accountable for pushing trade liberalization forward. The GMR correctly frames the issue by emphasizing the importance of realizing the development promise of trade and of aiming for a successful Doha Round. These are in my view necessary conditions for the developing countries’ efforts to spur and sustain economic growth. The GMR indeed confirms that an ambitious Doha Round offers a potential boost of 2 percent GDP growth in low income countries, and above 1.3 percent for Sub-Saharan Africa. This is a great opportunity and developed countries should take the lead in moving the trade agenda forward. So far, developed countries’ efforts to pursue a freer multilateral trading system that benefits all fell short of expectations. Agriculture subsidies, high tariffs and non-tariff barriers are still impeding a freer movement of goods and services and developing countries are disproportionately affected. I therefore support the GMR’s reference points for achieving an ambitious Doha Round, including reducing all agricultural tariffs to no more than 10%, eliminating all agricultural subsidies, eliminating all tariffs on manufacturing products; and ensuring free cross-border trade in services.

Improving trade policies in developing countries themselves is also crucial for the attainment of trade liberalization benefits. Therefore, more should be done to improve the productivity of developing countries’ producers and their access to markets. I find the GMR’s arguments for the need to channel more aid for trade very pertinent. In this regard, I welcome the work done by the World Bank in expanding its activities and support for trade, including by helping countries improve their trade policies and build trade infrastructure facilitation. The IMF’s \textit{Trade Integration Mechanism} is also very useful in

\textsuperscript{17} The Sachs’ Report: “Investing in Development: A Practical Plan to Achieve the Millennium Development Goals” and the UK’s Commission for Africa Report.
addressing concerns about the balance of payments impact of trade policy changes. Complementarity of such actions is of the essence to their effectiveness. I therefore welcome the establishment of the Integrated Framework for Trade Related Technical Assistance. If implemented properly, this framework could serve as a platform for greater coordination and harmonization of donors’ efforts and place all forms of assistance for trade reforms within the broader context of a country’s development program.

More effective aid is a necessary complement to developing countries’ efforts to grow their way out of poverty and meet the MDGs. The recovery in aid volumes starting in 2001 is welcome and the prospects for further strengthening are promising if more donors follow-through with their commitment to reach the target of 0.7 percent of GNI to ODA. Equally important is the need to ensure that increases in aid volumes are commensurate with progress in making already available aid more effective. In this regard, the report is very clear about efforts made to improve aid effectiveness. However, the case could be made stronger with more information on the effectiveness of already available aid, in terms of its actual impact on the ground. The presented framework for measuring and monitoring progress with the alignment, harmonization and results agenda is welcome. What is also needed is an assessment of progress in improving aid effectiveness from an outcome perspective, not just from an input perspective as it is the case with all the proposed actions to harmonize, align and improve the selectivity, flexibility and predictability of aid. In this regard, I look forward to more progress in implementing the global results agenda.

I welcome the update on the various stages of progress with the proposed ideas for alternative financing modalities. Nonetheless, and contrary to the implication given by the title of the document circulated for our attention on this subject: “Moving Forward: Financing Modalities towards the MDGs”, most of the proposals are not ready to be moved forward. Certainly, progress has been made in advancing the International Finance Facility (IFF) proposal. The proposed pilot IFF for Immunization is a worthy undertaking, which could prove useful in addressing many of the technical, operational and governance difficulties facing the initiative. However concerns about future aid flows (beyond 2015) and compatibility of the facility with many countries’ fiscal and legal systems remain to be resolved.

Even less convincing are the controversial ideas on Global Taxes. It is clear that most of these ideas are still lacking the necessary political traction to move them from the realm of ideas into that of actions. These proposals are difficult to implement. Moreover, the adoption of some of them, such as the tax on aviation fuel, could be burdensome on developing countries as the resulting higher transport costs might in the long-run negatively impact travel and tourism activities in these countries. Such options run counter to the spirit of the Monterrey Consensus, which explicitly stated that: “We recognize the value of exploring innovative sources of finance provided that those sources do not unduly burden developing countries”. Therefore, until we have certainty that such proposals do not unduly burden developing countries, it would be ill-advised for us to recommend action.

Other ideas for innovative financing, such as Voluntary Contributions and Blending Arrangements may have greater potential, although issues of predictability and alignment with the development agenda are yet to be addressed in the context of voluntary contributions. Remittances, although facing the same challenges, also offer great potential as a more effective channeling mechanism for private flows towards productive investments, including small- and medium- enterprises. Experience in Saudi Arabia, the second largest remittance source in the world, on what could be done to help facilitate the movement of funds in a timely and transparent way, is a success story that could be emulated.

Debt relief is another form of aid that could be effectively used to help countries increase fiscal space for spending on infrastructure and important social programs. I therefore welcome the progress in moving the HIPC initiative forward and that it is helping many countries deal with crippling debt stocks.
However, successful resolution of the debt overhang needs to be supplemented by careful management of new debt flows to ensure debt sustainability. And in this connection, I find the joint work by the Bank and the Fund on a Debt Sustainability Framework to be a step in the right direction as it would help guide low income countries borrowing decisions. The success of this new framework, however, requires that it be owned by all relevant stakeholders: borrowers and multilateral, bilateral, and commercial creditors. In this context, I would also encourage Bank and Fund staffs to continue their joint efforts to find practical and affordable solutions for low income countries as they deal with exogenous shocks and their negative repercussions.

International Financial Institutions (IFIs) play a pivotal role in supporting developing countries’ efforts to meet the MDGs. More needs to be done within and among IFIs, to better coordinate and harmonize processes and operations to lessen the burden of doing business for clients and increase the appeal of their services and products. Progress with the World Bank’s modernization and simplification agenda is encouraging and needs to be sustained. The aim is to ensure that clients receive better quality services at a lower cost, which would in turn translate into a higher demand for Bank services, including lending. Hence, the need for further legitimizing the Bank’s role and strengthening its finances by ensuring more stable income streams in the future.

Finally, I would like to make the following comments on the issue of Voice and Participation. First, it is worth noting that, in response to the Monterrey declaration, the Bank has made significant progress in enhancing the Voice and Participation of Developing and Transition Countries (DTC) in its decision making process. Most notably, progress has been achieved in enhancing the country ownership and perspectives in Bank operations, including through greater decentralization and enhancements to Executive Directors offices through the Secondment Program to the Bank of DTC staff. Second, we welcome the move by African countries to make the necessary arrangements to pay their IDA allocated shares by the end of 2005, as it will have a positive impact on the developing countries voting rights in the IDA board. Third, I note that with regard to the structural options, no consensus has been reached on the proposal to change the capital subscription shares at IBRD. In my view, such a move lacks a clear and compelling financial rationale and is therefore not yet justified. Moreover, it is important to wait for the regular IMF quota review before we start addressing any of the structural options.

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

The year 2005 offers the international community dramatic opportunities and risks. This year, with only a decade to go until the date we are due to achieve the Millennium Development Goals (MDGs), we will be judged on our progress so far in reaching these goals, and on our progress in putting into practice the commitments we made in Monterrey in 2002. Whilst there have been many successes, we have still a long, long way to go. Africa in particular – a continent full of promise, and rich in so many ways, yet weighed down by poverty, illiteracy, disease, and the broken promises of the rich world – is not due to meet many MDGs until next century, on current trends. So now is the time for action. Now is the time to dramatically scale up our support for the poorest people in the poorest countries. There has seldom been such a consensus about what we need to do. We must remove from this generation the burden of debts incurred by past generations. We must remove trade barriers that undermine economic empowerment and develop infrastructure for economic development. And we must work to end the greatest tragedy of our time with a bold financial plan, by committing more aid and launching the International Finance Facility, to allow countries to start making progress now. If we do not seize this opportunity this year, there may not be such a chance again for a long time. Let’s make this the year when the rich world finally delivered on its commitments to the poor – and not another year of empty rhetoric and broken promises.
We welcome this report. It is now almost universally agreed – and stressed in the report – that much more aid is needed if the MDGs are to be achieved, and there is strong evidence that a substantial increase in aid can be used effectively by recipient countries. The report is also right to focus on Africa: without doubt it is this region where we need to make the most progress in order to improve the lot of the world’s poor.

Increasing Aid Flows

We all know that more aid is needed to achieve the MDGs. But this year the calls from the many international reports make the claim more urgent. The Commission for Africa Report, the UN Millennium Project Report and the Secretary General’s report, all argue strongly for dramatic increases in aid. This year we have got off to a strong start. We have concluded the largest ever replenishment of the International Development Association. The UK and many other countries – including most recently Germany – have now set timetables for when they will achieve the UN 0.7% ODA / GNI target. Others have already achieved or exceeded this target. These efforts are commendable, and with more countries joining us there is a real prospect that the world might meet the 0.7% ODA target that we have been aiming at for so long. But this aid will not get to countries quickly enough to help them meet the MDGs.

We must do something to deliver the resources that countries need to meet these goals now. That is why the UK has developed the International Finance Facility (IFF) and its pilot, the International Finance Facility for Immunisation (IFFIm). We believe that enough preparatory work on these proposals has now been done for them to be launched this year. We have agreed a work programme on some of the revenue proposals from the Landau Report and other financing measures, to support decisions on a financing package to achieve the Millennium Development Goals. But if we fail to do something this year, the chances of meeting the MDGs will dwindle and soon it may be too late.

Debt Relief

This year, we must write off once and for all the historic but unpayable debts of the past for the poorest countries to the rich, and end an injustice that has lasted far too long. The Global Monitoring Report is right to assert that closure must be reached on current proposals for additional debt relief in 2005.

The Heavily Indebted Poor Country (HIPC) Initiative has done much to rid the world’s poorest countries of their debts. But we believe that more can and should be done. We must ensure, for example, that the HIPC Initiative is fully financed and implemented in the most generous way, that it benefits as many countries as possible and that those countries that have not yet completed the Initiative are supported to do so. However, we must also look wider, and work to relieve poor countries of the multilateral debts which account for up to 80% of their total repayments. It is absolutely unacceptable that so many poor countries are still forced to choose between their debt repayments and the investments in health, education and infrastructure which would enable them to reach the MDGs. The UK is providing our share of 100% relief of debt service on International Development Association and African Development Fund loans for all eligible countries. We are delighted that Canada and the Netherlands have also committed to pay their share, and look forward to other donors participating in the near future. In addition, we must relieve debt service payments to the IMF. The IMF has issued a paper looking at the

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18 Post-Completion Point HIPCs and IDA-only Low Income Countries with sufficiently robust public expenditure management systems to ensure that the savings from debt relief are spent on reaching the MDGs.
use of gold reserves to fund its costs for deeper debt relief. Following the agreement at the February G7 meeting to provide as much as 100 per cent debt relief for HIPCs, we must now work together to make this deeper relief a reality.

It is vital that all debt relief should be financed through new resources, and should not erode the financial viability of the International Financial Institutions.

Aid Effectiveness

Ambitious, country-led poverty reduction strategies (or other national development plans) are the keystone of effective aid. Currently, too much aid remains tied, fragmented, uncoordinated and focused on donor priorities: for example, two-thirds of aid to the education sector globally is given in the form of technical assistance, when many countries in fact need aid to finance their recurrent expenditure in education, to pay teachers’ salaries. Developed countries and International Financial Institutions must improve the effectiveness of their aid by implementing the commitments on harmonisation and alignment made in the Paris High-Level Forum in March. Bilateral donors should make greater efforts to link their financial commitments to national budget cycles. All donors – including the World Bank – also need to do more to develop transparent systems to monitor progress against the commitments made in Paris. Ensuring that aid remains effective will be a particular challenge as aid levels are increased over the next few years. We must ensure that, for example, the increased funds recommended by the UN Millennium Project are spent in ways that support developing countries’ priorities for their own development.

Conditionality

Another crucial part of aid effectiveness is reducing the burden of conditionality. The UK has strong views on this, and we have recently published a policy paper on the subject. Our paper calls for a new approach between donors and developing countries, based on a shared commitment to poverty reduction and achieving the MDGs, strengthening financial management and accountability to reduce the risk of funds being misused through weak administration or corruption, and respecting human rights. Agreed benchmarks for monitoring progress against poverty reduction will provide the basis for our partnerships. These benchmarks will be drawn from existing national strategies, including Poverty Reduction Strategies, and will focus on the impact of the government’s overall programme, rather than specific policy choices. We urge other donors to join us in this approach, which we believe significantly strengthens aid effectiveness. The World Bank and IMF decisions to review their approach to conditionality are welcome: as major global development players, their approach has a dramatic impact on developing countries. We encourage these institutions to support programmes which are agreed rather than imposed, and to agree to measure progress against benchmarks which focus on the impact of a country’s overall policy programme rather than particular policy decisions.

Trade

Trade is widely acknowledged as a driver of economic growth, and the potential gains to developing countries from increased access to developed country markets, as well as increased South-South trade, can hardly be overstated. In the World Trade Organisation Ministerial in Hong Kong this December, and in the Doha round more generally, we have a key opportunity to improve the lot of the poor. It is vital that we make a success of the Ministerial if we are serious about seizing the opportunities of 2005. Developed countries must make real progress in enhancing developing country access to their markets, reducing agricultural subsidies, and simplifying rules of origin, and provide assistance to enable developing countries should improve their own capacity to trade by improving infrastructure, simplifying tariff and customs systems and improving regional economic integration. But we will not force liberalisation on poor countries. It is vital that developing countries have the flexibility to design and
sequence trade reforms within their broader plans for poverty reduction, and that rich countries offer additional support that builds up their capacity to trade. A particular challenge of more open markets will be protecting the most vulnerable countries and people, while helping them to adapt and reap the benefits of freer world trade. The World Bank and IMF have an important role to play in this effort, and the IMF’s initiative in establishing a new facility to help countries facing balance of payments problems as a result of trade adjustments is particularly welcome in this context. But developed and developing countries also need to give this issue serious attention. In recognising the need of developing countries to increase their capacity to trade and take advantage of more open markets, we should consider and promote additional aid. To this end the UK welcomes the joint IMF and Bank paper supporting the need for additional resources for trade integration, channelled through existing mechanisms and linked to Poverty Reduction Strategy Process at country level. This work must be taken forward collaboratively with other development partners, and we look forward to an elaboration of the proposals for the Annual Meetings this year.

**Delivery of health and education services**

The first MDG target, that of achieving gender equality in education comes this year: we have failed to meet this target. This is an indication of the work that we still need to do to meet the MDGs in health, education and HIV and AIDS. The UK supports the view expressed in the Global Monitoring Report that greater attention needs to be given to building health and education systems if we are to meet these goals. We welcome the emphasis in the report on providing flexible, predictable finance (preferably through national budgets) to support these national systems, to enable countries to implement sector policies effectively. We encourage the World Bank in particular to make sure that overall financing in health and education sectors is predictable in the medium term. We believe that the Millennium Project and Commission for Africa are right to argue that removing user fees for education and health can have a major impact on attendance at schools, hospitals and health clinics, and can consequently significantly improve health and education outcomes. We urge the World Bank to help those countries that want to eliminate user fees in education and primary health care to do so, by working with them to identify ways to replace lost revenue, and providing long-term, predictable finance. We also welcome the Bank’s engagement with the High-Level Forum on Health, and encourage it to continue with this productive engagement, especially on the health worker crisis in Africa.

**Infrastructure**

One of the central recommendations of the Commission for Africa report this year was that significantly more aid should go towards financing infrastructure in Africa. Africa sorely needs this additional investment – as the New Partnership for Africa’s Development (NEPAD) have argued – in order to support its own regional and national, rural and urban priorities, to encourage greater integration of its regions, and to enable it to break into world markets. Sound infrastructure investment is an essential element in generating sustained economic growth and poverty reduction, and the UK welcomes the emphasis on increased financing of infrastructure in the Global Monitoring Report. We also commend the Bank’s recent shift in its approach to infrastructure emphasising the delivery of services and pro-poor growth, and the balance between private and public sector financing of infrastructure. In Africa, we feel there is an urgent need for all major bilateral and multilateral donors involved in financing infrastructure to come together under African leadership to share information on needs, programmes and current financing. This should lead us to identify gaps, and to find ways of filling these gaps with additional support.
**Climate Change**

Climate change is one of the biggest challenges the world faces today. It affects us all, but its impacts are most dramatic for the poor. People who live in temporary dwellings, who depend on the land or who live on the coast are particularly vulnerable to changes in the climate. The adverse effects of climate change could be a significant threat to the achievement of the MDGs; but in the longer-term, its effects may be more fundamental still. Developed countries and International Financial Institutions have more work to do to improve developing country access to affordable and efficient, low carbon energy technologies, which can contribute both to development and to climate change objectives. We commend the World Bank for making its commitments to energy efficiency and renewable energy, but we believe it could go further. We also urge all members of the Development Committee to ensure that new infrastructure in developing countries is designed to cope with current climate variability and anticipated climate change over the life of the investment. One way of doing this at the World Bank could be to develop a climate-risk screening tool, which would ensure that Bank investments mitigate or reduce recipients’ future vulnerability to weather events.

**Financing the Development Agenda**

There is now a strong consensus in the international community that more aid is needed to achieve the MDGs. The time has come for action. We have started on a strong footing this year, with the unprecedented large fourteenth replenishment of IDA. But the UK believes we must go further before the end of 2005, in increasing our ODA and launching the International Finance Facility (IFF). We welcome the World Bank and IMF paper “Moving Forward: Financing Modalities towards the MDGs”, and in particular its message that at least a doubling of aid will be needed within the next five years to support progress towards the MDGs. We are grateful to the Bank and Fund for the detailed analysis of the IFF and the IFFIm, in the financing paper. We believe that enough preparatory work has now been done on the IFF and IFFIm for them both to be launched this year. We are also determined to work with others to launch other innovative financing mechanisms which could complement the IFF, including the French and German international taxation proposals. But the IFF proposal is much further advanced, is not dependent on extra funding, and discussions on other financing mechanisms should not delay its launch. We encourage all donors to join us in the IFF initiative, which will raise large flows of development aid for poor countries when they really need them – now.

**Enhancing the Voice and Participation of Developing and Transition Countries in the International Financial Institutions**

Progress on enhancing the voice of developing countries in the International Financial Institutions (IFIs) has been too slow. Whilst we have made progress on improving voice at the country level, through the Poverty Reduction Strategy process, and also at the institutional level, through greater decentralisation and transparency in the Bank and Fund, we have failed to achieve the necessary progress at the structural level. We commend the UN Secretary-General for his efforts to bring about positive change in the structure of the UN Security Council, and we should learn from this experience as we work towards greater developing country voice at the World Bank and IMF. There is a strong need to work together on this – especially as different shareholders have different views. All members of the development committee should come together to agree on a package of proposals which can achieve broad support from all parties. Reducing the nature and burden of conditionality is also a way of increasing developing country voice. We look forward to returning to these issues at the Annual Meetings.
Conclusion

This year is a vitally important one for members of the Development Committee and the world’s poor. This year we must seize the opportunities we have to speed up and scale up our support for developing countries; if we do not, we have little chance of achieving the MDGs. The plan of action is now clear – the time has come for putting it into practice. Let’s act this year, now, urgently. No longer evading, no longer procrastinating, no more excuses. Let’s make 2005 a year to remember. Not a year to remember for more grand words and empty promises, but a year to remember as the time when we all finally came together to act for the poor.

Statement by Mr. Thierry Breton, Minister of the Economy, Finance and Industry, France

This seventy-first meeting of the Development Committee is marked at the same time by a great continuity and by a feeling of urgency. This body has already discussed all of the items on the agenda at one time or another. The second edition of the Global Monitoring Report presents a fairly similar picture to the one provided in the 2004 Report. We have been concerned about development financing issues for many months now. It would be easy to lean toward cynicism under the circumstances, since progress has been very slow.

However, this is my first time to speak in front of the Development Committee, which means that I have been spared from monotony. On the contrary, I would like to take an optimistic viewpoint. Several of the subjects before us today are now ripe for decision. Therefore, we should make the most of this opportunity, as it is the last one we will have before the September 2005 Summit, where the whole international community will ask us to give an account of what we have achieved in concrete terms.

We should also seize this opportunity because the options before us are good solutions. Whether referring to the five-point agenda in the Global Monitoring Report or innovative financing mechanisms, the objective of the agenda is not to disrupt the consensus on official development aid. Instead, the intention is to consolidate our shared vision of development based on the Monterrey partnership, and to be imaginative and ambitious in this task.

Paradoxically, the primary reason for my optimism is the Global Monitoring Report. The first Millennium Development Goal, probably the most important one, should be reached. This achievement will be unbalanced, with success in Asia offsetting failure in Africa, but it does show that there is no fatality to stagnation. Growth in China, India, Vietnam and others demonstrates how reforms that poor countries regard as legitimate can succeed, and that private and public financial flows are a decisive catalyst in this success.

The second reason for my optimism is that we know how to replicate this result. The World Bank’s five-point agenda broadly covers the same points as the Sachs Report and the United Nations Secretary General’s Report. We need to devise a plan for achieving the Millennium Development Goals that complement the Poverty Reduction Strategy Papers. Similarly, improving governance, the investment climate and service delivery is a well known course of action. Finally, we are making progress in terms of improving aid effectiveness. The Paris Declaration, which was the main outcome of the successful second High Level Forum on Aid Harmonisation, has provided the international community with an ambitious road map for progress in this area.

The third reason for my optimism stems from a conjunction of events. The September summit at the United Nations will be a major milestone on the path to the Millennium Development Goals. The
WTO Conference in Hong Kong in December 2005 will be critical for completing a round of trade talks, which I hope will become known as the development round.

France shares the World Bank’s priority for a rapid completion of the Doha Round. The concerns of the poorest countries, especially in Africa, must be the top objectives for the Round. The World Bank has rightly made this one of its five priorities for achieving the Millennium Development Goals. France has been working in this direction to ensure the success of the WTO conference in Hong Kong in December and the completion of the current round of talks in 2006 with a broad-based and balanced outcome.

Yet, trade liberalisation implemented in the framework of the Doha Round is not the cure-all solution to the poorest countries’ problems. The World Bank indeed acknowledges that it could even have very limited effects, or even negative ones, on many low-income countries, especially in sub-Saharan Africa. We drew the international community’s attention to this fact back in 2003, when we proposed a trade initiative for sub-Saharan Africa. In parallel to the Doha Round, it is crucial to devise specific solutions to help the poorest countries reap the benefits of trade. I will evoke three of the avenues we are pursuing in France.

First of all, the developed countries must make a commitment to improve the system of tariff preferences that they grant to the poorest countries. The European Union already offers access without any quotas or customs duties to all exports from the Least Developed Countries as part of its “Everything But Arms” Initiative. It would be helpful if all of the developed countries followed suit in this initiative. Furthermore, the developed countries need to commit themselves to simplifying their system of preferential rules of origin, since their complexity is the underlying reason why the use of preferential tariffs is unequal.

Secondly, we should encourage the development of trade among South/South countries, by inciting emerging economies to open up their markets to African products. Today, developed countries alone offer truly preferential access to products from the Least Developed Countries, even though some of the emerging countries could be major export markets for them. Regional integration in Africa also contributes to the development of South/South trade. For this reason, Economic Partnership Agreements implemented between the European Union and regional entities in Africa will be powerful development tools.

Finally, France is in favour of increasing “Aid for Trade” to help developing countries reap real benefits from trade liberalisation. But we must keep in mind that capacity building is not enough to prevent the risks that trade liberalisation will create for some developing countries, especially those that benefit from tariff preferences or those that are structurally importers of agricultural products. We need to discuss measures to assist these countries to cope with transition costs associated with trade liberalisation.

The fifth point on the World Bank agenda for achieving the Millennium Development Goals concerns the aspect of the Monterrey Partnership that is more specifically the responsibility of the developed countries. The doubling of official development assistance should match the reform efforts of developing countries, which have managed to increase their absorption capacity substantially.

I think that this development agenda item calls for us to better prioritize our objectives, or else we may not achieve any of them. As the World Bank stresses in another report, debt relief should be mobilised to reinstate sustainable debt levels. Debt cancellations could reach as much as 100% in order to meet this goal, if the situation warrants it. France therefore proposes to implement a scheme that would enable the cancellation of 100% of countries’ unsustainable debt service to multilateral banks. But, under such an assumption, we still need more resources if we are to meet the Millennium Development Goals.
The current trend is encouraging. Between 1999 and 2004, official development assistance increased by 20 billion euros, but it still falls far short of the identified needs. For example, I welcome that IDA will provide 8.3 billion dollars to the poorest countries in 2006, thanks notably to France’s 41% increase in its contribution to IDA. But, the World Bank estimates that the additional needs amount to 50 billion dollars per year, and the Sachs report puts the figure at 70 billion dollars per year. Besides, the *Global Monitoring Report* points out that the allocation of this increase was provided through unsatisfactory modalities, as it was channeled to humanitarian aid and technical assistance, while developing countries expressed a need for new cash transfers.

Against this background, I welcome the World Bank’s confirmation that the rapid implementation of innovative development financing mechanisms is feasible. These mechanisms provide stable, predictable and truly usable aid flows for poor countries.

The outcome of the work done by the World Bank and the IMF on innovative financing mechanisms is unequivocal. In my view, two points in particular stand out. On the one hand, these mechanisms meet the need expressed by the poor countries for stable, predictable and additional resources, a need also highlighted by the *Global Monitoring Report*. On the other hand, the Bretton Woods Institutions stress that the IFF and international solidarity levies are not just theoretical constructs, but pragmatic and feasible solutions.

France decided to go forward on these options, proposing the creation on an experimental basis of a levy to finance the fight against HIV/AIDS.

Therefore, we must pursue the technical work in order to devise operational mechanisms by September 2005. As for taxes, it is time to focus our efforts on those that seem the most promising. Brazil, Chile, Spain and France brought up several possibilities last September within the framework of the quadripartite group. In light of the analysis conducted by the World Bank and the IMF, we can single out, as for now, taxes levied on air transport, sea transport, global public goods and arms. The technical procedures for implementing these taxes, especially at the regional level, need to be examined carefully.

Indeed, universal participation is not indispensable, even though it would serve the interest of development, as more resources would be raised. It should be our ultimate goal, but in the short term, progress can be made with the participation of a smaller group of countries. This is why Germany and France have proposed creating an international solidarity levy based on air transport.

Taxing air transport makes economic sense, as underscored by the World Bank report. In fact, the level of taxation on air transport is lower than on other means of transport, since aviation fuel is tax exempt. Aircraft play a major role in global warming, but they are not, however, covered by the Kyoto Protocol. Several options seem to be technically feasible. Taxing aviation fuel would have a major positive environmental impact. As for a tax on airline tickets, it could easily be instituted and there are no legal obstacles to such a tax, as the World Bank rightly points out.

Of course, such a measure is certainly not a cure-all for developing countries or for rich countries. However, it does have the merit of being technically feasible. Let those countries that would like to give the poor countries a fighting chance of meeting the Millennium Development Goals join us in this undertaking.

As for the utilisation to be made of the funds raised, I agree with the World Bank’s analysis on the importance of comprehensive and coherent development strategies. Our objective is not to launch a multitude of disparate initiatives and do away with such tools as the Poverty Reduction Strategy Papers,
which have proven their effectiveness. The programmes to be financed by the pilot international tax or the IFF could be coordinated within country-owned strategies. The generalisation of the levies and the IFF could also provide new resources for multilateral donors, such as the World Bank.

By creating such instruments, we are not undermining the partnership approach adopted in Monterrey, which is based on poverty reduction strategies elaborated by the countries themselves. On the contrary, we are trying to give them the resources they need to live.

This same principle of ownership led France and other European countries to support greater representation for poor countries in international financial institutions. Five European countries are contributing, for example, to strengthening the capacities of African directors at the World Bank.

These few innovations do not go nearly far enough. That is why I regret that this issue is no longer on our agenda. More structural solutions are required to deal with these representation issues. The legitimacy of the international financial institutions’ action in poor countries depends on it. I would like that we resume these discussions at the 2005 Annual Meetings and that we succeed in combining the various options so as to implement a reform that is not merely a token change.

My optimism is bound to be restrained, faced with such a challenge as development. We have before us a colossal task with very high expectations. Nobody is in a better position to grasp the scale of this task than the President of the World Bank. I would thus like to welcome the selection of Mr. Wolfowitz and express my confidence in his ability to pursue the outstanding work accomplished by Jim Wolfensohn at the helm of this great institution.

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

Introduction

I wish first to commend the staff of the World Bank and the International Monetary Fund for the high quality of the joint report and to congratulate the management of both institutions for producing this, the second monitoring report. A year ago, we considered the first of these reports, which we intend to revisit each year henceforth at our Spring Meeting. On reading the second report, it was not my impression that we have accomplished much since the previous edition. Nevertheless, I welcome the focus of the analysis on Sub-Saharan Africa on the one hand and, on the other, the proposal put forward by the British in association with the specialized agencies of the United Nations aimed at implementing, in the short term, an HIV/AIDS vaccination pilot project of international scope in a selected number of countries, and operating on the same principles as the International Finance Facility. If any tangible progress is to be made, it is important that at the end of our discussions today, we come away with specific measures that enable us to infuse this report with the content and the urgency needed to realize the Millennium Development Goals (MDGs).

Accelerate and Sustain Economic Growth

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19 On behalf of the following countries: Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Democratic Republic of the Congo, Côte d’Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tome & Principe, Senegal, Togo, and Somalia (informally).
As it did last year, the 2005 monitoring report presents us with a rather troubling assessment of Sub-Saharan Africa. According to the report, whereas overall growth for developing countries reached 6.5 percent in 2004, growth in Sub-Saharan Africa barely topped 3 percent. True, some countries have been posting, individually, rather strong growth for about ten years – over 5 percent – but for most of our countries growth has remained sluggish. Consequently, if our wish is to reduce extreme poverty in Africa and eradicate the hunger besetting our people, we must envisage an annual growth of at least 7 percent, or double the current rate over the next 10 years. Attaining such a level of growth is possible. It does require significant investment, however, particularly in physical infrastructure. We are aware that investment in infrastructure requires costly financing as well as a clear improvement in the investment climate and the business environment in our countries if we wish to enlist the active engagement of the private sector. On this matter, our countries are resolute and, under the auspices of NEPAD and OHADA (the Organization for the Harmonization of Business Law in Africa), they have begun to undertake the reforms necessary to achieve this. We are counting on our development partners to mobilize the additional resources required and to open their markets further to our export products and thereby stimulate trade flows in favor of our countries. The assistance of our partners is also keenly awaited in order to increase the efficiency of our units of production so that our economies may become more competitive and reap the benefits of expanded markets.

We are pleased to learn that preliminary discussions have begun in the World Bank Group with a view to producing a roadmap aimed at defining the key role that the Bank can play in efforts to revive growth in Africa. We are encouraged by these discussions and we invite the Executive Board to continue its discussions with the objective of producing an ambitious plan of action as soon as possible. In this connection, we urge the Management of the Bank to embark upon consultations with the other development partners with a view to submitting a plan to the Committee at its next meeting in September 2005. In this regard, we are also interested in the recommendations of the Commission for Africa initiated by the United Kingdom.

Financing Modalities

Regarding the financing modalities, we note with some concern that official development assistance (ODA) flows still fall short of meeting the financing needs of the MDGs. Although we witnessed a tepid resumption of assistance flows over the past two years – very few industrialized countries have actually made the goal of 0.7 percent of GNP a reality, while many others are still a long way from achieving this goal – the pledges made since the Monterrey summit have not yet materialized. Nevertheless, we applaud the positive outcome of the IDA-14 negotiations, which have made it possible to replenish the concessional funding made available to the Bank to a significant level. We also welcome the United Kingdom’s initiative to propose a pilot project, with the participation of the Global Alliance for Vaccines and Immunizations, as well as the Vaccine Fund, which, if it becomes operational, could help allay the fears voiced recently regarding the International Financial Facility, or IFF as it is known. We already expressed our support for the IFF at our previous meetings; we are in a position to support, without any difficulty, the pilot project which is a really a miniature version of the IFF.

Let me also say that we were pleased at the presentation on global taxes. The evaluations presented in this report, based on criteria of revenue adequacy, efficiency, equity, and ease of collection, show clearly that this form of taxation is possible and could produce additional resources to ODA flows. We endorse these initiatives, as well as any other likely to yield additional resources, including the creation of Special Drawing Rights, and blend arrangements and mechanisms that could increase the volume of ODA.
Voice and Participation of Developing and Transition Countries

Since we last met, the discussions on strengthening what is now termed the “voice” of the developing and transition countries in the decision-making process within the World Bank and the International Monetary Fund have not moved far forward.

Admittedly, progress has been made in areas where actions were undertaken to strengthen countries' appropriation of the programs in those areas requiring decisions at only the level of the Executive Boards, including the initiative concerning the Poverty Reduction Strategy Paper (PRSP), Decentralization, and Harmonization; actions were also undertaken to strengthen the capacities of the offices of the Executive Directors. For issues of a structural nature, however, the discussions have not resulted in any substantial progress. It appears that quota-related issues at the International Monetary Fund have slowed the momentum of the discussions underway. There is a risk that a protracted debate of this issue could affect the credibility of our entire approach in this area. That is why we propose that the Board of Governors, through the Development Committee, take up this issue with a view to determining the roadmap and issuing clear instructions to the Executive Boards for the upcoming phases.

Statement by Mr. P. Chidambaram, Minister of Finance, India

We belong to a generation which has had the privilege of being part of the transition of mankind from one millennium to another. The global community stood as one at the UN summit of 2000, as 189 countries adopted the millennium declaration enshrining the Millennium Development Goals (MDGs). Today, while we have traversed one third of the distance, the fact is that we are already lagging in our tryst with the targets that we had set for achievement by 2015. It is thus time for us to build momentum; else we may arrive too late or, in the case of some countries, not arrive at all.

Global Economic Environment

We meet now after an encouraging recovery of the Global economy in 2004, characterized by robust growth, increased FDI, expansion in trade, and decline in external debt. Developing countries as a category grew at the fastest rate in two decades while output in the remaining economies in transition continued to increase more rapidly than in the other major groups.

In addition to the stimulus provided by the nascent United States recovery, China’s high growth rate is making an increasing contribution to global economic growth by increased demand for oil and non-oil commodities. Though overall prospects continue to be good, some global imbalances pose a potential threat, to which a coordinated response is required. The high level of private debt and the twin deficits in US together with sluggish economic upturn in Europe and Japan are of great concern at this time.

A modest deceleration in all regions is expected in 2005 as a cycle of monetary tightening causes interest rates to inch upward. The spike in oil prices in 2004, and the realization that oil price increases may persist over the next year have already slowed global growth and increased inflationary pressures. These factors are likely to reduce the stimulus of growth to many developing countries. The growth of international trade is also likely to be adversely affected.

20 Representing the constituency of Bangladesh, Bhutan, India and Sri Lanka.
Global Monitoring Report

Five crucial years have passed since the eight Millennium Development Goals were accepted as a global compact. This year’s Global Monitoring Report is aptly titled “Consensus to Momentum”. In taking stock, it is a moot point whether the world may already be too late in meeting the minimum targets.

MDGs are the most broadly supported, comprehensive, quantified and time bound poverty reduction targets accepted universally. We believe that MDGs are too important to fail. We have a shared resolve and commitment towards MDGs and firmly believe that they are attainable with concerted actions and mutual accountability of all development partners. We applaud the GMR finding that between 1990 and 2002, low-income countries significantly increased their spending on education and health.

The GMR (which has special focus on Sub-Saharan Africa) and the report on MDGs commissioned by the United Nations present a grim picture indeed. More than one billion people still live below the extreme poverty line of one dollar per day, and around 20,000 die from poverty each day. Overall global wealth has grown but is less evenly distributed within countries, within regions, and in the world as a whole. While overall poverty targets maybe achieved, there would still be vast areas, including sub-Saharan Africa where poverty, in fact, has increased.

We fully support the 5-point agenda for action: they are all relevant and important. But the issue before us is really not identification of new action points or targets; it is really an issue of carrying through the commitments already made, and of ‘walking the talk’. We are informed in para 1.37 of the GMR that at least a doubling of ODA will be needed within the next five years to support adequate progress toward the MDGs. We also recall the re-commitment at Monterrey to raise aid to 0.7% of GNI. I need not quote statistics which show how far the world is from even these modest targets.

The GMR rather euphemistically states that the overall increase in ODA from 2001 to 2003, has been US$ 16.7 billion. If, however, we look deeper into the composition of this increase, a fairly disturbing trend emerges:

- The single largest composition of this increase, is indirect, and is on account of Debt Relief. There is no denying the fact that debt relief frees up resources in the affected countries, making them available for development expenditure. However, there may not be a one to one correspondence between every dollar saved on account of debt forgiveness to a dollar invested in capital outlays on MDG-oriented programmes. The Medium Term Fiscal Framework embedded in PRSPs of these countries must ensure that an adequate proportion of what a country saves in debt relief is indeed channelized into development outcomes.

- Second, we note that Technical Cooperation comprised over US$ 4 billion in the total increase of US$ 16 billion in aid flows, while direct multilateral and bilateral aid contributed only US$ 1.8 billion. Given, the importance of training, capacity building and institutional reforms which are important inputs for effective aid utilization, it needs to be ensured through greater scrutiny and monitoring that this aid actually complements the ‘core’ aid provided for investments in infrastructure and MDG-targeted programmes. I can only hope that donors exercise a degree of balance in determining what really constitutes ODA and fund flows are accordingly directed.

Para 5.2 of GMR states that donors’ attention to geo-politically significant countries appears to be crowding out assistance to countries that need the most help in achieving the MDGs. While we sympathize and support aid to post-conflict societies and countries, we must clearly understand that what is needed to meet the MDGs has to be over and above aid channelized to post-conflict situations. This
situation is exacerbated by the years of net negative disbursements by the multilateral development banks. We are aware of projections that IBRD lending would start rising progressively. However, we are also aware that realizing these projected increases would require substantive and effective steps towards addressing the financial and non-financial costs of doing business with the Bank.

Absorptive capacity of recipient countries should no longer be cited as a reason for slowing the scaling up of aid. The GMR states that a number of countries are well placed to manage a doubling of assistance in the short to medium term. Para 5.36 states that five large Asian countries (Bangladesh, India, Indonesia, Pakistan and Vietnam) could effectively absorb an immediate doubling or more of aid. These five countries also have over 60% of the global population subsisting below the poverty line. Further, absorptive capacity is neither static nor exogenous to aid, and aid can be instrumental in expediting the building up of capacity. So our concern is really the urgent need for all development partners to fulfill their respective commitments towards the MDGs.

Achieving MDGs in India

India as a country seems to be comfortably on track for meeting the MDG in terms of reducing poverty thanks to its high growth performance during the 1990s. We are aware that for India to meet the 2015 targets, an extraordinary effort will be required, especially in the poorest or “lagging” states, districts and certain communities (notably where there is a concentration of scheduled tribes). Although, India has had an average growth of about 6.3% over the last decade, the growth has been uneven, and regional disparities persist. Unless the effects of growth are spread to these lagging states, the targets for all India will be difficult to achieve. In achieving the human development outcomes captured in the MDGs (morbidity and mortality, nutrition, education), there has been notable success in some of the Indian states (for example child mortality in Kerala, malnutrition in Tamil Nadu, and school attendance in Himachal Pradesh), and this provides ample evidence that good outcomes can be achieved in India.

- Education and literacy are the weak links in the performance of the Indian economy. In terms of the gross enrolment ratio in primary education, the country is unlikely to achieve the MDG. However, this phenomenon is not uniform across the States.

- Another area of concern in India is gender equality, including gender equality in the primary and secondary school enrolment.

- Health also requires greater attention in India. Progress in reducing infant, child and maternal mortality during the 1990s has not acquired the required pace to achieve the MDGs in this regard.

- Although malaria does not seem to be a major killer disease any more in the country, TB and HIV - AIDS are becoming threats to public health.

- Progress on provision of drinking water in both rural and urban areas during the 1990s has been satisfactory in the country. It is in the provision of improved sanitation, however, that the progress has not been satisfactory in rural areas.

- However, in terms of housing, the country seems to be on track in urban areas but off the mark in rural areas.

From the data available it is evident that significant progress has been achieved by India in relation to poverty, health and education related indicators. Measured in terms of $ 1 per day, it is found
nearly 26% of India’s population was below the poverty line in 2001. This is, nevertheless, a significant improvement over 1993-94 that showed 47 per cent of population below the poverty line, when measured in the same terms. Given the trend in economic growth during the Tenth Plan period (2002-2007), the poverty ratio is expected to decline further.

The Government of India (GoI) is doing its utmost to achieve a GDP growth rate in the range of 7-8 per cent per annum. The post 1991 reforms pursued by the Government have already put India on a high growth trajectory. We are now in the process of introducing “second generation reforms’. All these efforts would go a long way in raising the income levels of the people and hopefully in wiping out extreme poverty in India by 2015.

The combined expenditure on education, health and poverty alleviation of the Central Government and the States/ Union Territories has been increasing. The Government of India has been supplementing the developmental expenditures of the States in a big way in recent years to achieve targets that are very similar to Millennium Development Goals. We are committed to the achievement of MDGs and in this regard have taken the following initiatives:

- The public spending on health is being raised to at least 2-3% of the GDP with focus on primary health care. Accordingly, outlays of schemes for control of communicable diseases and the AIDS control programme have been enhanced.

- A National Rural Health Mission (NRHM) will now focus on strengthening primary health care through grass root level public health interventions based on community ownership. Components of this programme will include training of health volunteers, providing more medicines and strengthening the primary and community health centre system.

- The budgetary allocations for health have been increased by over 20% to about US$ 2 billion annually.

- Interventions which focus on child & maternal health are being strengthened. The coverage of the Integrated Child Development Services scheme is being universalized with a 30% increase in the number of anganwadi (child care) centres and the budgetary allocation has been doubled to US$ 700 million annually.

- The Education for All (Sarva Shiksha Abhiyan) programme – the cornerstone of the Government’s intervention in basic education for all children - has also been considerably enhanced with an outlay of US $ 1.8 billion annually.

- The Mid-day Meal Scheme now covers about 110 million school children across the country with an allocation of US$ 700 million annually.

- A Total Sanitation Campaign is in progress to ensure access to rural households in rural areas at a cost of US$ 150 million annually.

- Gender Budgeting has been introduced for the first time in India to highlight the gender sensitivities of the budget allocations.
Trade

The MDGs would be more within our grasp if we strive towards success in trade policy discussions and the Doha development agenda. The global community must aim at ambitious outcomes in its negotiations this year, and improved market access for developing countries will remain central to such outcomes. Agriculture is at the heart of the Doha negotiations and we must remain mindful of the food and livelihood security of large numbers of subsistence farmers in poor countries. We also need to give a greater impetus to liberalization of service exports in order to achieve balanced outcomes in the interest of all nations. The Bank should intensify its global advocacy role in promoting the interests of developing countries. It is uniquely placed to argue not just against the barriers to trade but also against the ‘barriers to development’ erected in several industrial economies which deny opportunities for faster growth in developing countries.

Innovative Financing Facility

We find that the absence of substantial progress in infusing adequate amounts of additional ODA to meet the MDGs is prompting exploration of various innovative financing mechanisms. There may be merit in frontloading the aid flow for attainment of MDGs. However, it should be ensured that after the front-loading period, ODA does not fall below a pre-committed level. The aid flow should be through existing multilaterals to reduce the additional requirement of donor coordination and aid selectivity.

These innovative mechanisms still face several challenges. In addition to political acceptability in only a few donor countries, the issues of national accounting, and legislative and regulatory systems remain to be tackled. In this regard we note with interest that a concrete forward movement can be expected on a ‘pilot’ International Financing Facility for immunization (IFFIm).

We also commend the joint Fund-Bank effort in exploring feasible options of global taxation. While both the IFF and global taxation issues are still ‘work-in-progress’, we would urge all countries to keep an open mind on these pilots.

Infrastructure for Development

The central role of infrastructure in enhancing the growth prospects, accelerating poverty reduction and achieving the MDGs is well recognized. At present, there are large gaps in the availability and quality of key infrastructure, especially in low-income countries and in rural areas within countries. For achievement of MDGs, while it is essential to make programmatic interventions in human development sectors, it is equally important that infrastructure is given a focus to boost growth. Improved infrastructure by itself leads to growth and there is sufficient empirical evidence that points to linkages between infrastructure and many of the MDGs. For example, it has been estimated that a universal coverage of roads, electricity and sanitation is expected to result in a reduction of proportion of underweight children by at least 40% and IMR by 60%. The estimated association between improved physical infrastructure and education indicators is also encouraging.

There is a need for vastly increased investment in infrastructure in both low and middle-income countries and to reverse the trend of decline in public spending on infrastructure that was witnessed during the past decade. The close linkages between access to basic infrastructure and the human development, and hence to the achievement of the MDGs, has for too long been ignored and the cost of continued neglect would be catastrophic. Reduction in rates of child mortality cannot be achieved without improving access to safe drinking water and basic sanitation, roads that facilitate access to schools and hospitals; and electrification that improves efficiency of basic services.
Infrastructure is also fundamental to improving the investment climate and expanding private sector activity. Traditionally, public funding has constituted 70% of total spending on infrastructure while the private sector has contributed 20-25% and ODA has accounted for the remaining 5-10%. The Bank will clearly need to do much more if it has to respond to the needs of the developing countries in this area. Many countries including India are also pursuing innovative approaches of public-private partnership in infrastructure financing. We look forward to a useful role of the Bank in providing assistance and support for these initiatives. Earlier, we had welcomed the Bank’s Infrastructure Action Plan, which promised Bank’s re-engagement and substantial scaling up of infrastructure lending after a decade of neglect. The huge financing needs of the infrastructure sector, which are estimated to be of the order of 7% of GDP for all developing countries, indicate the enormity of the challenges that lie ahead. Improved infrastructure is critical for overall economic growth. Therefore, there is a need for significant step up of infrastructure lending by the Bank.

Voice

Democratic deficit in the governance of Bretton Wood Institutions needs to be addressed to enhance legitimacy, transparency, accountability and ownership of the decision-making process. Since Monterrey, we find that progress has been limited to and distracted by peripheral issues which are not central to enhancement of ‘voice’ in decision making.

We strongly urge gaining of ‘momentum’ towards tackling the central structural issue of voting power. The set of determinants presently used in computing the economic strength of the countries are not true reflection of economic realities and have tilted the Funds’ and Bank’s governance structure towards the developed countries. The major determinant for computing the country’s quota in the Fund and share in the Bank, GDP at market exchange rate, underestimates the GDP of developing countries. Similarly, it captures the European Intra Union trade data though they are in the same currency, something akin to domestic trade. We firmly believe that these anomalies should be rectified by changing the main determinant of IMF Quota and Bank’s Capital shares in GNI on PPP basis.

Statement by Mr. Michael Cullen, Deputy Prime Minister and Minister of Finance, New Zealand

This year provides an important opportunity for the international community to take stock of our progress towards the Millennium Development Goals (MDGs), ten years out from our target date of 2015. The Global Monitoring Report 2005 is a helpful document both in assessing what has been done to date, and in providing practical suggestions as to where we need to go from here.

Large parts of the developing world have been experiencing sustained economic growth, and global prospects are good for achieving the income poverty goal by 2015. At the same time, the report notes that such growth cannot be found everywhere. Sub-Saharan Africa lags behind the other regions; and even the fastest growing regions and countries still retain pockets of severe poverty.

There is an emerging bipolarity in the performance of developing countries, as the weaker performers stagnate and the high performers sparkle. The overwhelming majority of those weak performers are LICUS (Low Income Countries Under Stress), small, landlocked or remote economies.

\[21\] 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.

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We find many examples in the Pacific, as well as in Africa. Developing better ways for the World Bank to work with these difficult cases should be a key element of any strategy for achieving the MDGs.

*Global Monitoring Report 2005*

The Global Monitoring Report’s five-point agenda is a good framework for accelerating progress towards the MDGs, including the importance of country ownership, economic growth and trade reform, and the need to increase both the effectiveness and the level of aid.

*Initiating and Sustaining Economic Growth*

The report makes a compelling argument for the centrality of growth to poverty reduction. As the report comments (p12), however, “the apparently limited growth impact of aid transfers, in combination with evidence on diminishing returns, implies that aid, by itself, does not constitute a growth strategy.” National governments also need to address policy issues in areas such as governance, institutions and the regulatory environment. This point has been well illustrated by the Bank’s *Doing Business* project, which has shown that investment climate reforms, at low fiscal cost, have huge potential to stimulate and finance growth.

That aid alone is not a viable strategy is widely acknowledged, including in the Bank’s approach to dealing with LICUS countries. However, more work needs to be done on how to generate the improvements in policies and institutions that will help drive sustainable growth in these countries. It would be desirable for the report to have better explained the lessons drawn from LICUS problems, and generalize from Sub-Saharan Africa to LICUS in other regions.

*Scaling up Service Delivery*

Effective service delivery is essential to achieving the human development goals of health, education and gender equality. The focus in this chapter on outcome-focused strategies for improving health and education strategies, including a call for donors to take a more flexible approach to funding recurrent costs, will contribute to better service delivery. However, any move towards providing more aid in the form of budget support must be conditional on a country’s capacity to manage the funding transparently, and donors being assured that funds will be spent effectively. This should be judged on a country-by-country basis.

*Realizing the Development Promise of Trade*

It is common at meetings such as these for the participants to affirm the importance of completing the Doha Round, from which all countries can benefit. The Bank’s estimate is that developing countries would obtain around one-third of the global gain from freeing all merchandise trade, well above their one-fifth share of GDP.

Such sentiments, however, are rarely reflected in the positions of trade negotiators. This is in spite of the fact that, as noted in this report (p23), most of the benefits of trade reform derive from countries reducing their own barriers to trade. Unilateral reduction in barriers to imports can have a powerful economic stimulus, as has proved the case in a number of countries in this constituency. Such reductions can have additional flow-on effects in developing countries, by driving institutional improvement and weakening vested interests.

The Bank should continue to contribute to this debate by demonstrating the benefits of trade reform, and identifying where assistance needs to be targeted in order to realize these benefits for poverty
reduction. These benefits may involve transitional costs in some cases. The Bank’s work on aid for trade has a major role to play here, addressing supply-side constraints and focusing on increasing the capacity of developing countries to harness the benefits from liberalization, for example through technical assistance on behind-the-border issues.

The Bank’s work on an Overall Trade Restrictiveness Index has confirmed evidence available from other indicators. However, its incorporation of WTO-approved health and safety standards into measures of non-tariff protection is wrong. While scientifically justified phytosanitary standards may particularly affect the relevant exporters, this does not amount to protection. Rather, it is an argument for assisting developing countries to achieve the behind-the-border progress necessary to meet defensible standards.

*Increasing Aid and its Effectiveness*

The report makes a number of useful recommendations on improving the effectiveness of aid. Effectiveness can be increased greatly through alignment and harmonization of donor approaches within development strategies owned and led by developing countries themselves. We also support maintaining a performance-based allocation for IDA, untying aid and providing more flexible and predictable financing.

Developed countries agreed at Monterrey to take concrete steps towards a target for overseas development assistance of 0.7% of GNI. Our commitment remains to allocate increased financing where governance conditions and capacity indicate those flows will be used wisely and effectively. A global “big push” does not seem consistent with those principles. Substantial policy reform will be required in some countries before a doubling of aid could be absorbed, and a country-by-country approach is more likely to deliver sustainable development benefits.

The public response to the tsunami disaster in South-East Asia has shown us that people, and governments, are willing to provide additional resources when faced with compelling need. Developing countries can help to create a constituency for higher aid flows by demonstrating that aid resources are being managed well and delivering results.

Keeping developing country debt at sustainable levels will be an ongoing concern if lending assistance is scaled up. It is important to reinforce the message of the debt sustainability framework, that it is inappropriate for countries with higher levels of debt to continue to receive assistance in the form of loans. We look forward to further discussion on debt relief at future meetings. Financial assistance should be provided in the form that provides the best stimulus for growth and development, and in some cases additional debt relief may be warranted on that basis.

*Strengthening and Sharpening International Financial Institution (IFI) Support*

The report identifies a number of challenges ahead for the IFIs: deepening the poverty reduction strategy framework, building institutional capacity in low-income countries, adapting to the changing needs of middle-income countries, and focusing on research, partnerships and results. However, there are a number of additional strategic challenges for the IFIs that should be more developed in future reports.

IFIs’ harmonization and cooperation with their development partners needs more attention. There is little discussion in the report about the role of the IFIs in relation to the wider development community, including the UN development agencies, the regional development banks, bilateral aid agencies and civil society.
The continuing negative net flows to the IBRD suggest that the Bank needs to do more to reduce the costs to developing countries of doing business with it. Similarly, the IFIs need to become more accountable for their internal use of resources, through continuing modernization of budget and management processes.

The IFIs are still struggling to find effective modes of assistance, and to scale up such assistance for those countries - primarily LICUS and small states - where aid mainly in the form of lending activity is not the right strategy. In these countries, the Bank needs to shift away from financial products towards knowledge-based data collection, research, capacity-building, technical assistance and limited number of high-impact projects. As noted above, finding better ways to assist LICUS countries may be the single most important component of the IFIs’ contribution towards achieving the MDGs. This should not be seen in geographic terms as a problem of Sub-Saharan Africa. Some African countries are success stories, whereas LICUS countries may be found across all regions.

*Financing Modalities Towards the MDGs*

The search for new or innovative financing modalities risks distracting attention away from more substantive actions towards achieving the MDGs, such as raising the volume and effectiveness of aid; improving policies and governance; and liberalizing trade.

Financing increases in ODA through traditional mechanisms is simpler, cheaper and more transparent and more politically accountable than through the International Financing Facility (IFF) or the global taxation proposals. Without a consensus favoring their adoption, and with the IFF Immunization pilot in the early stages of development, putting more IFI resources into their development would be unproductive at this point. Rather than continuing this debate at the level of the Development Committee, it may be time for those countries contemplating aid increases to choose their own preferred option and proceed independently, whether that be via traditional or innovative financing mechanisms.

The work on blending, which is built on existing mechanisms, is promising. We find it particularly apt for use in small countries with limited capacity to borrow from the Bank, and are glad to see it included alongside the financing options the Bank has traditionally offered to its development partners.

*Enhancing the Voice and Participation of Developing and Transition Countries*

The outstanding issues related to quota and share allocations need to be resolved. In our view, proposals for change should be directed at correcting inconsistencies between actual quota levels/share allocations, and economic size. Changes should also be consistent with effective decision-making processes. Consistent with past practice, changes at both the IMF and the World Bank should occur in parallel, as representation at both institutions should be based on economic size.

Enhancing the voice of the smaller or slower-growing development and transition countries is most practically addressed through the measures currently being implemented, including capacity building in Executive Directors’ offices, secondment initiatives and improved board effectiveness.
Statement by Mr. Joseph Deiss, Federal Councillor, Federal Department of Economy, Switzerland

The year 2005 is crucial for development. Five years after the Millennium Declaration, we are about to assess our progress to date and to react as needed. In 2005, most major international organizations will undergo a change at their helm. This sets the evaluation of our progress in a particular institutional perspective.

At the outset, I would like to express my gratitude to Mr. Wolfensohn for his contribution to the fight against poverty over the past 10 years. He has demonstrated vision and perseverance and has sharpened the profile of the World Bank Group as the major international player in the fight against poverty. His charismatic leadership has inspired institutions as well as a wide-range of actors, both public and private and on every continent. The Bank has become the prime ally of poor countries in dealing with the causes of poverty and the challenges of globalization. It has become a model for the world with its views on cooperation and partnership between the rich and the poor. It has also reached out and engaged in dialogue with civil society, including national parliaments, NGOs, the private sector, and the people involved in its operations. On behalf of our Constituency, I would like to thank Mr. Wolfensohn for these important achievements. I am extremely pleased to congratulate him on his recent appointment as Special Envoy for Gaza Disengagement. This is a further recognition of his outstanding record as an advocate for global development and peace that also positively reflects on the World Bank.

In the context of the forthcoming transition, it is vital to assure continuity in the agenda pursued by the Bank and endorsed by its shareholders and to build on today’s achievements as well as lessons learned. The Bank’s strategic priorities, financial outlook and multi-year framework, as well as recent innovations in how the Bank conducts business are essential reference points for the future.

Let me now turn to the main items on the agenda.

The Global Monitoring Report

The GMR has matured. It now provides a very comprehensive diagnosis of our progress, policies, and actions, and it conveys some very important messages. Most importantly, it reflects that the way we think about development and the way we work together have changed over the past five years. Indeed, we have built a new partnership with countries at different stages of development.

The GMR clearly shows that, when supported by the appropriate policies, by good governance, and by adequate financing, development interventions can work. This is a very positive message for rallying further public support for more aid in the developed countries. We should learn from successful experiences and draw lessons for our future work, particularly in regions with significant shortfalls, such as Sub Saharan Africa.

To absorb higher aid volumes, the capacity, quality, and accountability of public institutions must be strengthened and peace and security established. Human development must be further promoted by investing in education and healthcare; economic growth and poverty reduction must be substantially accelerated, and trade barriers must be removed and trade capacities strengthened.

22 On behalf of Azerbaijan, Kyrgyz Republic, Poland, Serbia and Montenegro, Switzerland, Tajikistan, Turkmenistan and Uzbekistan
I fully support the proposed five point agenda and strongly believe that recipient country ownership, as well as alignment and harmonisation of donors, are central to increasing aid effectiveness. The fight against poverty encompasses a wide range of actions, and progress must be achieved on several fronts. However, the way forward is not an easy one for developing and developed countries alike. In particular, the doubling of aid remains a challenge for many donor countries.

On some fronts, such as the health sector, and in some regions, we are still far from being on track for meeting the MDGs. The worrisome rise in the prevalence of HIV/AIDS in most regions calls for urgent and coordinated action, particularly in countries that have received little support in this area up to now.

I welcome the regional focus on Africa in the present edition of the GMR. This is in line with a new momentum in the international community for stronger support to Africa’s efforts in accelerating its progress towards the MDGs. In this regard, we have noted that the Bank is strengthening its strategic framework for using the currently available and potential resources for Africa most effectively. We look forward to a discussion at the Annual Meetings on this framework, which includes the recently initiated Action Plan for Africa and IFC’s Strategic Initiative for Africa.

However, I suggest that future editions of the GMR focus on other regions, such as Central Asia and the Caucasus, as this would help to increase attention on their specific needs and challenges. This change in focus would also better reflect the differences, gaps, and particular difficulties of individual countries and groups of countries – countries as distinct as China and India, the emerging middle income countries, and the least developed countries. In this sense, we regret the virtual absence of discussion on middle income countries, despite the fact that they are home to most of the poor. Similarly, so-called ‘fragile states’ pose a particular challenge which needs greater clarification and the formulation of special approaches. Nevertheless, it is important that the GMR maintain a global perspective by providing sound assessments and realistic prospects for the future for the entire spectrum of countries.

In addition, the discussion on the role of international migration in poverty reduction has been neglected. I note with satisfaction that the Bank has recently started scaling up its research in this area and look forward to further discussions of this important topic based on the upcoming Global Economic Prospects 2006.

Going forward and in view of the time lag in measuring changes, we should consider whether the GMR should be published every two years. Moreover, I encourage the Bank to include more specific and disaggregated information on the performance and progress of individual countries over time. This would allow for inter-country and inter-temporal comparability and accountability, as well as for establishing an action plan for different groups of countries.

Financing for Development

The GMR points to the need for more financing. Even though global aid levels are on the rise, they are not yet sufficient to meet the MDGs. Moreover, a significant portion of aid is not directly related to MDG-relevant spending. Another issue of concern is that some of the increase in the level of aid is caused by changes in accounting. It is important to continue harmonization efforts, including improving accounting standards, to enhance the mutual accountability not only among donors, but also between donors and recipient countries. I also believe that the review mechanisms should be sharpened for better comparability of aid channels.

For the developed countries, the challenge is how to further increase aid. This will require enhanced efforts in convincing public opinion and parliaments of the importance and effectiveness of aid.
In addition, developed countries would need to find different ways of financing aid. The fastest, simplest, and most straightforward way of achieving this would be to increase the share of ODA in government budgets. This is a formidable challenge, and we count on the President’s continued advocacy role in mobilizing and allocating more resources for development.

That said I welcome the progress made in the discussion on innovative financing instruments. We have to be aware, though, that it will take considerable time to put these instruments into practice. The World Bank and the IMF have provided a sound analysis of these issues for the most promising new financing mechanisms, namely a tax on aviation fuel, the IFF pilot scheme for Immunization (IFFIm), and the potential for leveraging aid through a blending of financing instruments. Nevertheless, important questions about key issues and risks remain and will only be fully comprehended after implementation has begun and experiences acquired.

Switzerland is particularly interested in the selective application of the IFF in areas that show good potential for “higher investments today, lower costs tomorrow.” Switzerland will carefully follow the preparation of the IFFIm pilot. It may also be beneficial to analyze the feasibility of such a mechanism in the context of other programs, such as disease prevention and control or water and sanitation. With respect to blending arrangements, Tajikistan and Switzerland have already gained valuable experience with the Pamir Power Project, which was jointly implemented by IDA and the Agha Khan Foundation. Finally, should a broad-based international momentum for an aviation tax to finance the MDGs emerge, Switzerland would be prepared to carefully consider participating.

**New Debt Initiatives**

Debt relief is an integral part of the MDG agenda. However, debt relief should not be viewed as one of the main vehicles for providing financing to poor countries, as it does not systematically reward the poorest or the best performing countries. Furthermore, the impact of debt relief on poverty reduction is usually less effective than other aid instruments.

The increasing level of multilateral debt in many countries is worrisome, but before embarking on new debt initiatives, the international community must ensure that HIPC is fully financed as HIPC has been successful in reducing debt to economically viable levels in most cases. Second, we must promote a broad adoption of the new Debt Sustainability Analysis (DSA) framework and gain experience in implementing it. I am confident that the HIPC Initiative and the DSA framework will allow us to deal effectively with debt sustainability concerns in the future, while simultaneously contributing to an improved debt management capacity in debtor countries. There may still be some cases where exceptional measures are required to deal with vulnerability to external shocks. However, I believe that creating a new debt relief framework for this purpose is not warranted.

**Development and the International Trade Negotiations**

I would like to commend the Bank for contributing to the Doha negotiations by scaling up its analytical work on trade. It is of utmost importance that the trade sector is a major part of the discussion on development and poverty reduction. Similarly, it is crucial that we enhance the focus on the links and coherence between domestic policies and development. Therefore, the main message of the GMR comes at a crucial point in the Doha negotiations. The benefits of agriculture for developing countries will be very limited without tariff and domestic support reductions. At the same time, the impact of agricultural trade liberalization could have adverse consequences on many net food importing countries, especially among the LDCs, which could face higher import prices as well as erosion of their preferences. Hence, there is an urgent need to assist such countries in establishing adjustment mechanisms and pursuing complementary domestic reforms. Finally, I would like to stress that agriculture is only one part of the
global negotiations. Reductions in tariffs on industrial goods and services will also provide benefits to
developed as well as developing countries. To this end, it is critical that developing countries actively
engage in discussions on these topics and foster the diversification of their economies and export
capacities.

Voice and the Decision-Making Process

The major changes in the leadership of international institutions this year provide an opportunity
to review their selection processes and adapt them to today’s changing realities. The Bretton Woods
institutions and other multilateral institutions should meet the same standards of transparency and
governance that they require from their partners and clients. We do not question the prerogative of
certain members or regions to nominate candidates. Still, there is room to open up and systematize the
decision-making process to enable all members to participate fully.

Conclusion

The GMR’s five point agenda is a strong basis for accelerating progress towards meeting the
MDGs. It reminds us that this agenda is a joint endeavor – a mutual responsibility of developed and
developing countries as well as multilateral organizations and international financial institutions.

To reach the MDGs, an increase in aid financing is needed. Thus, it is imperative that the
international community continue its work toward developing new financing mechanisms. To maintain
the Monterrey momentum, we now need practical examples to demonstrate what works and what does
not. At the same time, we cannot neglect the discussion at the level of regular ODA, as this is likely to be
the fastest and most straightforward way of increasing aid.

The five point agenda also reminds us that trade complements and reinforces aid in furthering
development. And so, we must ensure that the Doha round delivers on its development promise. We will
also have to assist developing countries by scaling up our joint work on strengthening trade capacities so
that they can fully benefit from positive results of the Doha round.

Implementation of this considerable and important program will require that the Bank remain at
the forefront of the development and sustainability agenda. For this purpose, continuity in its strategic
orientation – with particular focus on implementation and results – over the forthcoming transition period
and beyond is crucial.

Indeed, the year 2005 is the year of development. Let us live up to our promises.

Statement by Hon. Antonio Fazio, Governor of the Bank of Italy23

General Remarks

At the outset, on behalf of the authorities of this Constituency, I would like to salute Jim
Wolfensohn as he approaches the end of his duty at the Bank. To him I wish to convey our deepest
sentiment of gratitude for the significant advancement he has made possible in the fight against global
poverty and in supporting economic and social progress in the developing world. I would also like to take
this opportunity to welcome President-elect Paul Wolfowitz and to wish him best success as he prepares

23 On behalf of Albania, Greece, Italy, Malta, Portugal, San Marino and Timor Leste.
to lead the World Bank Group and to advance its mission. We appreciate his public commitment that this institution will remain focused on poverty reduction and achievement of the Millennium Development Goals (MDGs) as the strategic priority.

Known as the “year of development”, 2005 will hopefully mark a key moment in the world’s endeavor to fight mass poverty. The series of important public events, taking place throughout the year and culminating with the UN Millennium Summit in September, will not only enable world citizens to gain a clear sense of how their governments are progressing relative to their commitments to achieve the MDGs; they may also be instrumental in helping the global community to move from the consensus on the MDGs, reached at Monterrey in 2002, to the momentum now needed for transforming the agreement into tangible action and visible results.

Today, for the first time, the world can count on a set of well-established factors that raise the concrete hope that poverty can be dramatically reduced in a reasonable period of time. Among them are: a much sounder knowledge than in the past of what is necessary to attain sustainable and equitable economic development; the awareness that countries need tailor-made approaches to growth and development in place of standardized, one-size-fits-all grand reform packages; the recognition of the importance of country ownership of development strategies and programs; the understanding that increased financial aid is vital, but also that recipient governments need to adopt some minimum criteria of good governance for aid to be effective; and the appreciation that fighting mass poverty requires a global compact binding nations to undertake coordinated actions.

Yet, in spite of these reasons for nurturing hope, the MDG monitoring exercises consistently reveal that the world is largely off track with respect to the goals, with some regions even moving farther away from the desired paths. The much less than satisfactory performance on several MDG raises fears that some of them might be grossly missed unless major trajectory corrections are soon undertaken.

Important progress has been achieved since last year’s Global Monitoring Report, the most relevant ones being the successful conclusion of the IDA 14 negotiations (with its resulting increase in overall aid funding, better aid selectivity criteria, and greater consistency of IDA lending terms with debt sustainability principles), and the continued improvement in the economic and policy environment worldwide, most notably in many developing countries. But much remains to be accomplished on various fronts, including increasing aid, trade reform, and good governance.

Global Monitoring Report 2005

We share the Report’s analysis and conclusions, and support its recommended five-point agenda. In particular, we support the emphasis given to better investment climate, broader and more effective service delivery and stronger institution capacity as the key ingredients for higher and sustainable pro-poor growth, and share the Report’s main message that the international community should now undertake major efforts to accelerate progress toward the MDG. We also endorse the importance attributed to trade openness as a source of growth for poor countries. We agree with the Report in underscoring the need to assist poor countries in building the capacity to exploit the opportunities made available by greater external market access: without such capacity, most of the potential benefits from open trade could simply not be reaped.

More generally on aid, we endorse the recommendation that developed countries should scale up their efforts to increase aid. However, scaling up is not the only solution: the focus on the “quality” of aid is at least as critical. In this regard, the lack of aid harmonization is still responsible for much of the huge costs that ineffective aid imposes on recipient countries. While we welcome the positive steps agreed by the international community in this area, a lot remains to be done by developed countries on the
implementation side. There is no question, however, that a significant responsibility for making aid more effective rests with recipient country governments and their willingness to improve governance of resource management and service delivery.

Regarding the international financial institutions (IFIs) covered by the Report, we believe that there is still large scope for them to align their strategies and instruments more closely with the MDG and the needs of recipient countries related to these goals. All IFIs should complete the transition to managing for results, and should achieve a higher degree of cooperation among themselves, and with the bilateral donors. Future reports should do better in terms of assessing the IFI performance vis-à-vis progress toward the MDGs. In this regard, involving the IFI internal evaluation departments in the monitoring exercise might prove helpful in order to carry out more impartial and deeper assessments of performance and to produce valuable recommendations for action.

**Financing the Millennium Development Goals**

Achieving the MDGs does not only demand better use of resources; it also requires provision for additional financial resources. For these reasons several ideas to identify new financing modalities are being discussed.

Among the options considered, the International Financing Facility (IFF) has been the most extensively studied, and we support it in principle, although some important issues remain to be settled before the proposal can become feasible. We look with interest at the implementation of the International Financing Facility for Immunization (IFFIm), which represents an important test of the feasibility of the IFF on a smaller scale and will allow to draw useful lessons. The link with the Vaccine Fund is certainly the most appropriate, in that the expansion of vaccination programmes requires a stable flow of resources that could be achieved with the frontloading and predictability of aid, the two fundamental principles underpinning the IFF.

A lot of technical work has been done on the IFFIm so far, but several issues remain still open, such as: the important questions related to the national accounts treatment of donors’ contribution to the IFFIm, as well as of the borrowing to be issued by the Facility. Pending the full completion of the project, Italy supports the IFFIm in consideration of the remarkable contribution it can make towards the achievement of one of the most important Millennium Development Goals (MDG number 4): the reduction of infant mortality by one third by 2015. Other financing options have also been explored, such as the introduction of international taxes. Among these, an international tax on air transport (fuel or passenger tickets), proposed by France and Germany, deserves further in-depth technical analysis.

Consideration should also be given to voluntary contribution schemes as additional sources of development funding. Indeed, the timely and massive response by the international community to the tsunami disaster has shown the potential of these schemes. However, it should also be noted that these mechanisms are not able to raise stable and predictable resources.

We also appreciate the evaluation of blending arrangements that would make possible to improve the concessionality of multilateral development bank lending with bilateral donor contributions.
Voice and Participation

The legitimacy of the World Bank as an institution resides in the adequate representation of the interests of all its members. However, aiming at finding solutions acceptable to all members on each of the options proposed is extremely difficult and we believe that we should focus on what is achievable in terms of consensus.

Some progress has been attained in the recent past. A number of measures have already been taken to increase developing country ownership of their development efforts and the capacity of their Executive Director offices. We strongly support all these actions since we believe that the enhanced ability of these member countries to influence World Bank programs is a reflection of their stronger voice. We also support the use of communication as a strategic option to be implemented in all stages of development projects and programs, as a way to broaden stakeholder participation, ownership and voice at the operational level. With respect to the broader, structural measures, we believe that the objective of the Voice exercise should be to uphold the basic principles of representation reflected in the Articles of Agreement (representation based on the relative economic status of members). Therefore, progress on some of these options, in our view, can only be achieved after the IMF takes action on the quota issue.

From Consensus to Momentum: the Critical Role of Communication

Promoting better communication is also necessary to raise the profile of the global mission to fight poverty within national public opinions and to generate stronger political momentum. Any of the financing modalities currently proposed to increase aid would stand a higher chance of success if the national public opinions were aptly motivated to support these initiatives. There is an important role that communication can play in this regard, by persuading rich-world taxpayers to be more forthcoming in fighting global poverty. In developed countries the core message should be that, in a globalised world, the gap between rich and poor countries creates growing negative externalities detrimental to all. Combating poverty would ultimately contribute to strengthening prosperity and security for the whole world.

Statement by Mr. Francisco Gil Díaz, Secretary of Finance and Public Credit, United Mexican States

Millennium Development Goals: From Consensus to Momentum (Global Monitoring Report 2005)

The 2005 Global Monitoring Report (GMR2005) provides the Development Committee (DC) with valuable material to exchange ideas around the Millennium Development Goals (MDGs) and translating consensus into action. The document translates highly technical research and diagnostic work into lessons, messages and policy recommendations that are easy to understand and debate, a necessary condition if we want the discussion of the MDGs to have a broad outreach.

We also want to commend staff’s for reflecting their research findings in the document with objectivity and free of geopolitical bias, a starting point that we as DC members should follow if we want this meeting to produce useful outcomes that may contribute to the achievement of the MDGs’ by the 2015 deadline.

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24 On behalf of the Constituency comprising also Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Spain and Venezuela.
This report covers many topics. We want to center our comments on three of them: growth (chapter 2), trade (chapter 4) and increasing aid (chapter 5).

Growth

Although economic growth alone is not the magic prescription to achieve the MDGs and eradicate poverty around the world, it certainly should be the main pillar to build the path towards achieving these objectives. As the report acknowledges, growth alone reduces poverty directly (1st MDG) and expands resources and capacities for other development targets (rest of the MDGs). While average growth in the developing world was the highest in more than a decade (6.4%), its trend showed wide disparities across countries and regions, Sub-Saharan Africa in particular.

The report is right in admitting that, historically, it has been far more difficult to sustain growth than to initiate it, and that specific priorities and sequencing of actions to promote it necessarily vary by country. As a result, there is not a simple recipe to achieve sustained economic growth. Nevertheless, history has shown that the overall recipe does need to include several ingredients: monetary stability, a well functioning judicial system, a liberal trade policy, a sufficient and modern infrastructure, openness to foreign investment, no restricted areas for private investment, free capital movements, a competitive tax structure, an educated labor force, flexible labor laws, an adequate regulatory environment and a strong inhibition of monopolistic behavior.

The above is a demanding list that is certainly difficult to put in place even gradually, but these ingredients must be part of the recipe if the objective is to promote a favorable investment climate and continued productivity increases.

The pace at which this agenda should be put into practice must be defined at the country level. Many governments do not have the political wherewithal to implement them at once or within a short time span and thus they might prefer to define their development strategy in accordance to their political and social reality. However, private investment will follow if some basic ingredients are there, such as monetary stability, a reliable judiciary, competitive taxes, open capital markets and, above all, the widespread expectation that the government will pursue a reform agenda.

Country ownership may bring a virtuous circle towards economic growth: it does not only give countries an incentive to commit to reforms, but also the freedom to choose what kind of country and society they want to build or consolidate. Moreover, the ownership of a strategy and the commitment to reforms that sustain growth also show donors and partners the seriousness of a country’s development vision, and gives them the incentive to increase aid flows and technical assistance.

A lot has been learned about the essential policy elements to achieve this, and the final mixture of ingredients goes beyond the recipes found in mainstream traditional economic literature. Precisely from this perspective is how growth should be discussed: while there is not a single magic policy prescription that works for all, after half a century of development experience we know what may work and what certainly does not work to spur economic growth.

Trade

The report is correct in acknowledging that improved market access for developing countries would boost economic growth, which in turn will help make progress towards reaching the MDGs. Since according to standard trade theory and empirical evidence over the last 50 years shows that free trade is a win-win proposition, we concur with the report’s recommendation that multilateral, reciprocal, non-discriminatory trade liberalization offers the best way for all countries to win from trade.
We also agree with the report’s statement that high income countries should lead by example, because they have the capacity to do so. This should by no means be an excuse for developing countries to wait first for the example and then to move ahead on the trade liberalization agenda.

As a matter of fact, many developing countries have pursued trade liberalization policies that have set an example for the international developing and industrial community. Such is the case of Chile, which today is one of the most open economies in the world. When Chile started its borrowing relationship with the World Bank, it felt under the category of IDA countries. Today, Chile is a high Middle-Income Country (MIC) with a US$5,000 per capita income, and its success development story has been accompanied by gradually opening its economy and inserting it into globalization. Chile’s general average tariff stands at 2% today, and practically has eliminated all non-tariff barriers.

Another example is Mexico, which implemented a significant reform agenda since the mid-1980s after the debt crisis that triggered the so-called “lost decade in Latin America”. The country turned 180 degrees from a closed economy based on import-substitution to a unilateral liberalization that started with the entrance of Mexico to the GATT, and was followed by a Free Trade Agreement (FTA) with the US and Canada. Today, Mexico is not only another high MIC, it also is the country with the largest network of FTAs worldwide. Its web of almost 40 FTAs gives Mexican entrepreneurs access to a potential market close to 1 billion consumers in the Americas, Europe and, more recently, Asia. Moreover, since FTAs have become binding agreements and part of Mexican and international law, they have been crucial in anchoring and locking-in many structural reforms in the country. Furthermore, since this trade liberalization agenda has been fully country-owned and driven, there is no risk of going back.

Increasing Aid

We acknowledge the recommendation of substantially increasing the level and effectiveness of official development assistance (ODA), and we appreciate many donors’ efforts for increasing aid flows following up their Monterrey commitments. Nevertheless, in this framework of increasing aid and using 2005 as a signal to implement the Financing for Development agenda (F4D), we welcome the report’s advice to developing countries about seriously increasing their efforts to mobilize more domestic resources to support growth and progress towards the MDGs, in particular, revenue administration and efficiency of public expenditure, among other institutional and governance issues. Moreover, it is crucial that developing countries build on progress in reforms and policies that enhance their ability to attract non-debt non-aid capital flows, especially Foreign Direct Investment (FDI), as the report recommends.

We consider that this advice weighs as much as increasing official aid flows for two reasons: first, while there is a commitment according to the Monterrey framework to increase aid flows, recipient countries must always bear in mind that there is a voluntary element in bilateral development assistance, because this flow is a function of many domestic variables, some of them highly sensitive and political. Second, moving towards non-debt non-aid financial flows will also give developing countries the incentive towards building on the pillars of the Comprehensive Development Framework (CDF), which is the construction of an attractive investment climate and empowering people. This is particularly important because there are many examples of developing countries that have been able to substitute official assistance for FDI and their flows to finance for development increased substantially. Such is the case of China and several economies of East Asia. Moreover, when developing countries move towards a strategy to gradually switch to non-debt non-aid financial flows they start a virtuous circle that, if fully country-owned, will anchor future structural reforms and leave the debate about absorptive capacity behind.

In this context, we want to stress to DC Ministers that the quality, timeliness and effectivity of financial flows for development is just as important as their amount. Much has already been done to
address these issues in Multilateral Development Banks (MDBs) and other International Financial Institutions (IFIs), but we encourage the DC to recommend to substantially scale-up this work.

The needs of some of the MICs of the constituency that we represent may serve as an example of our point of increasing not only the quantity, but rather the quality of development finance. Mexico, for instance, has been able to find alternative sources of financing, and has recently been following a policy to mobilize domestic resources to address the development needs of the country by beginning to refinance MDBs’ debt not only with international private markets when a competitive opportunity appears, but also with issuances in the domestic market in local currency. This strategy allows the government to mobilize domestic resources for development free of exchange-rate risks and has in itself a significant development impact because it helps develop and deepen the local capital markets and contributes to shield the economy against adverse external shocks.

However, this does not mean that Mexico, a MIC with poverty levels close to 50% of the population, does not appreciate MDBs’ assistance, but quite the contrary: what this means is that the quality and flexibility of the assistance should increase and be tailored to the country’s needs. In this line, we welcome that the Bank has changed its operating model with Mexico from a Country Assistance Strategy (CAS) to a Country Partnership Strategy (CPS) where technical assistance, advice, flexibility and contingent financing according to the client’s needs are the main pillars.

This emerging Bank-client relationship model is a positive evolution in the philosophy of MDBs’ lending and will certainly contribute to make financial development flows less conditional and more effective. Moreover, because this model is based upon partnership and mutual accountability, ownership and commitment as well as continuity towards achieving common goals —such as meeting the MDGs on time— is ensured.

Some results are already observable: since the implementation of Mexico’s CPS, the Bank has increased its portfolio of financial products available to clients. For example, in some projects with Mexico the Bank has offered financial engineering with derivatives such that multi-tranche, hard-currency loans are disbursed and repaid in local currency. Through a swap, the exchange-rate risk is transferred to international markets, and this case is an example where the quality of the product fitted to the client’s needs was as important as the quantity of the financial flow committed. Moreover, this innovative and flexible way of financing is a win-win proposition to all partners—the Bank, the country, and the markets— which anchors the partnership spirit, creates the appropriate incentives for the promotion of local markets and increases the resources available to finance for development towards common goals such as poverty-reduction and human development.

We also observed that other clients are following similar ways to increase and make development assistance more effective. Such is the case of Costa Rica, Poland and Lithuania, which have recently submitted CPSs to the World Bank Board of Directors for their consideration. We are certain that the outcome of this work will benefit all DTCs, as many of the lessons to increase the quantity and quality of assistance through partnerships, flexibility and mutual accountability may also be applicable to Low-Income Countries (LICs) later.

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25 See the Project Appraisal Document (PAD) of Mexico-Decentralized Infrastructure Reform and Development Project (R2004-0077).

26 We want to commend the work of the IBRD/IFC country teams and the World Bank’s financial complex.
Furthermore, we consider that the development advice and technical assistance of this partnership model may yield knowledge dividends that will benefit all clients and shareholders of our cooperative. For instance, the evolution of Mexico’s relationship with the Bank shows how the country has benefited significantly from the institution’s advice in critical moments of its economic history, where Bank’s diagnostic and recommendations were particularly useful. The lessons learned from the experience did not only benefit Mexico, but also strengthened the World Bank’s team, and they have been able to deliver results with other clients facing similar problems and provide better analysis when conducting FSAPs and ROSCs\(^{27}\) for BWIs member countries.

Moreover, the dividend knowledge is also a result of operations. For example, IFC’s guarantee for a municipal project in Mexico not only opened the door of sub-sovereign finance for other client countries in different regions of the world\(^{28}\) but also contributed to create an expert municipal finance team in the Corporation for the benefit of all clients.

Moving Forward: Financing Modalities toward the MDGs

We welcome the proposals to find innovative ways for the donor community to increase the financial flows for development to reach the MDGs on time. We commend WB and IMF staff for the thorough analysis of the International Financial Facility (IFF) and the Global Taxes (GTs) proposal, and we would like to wait for further progress in the consensus-building around the initiatives and for more theoretical and empirical evidence of the welfare gains, deadweight losses and intergenerational issues of the proposals.

Without getting into the political and technical debate around the IFF and GTs, we would like to stress that as MDBs remain healthy from a financial perspective and are able to generate income through active lending, their ability to transfer resources to facilities such as IDA, to provide grants and concessional financing, increases.

To achieve this, the Bank needs to remain active with credit-worthy MICs with large absorptive capacity. This has been the spirit of the World Bank cooperative over the last sixty years, and from this perspective the work on innovative and flexible financial products and the ability to provide high quality technical assistance and advisory services remain essential to keep the Bank attractive to MICs.

Statement by Mr. Ralph Goodale, Minister of Finance, Canada\(^{29}\)

The year 2005 marks the fifth anniversary of the Millennium Declaration and the 60th anniversary of the inaugural meeting of the Boards of Governors of the two Bretton Woods institutions. The world has changed immensely since 1945 and development issues now have increased urgency. At today’s meeting, we are taking stock of progress being made towards achieving the Millennium Development Goals (MDGs). The Committee seeks to increase international momentum to mobilize additional resources for development and to put in place measures to enhance the effectiveness and impact of scarce aid dollars.

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\(^{27}\) Financial Sector Assessment Programs and Reports on the Observance of Standards and Codes.

\(^{28}\) Johannesburg, South Africa (IFC/R2004-0038).

\(^{29}\) On behalf of Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.


Millennium Development Goals: From Consensus to Momentum

The international community is at a critical decision point and needs to strengthen efforts to ensure that we meet the MDGs by 2015, especially in Sub-Saharan Africa. We need to scale up to realize our vision of a more prosperous and inclusive world where all children are schooled, healthy and well nourished, where people have an equal opportunity to realize their full potential wherever they are born.

This year’s Global Monitoring Report (GMR) is encouraging, since it is clear that some progress has been made, that the MDGs are still within reach, and that with additional effort, we can be successful. The report is also sobering in its indication of the efforts that are needed but currently lacking to achieve the Goals, both by the developing countries and development partners.

The five-point agenda identified in the GMR for accelerating progress towards the MDGs is a step broadly in the right direction. There is no doubt that the issues of anchoring the MDGs in national development strategies, spurring and sustaining private sector led economic growth, scaling up service delivery, realizing the development promise of trade, and increasing aid and its effectiveness are essential outcomes that will require collective action. The job now for the development community will be to focus on how each partner can make the most effective contribution to reach these goals.

The Challenge of Africa

This five-point agenda is especially pertinent to Africa, where needs are greatest and one out of two people lives in extreme poverty. We welcome the decision of the International Development Association (IDA) to continue to allocate half of its resources to benefit Africa during the IDA14 period (July 2005–June 2008).

The recent work of the Commission for Africa builds on that of the New Partnership for Africa’s Development and the G8 Africa Action Plan, and is consistent with the GMR agenda. The Commission’s recommendations are bold and comprehensive, and would achieve tangible results on poverty reduction and economic growth. While making clear the vital importance of African leadership on its own development issues, most notably on governance and security, the Commission’s report sets out an ambitious agenda for development partners in Africa, with each contributing where they can be most effective.

Canada’s leadership on Africa has included the 2002 G8 Kananaskis Summit, which resulted in the G8 Africa Action Plan and led to the creation of the C$500-million Canada Fund for Africa. Six of the Canadian International Development Agency’s nine countries of focus are in Africa, including Ethiopia, Ghana, Mali, Mozambique, Senegal and Tanzania. This commitment to Africa has continued with our 2005 budget announcements, including a doubling of aid to Africa over five years. Over C$340 million has been allocated to health initiatives that will prevent and treat diseases like HIV/AIDS, malaria and polio, and over C$200 million will be provided for additional debt relief to support the world’s poorest countries.

Small States

Our efforts to advance the development agenda should take into proper account the special challenges of small states. They face significant challenges due to their vulnerability, susceptibility to natural disasters, lack of adequate transport links, limited economic diversification, and limited capacity to respond to unforeseen shocks. We welcome the decision of IDA to increase its financial support by raising the minimum IDA allocation by 10 per cent from SDR 3.0 million to SDR 3.3 million during the IDA14 period. We endorse management’s commitment to undertake selective, targeted and flexible
knowledge activities in these countries, making greater use of quick-response policy notes and increased regional approaches where appropriate. Finally, we urge further World Bank efforts to attract the best staff to work on small states. We support its initiative to mobilize resources and develop innovative approaches to satisfy the capacity-building and financing needs of small states.

Mobilizing Resources for Development

Mobilizing sufficient resources to support development programs remains a pressing challenge. While difficult, the most efficient way is increasing aid directly, beyond the pledges already made. Other innovative financing proposals, especially those that would facilitate private contributions, could also be explored. The 2005 Global Development Finance Report provides some useful suggestions to bring other resources to bear on development, including the tremendous gains from global trade reforms; South-South aid, trade and investment; remittances; and the increasing volumes of official development assistance from civil society.

Members of my constituency are doing their share in this regard. Canada is on track to meeting its Monterrey commitment to double international assistance funding by 2010–11 compared to the 2001–02 level. Ireland, in moving towards achieving the United Nations (UN) target of 0.7 per cent of gross national income, has doubled its official development assistance budget since 2000.

Both Canada and Ireland participated fully in the 14th replenishment of IDA, which was successfully concluded in February 2005. Canada increased its contribution by close to 40 per cent, providing C$954 million over three years. Ireland increased its contribution from about SDR 35 million to over SDR 58 million, representing a two-thirds increase. With strong support from Canada, Ireland and other donors, IDA will be able to increase funding for its programs by 25 per cent over the previous replenishment—the largest expansion of IDA resources in two decades.

The new resources will underpin important innovations in IDA’s policies for poverty reduction, which include a strong focus on growth and the private sector, a new framework to link the provision of grants to the risk of debt distress, and a stronger accountability framework based on results and transparency. The importance of partnerships and donor coordination and harmonization is strongly emphasized. Finally, a key aspect of IDA’s financial support to poor countries is the strong and transparent link to country performance on economic policies, governance and poverty reduction efforts.

Strengthening our collective commitment to trade liberalization and a successful Doha round is an integral component of facilitating private sector led economic growth and a key building block for financing development and accelerating progress towards achieving the MDGs. The Global Economic Prospects 2004 noted that a good agreement that lowers tariffs and non-tariff barriers, in both developing and developed countries, could stimulate worldwide increases in income and lift millions out of poverty. A successful Doha round, for example, could generate up to US$600 billion of additional income by 2015 shared by both developing and developed countries and lift 140 million people out of poverty by 2015. This was also a key message of the Commission for Africa report.

The World Bank should continue its research and advocacy work in support of a constructive pro-development outcome to Doha. We would also encourage the World Bank’s efforts aimed at ensuring that developing countries capture a fair portion of the gains from trade, namely through work in support of trade capacity building, intra-regional trade, trade facilitation and infrastructure development.

The explicit recognition of trade capacity building as a prerequisite to fully reap the benefits of trade liberalization could allay some of developing countries’ concerns with Doha. These are the so-called “behind-the-border issues,” including overcoming supply-side constraints, promoting effective
enabling investment and business climates, as well as strengthening trade-related services such as finance. Both the World Bank and the International Monetary Fund (IMF) will need to give increased attention to supporting countries in their adjustment process, especially in the small states of the Caribbean. Finally, the successful implementation of the Economic Partnership Agreements between the African, Caribbean and Pacific states and the European Community is very important for the Caribbean.

Making Development Dollars Go Further

Development effectiveness entails a strong domestic commitment to the MDGs and development more generally. Accordingly, governments must own their development programs, communicate reforms with their constituents, and work closely with development partners. Donors also need to continue efforts to coordinate and harmonize policies and practices, provide additional resources without compromising debt sustainability, and develop more efficient ways to support development efforts of recipient countries.

Aid Effectiveness

We welcome the outcome of the Second High Level Forum on Aid Effectiveness in Paris. We also welcome the joint commitments in the Paris Declaration, particularly to build developing partner country capacity where it needs reinforcing. It is important that the World Bank continue to play a leading role in promoting coordinated and harmonized aid delivery at the country level both as an advocate and through leading by example. The World Bank should prepare and implement its own harmonization action plan, working together with developing countries as well as other donor agencies, bilateral and multilateral. The work done in the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD–DAC) in this respect would be useful.

The role of developing country governments in aid coordination is central and critical. We welcome the initiatives of the Governments of Tanzania and Zambia to undertake joint assistance strategy-planning processes together with their respective donor communities. It is important that these countries’ pioneering work become examples of how coordinated approaches result not only in more effective aid delivery but also in more effective development as measured by progress in sustained poverty reduction.

We must continue to work to strengthen the Poverty Reduction Strategies (PRS) process by broadening their policy content, strengthening their pro-poor focus and improving the effectiveness of the participatory processes through which they are prepared, including greater involvement of parliamentarians and civil society. The tradeoffs involved in macroeconomic policy need to be analyzed and discussed in PRS processes and more attention given to implementing policy in sectors where the poor are economically active in order to support pro-poor growth. Where conditions are appropriate in terms of policy frameworks, capacity and governance, developing partner countries may wish to develop credible, costed Poverty Reduction Strategies that scale up to achieve their MDG targets by 2015 and that can serve to attract greater levels of support.

The current OECD-DAC work aimed at strengthening the poverty-reducing impact of assistance in agriculture, infrastructure and private sector development will assist us all in ensuring that our increasingly coordinated aid results in greater impact on poverty.

Focusing on Poverty Reduction Instead of Repaying Old Debt

The Heavily Indebted Poor Countries (HIPC) Debt Initiative has helped 27 countries erase some US$54 billion in debt, reducing their debt burdens by some two-thirds and allowing them to increase markedly critical social expenditures. Canada and Ireland have contributed significantly to the successful
implementation of the HIPC Initiative through bilateral contributions to the HIPC Trust Fund. In March 2005, Canada contributed a further C$34.4 million to the HIPC Trust Fund to support the full participation of all multilateral development banks in delivering their share of debt relief. Canada continues to cancel all eligible residual claims against reforming countries exiting the HIPC process.

Canada and Ireland feel that more needs to be done to help reforming low-income countries focus on poverty reduction instead of repaying old debt. Both countries agree on the need for further debt relief by IDA, the African Development Fund, and possibly the IMF. In February 2005, Canada announced its commitment to cover the debt-service obligations of eligible reforming low-income countries to IDA and the African Development Fund. Canada urged other donors to do the same. Additionally, Canada called on donors to agree on the need to provide further IMF debt relief and to identify the best way to finance this cost. The benefits would be available until 2015 to all countries that have completed the HIPC process and to other low-income (IDA-only) countries that have the ability to use these savings for development. This provides poor countries with immediate fiscal space to implement their poverty reduction strategies.

Minimizing the Risk of Future Debt Distress

Debt sustainability is an important part of the broader debate on global financing for development that must involve developing countries, the United Nations system and donors. Many low-income countries have struggled to maintain their external debt at sustainable levels while also trying to meet development objectives such as the MDGs. The Bank and Fund’s work on the long-term debt sustainability framework will be an important input to the UN High-Level Summit. In this context, it is important to ensure that the work on debt sustainability is carried forward under the broader rubric of the work on financing for development so that it does not result in resource crises for countries at risk of debt distress.

Over the course of 2004, the World Bank and IMF introduced a new Debt Sustainability Framework in Low-Income Countries, which seeks to make that challenge less difficult by providing guidance on new lending to low-income countries whose main source of financing is official loans. Based on this work and the lessons learned under the HIPC Initiative, Canada and its partners supported a new grant program at the Asian Development Fund. In late 2004, Canada and other donors agreed to a new grant allocation framework linked solely to debt distress indicators for both IDA and the African Development Fund going forward.

Work to further enhance the debt sustainability framework for low-income countries should continue at both the World Bank and the IMF in 2005. We look forward to revisiting the issue of linking the provision of IDA grants to the debt sustainability framework and to discussing the linkage between exogenous shocks and debt distress at the IDA14 mid-term review.

Responding to Exogenous Shocks

The Indian Ocean tsunami disaster exemplifies the vulnerability of many developing countries, especially small states, to natural disasters. Natural disasters have devastating consequences for the survival, dignity and livelihoods of individuals, destroy critical infrastructure, and force sub-optimal allocation of resources away from regular investments to reconstruction and rehabilitation efforts. Reducing the risk and minimizing the impacts of such natural hazards has preoccupied the development community for decades.

Mainstreaming risk reduction into development programming is a key component to minimizing the impact of disasters. We welcome the Bank’s efforts to mainstream disaster risk reduction into
Country Assistance Strategies and the steps taken to promote its integration into Poverty Reduction Strategies. The Bank needs to continue its efforts in this regard.

We also welcome the Bank’s review of its role in assisting members respond to shocks with a view to developing concrete proposals for discussion at the IDA14 Mid-Term Review. Funding of disaster prevention and mitigation initiatives can have tremendous returns. Quick and less disruptive means to fund the necessary adjustment after a disaster can help countries and their citizens recover quickly. Besides suggestions for a shock facility and options to enhance flexibility within the IDA financing framework, we would encourage the staff to examine the issue through a modern risk management perspective. This could include mechanisms that pool risk for some types of shocks such as natural disasters across countries, include a role for donors to contribute to risk reduction activities before disasters strike as well as after, but also provide incentives through co-payments, re-insurance and other means for affected countries to undertake risk mitigation.

President Jim Wolfensohn

Canada, Ireland and the Caribbean States I represent appreciate greatly the leadership you have shown on development issues over the past 10 years.

Under your guidance, the World Bank has become a more dynamic and effective organization. It is a partner to both developing and developed countries and to governments, the private sector and civil society. It has supported international efforts to improve education and health outcomes, combat the HIV/AIDS pandemic, and reduce the unsustainable debt burdens of the world’s poorest countries. It has drawn international attention to the most urgent and important issues of our time—corruption and conflict, gender equality, environmental protection, security, economic development and the special challenges of Africa and small states.

The World Bank’s development approach has evolved considerably. The World Bank has become much more effective and focused on its overarching goal of a world without poverty. It increasingly emphasizes (i) poverty reduction and the needs of the poor; (ii) country ownership by putting national development strategies at the centre of development cooperation and by increasing the use of country systems; and (iii) partnerships between recipient countries and development partners. This has resulted in a very significant improvement in collaboration between the World Bank and bilateral donors at the country level.

Looking Forward

We welcome President-designate Paul Wolfowitz and urge him to continue and strengthen the approach President Wolfensohn has pioneered, especially the Bank’s primary focus on poverty reduction and emphasis on partnerships and donor coordination and harmonization. My constituency underscores the critical importance of maintaining the multilateral and consensus-building nature of the World Bank and ensuring that all members have a voice in decision making.

A decade remains until 2015. We urge both institutions to be bold and strategic in the comprehensive review of their roles in member countries, their financial and capacity-building assistance, and their global development and financial advocacy and monitoring work in order to maximize their contribution to the MDGs and prosperity around the world.
2005 is a decisive year for development as several international meetings, the UN Summit in September, in particular, are scheduled to address the key issues of development. This year marks the first checkpoint on our common strive towards meeting the Millennium Development Goals (MDGs). Today’s meeting gives us an opportunity, first, to provide input to the broad discussion on meeting the MDGs, secondly, to reconfirm the commitments made in Monterrey, and finally, to assess what kind of further efforts are needed to attain the goals by 2015.

The second Global Monitoring Report provides us good guidance in this respect and we would like to draw attention to the following key messages which we believe are the most important if we are to reach the MDGs.

- Equitable and sustainable economic growth, led by the private sector, is essential
- Capacity building, harmonisation, a strengthened national ownership, stronger institutions and good governance are crucial to ensure a more efficient use of internal and external resources
- Sub-Saharan Africa will need special attention and particular support
- Developed countries need to rapidly increase aid. The best option to increase ODA is for donors to move towards the UN objective of 0.7 percent of GNI

Global monitoring report and messages for the key actors

The Nordic-Baltic countries find The Global Monitoring Report’s five point agenda of actions needed to accelerate progress toward the MDGs appropriate and well justified. However, the report could have paid more attention to environmental aspects of the MDGs and we propose that the following GMRs focus more on these. We would like to provide the Nordic-Baltic perspective on some of the key issues in the report.

Private sector-led economic development

While the Nordic countries in our constituency are known for their welfare state, broad-based social security, and well developed social services, it is clear that this would not have been possible without strong and sustained economic growth primarily based on private domestic efforts. Even today the sustainability of the welfare state requires that our economic development is strong enough to support all the social services provided. Therefore, the emphasis in the Global Monitoring Report on sustainable economic growth is a welcome reminder of the most powerful domestic tool of development and of the responsibility of each individual country for its own development.

Institution building and good governance

Our constituency is committed to supporting the Bank in its efforts to promote equitable economic growth. The report rightly concludes that improving fiscal management, respect for property rights and the rule of law are key areas for ensuring efficient use of internal and external resources, thereby spurring sustainable economic growth. Good governance and an efficient institutional framework must be in place to ensure that growth benefits the poor and is compatible with sustainable development.

30 On behalf of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden.
Our own experience implies that institutions and policies, which promote the active participation of all members of the society in economic, social and political life, contribute to equitable and sustainable growth. This is also in line with the conclusions in the Doing Business 2005 report, which highlights good governance and enabling environment in the Nordic States as prerequisites for a healthy investment climate.

The focus on anti-corruption deserves particular attention in this regard. In addition, the importance of equitable social development needs to be recognised as a generally accepted goal. We also believe that to make aid more effective and in order to make significant progress an all the MDGs social, cultural and environmental dimensions, as well as dimensions like good governance and human rights must be taken into account.

The Baltic countries in our constituency have since the beginning of the 1990s implemented a hard change from centrally planned to market economies, and confirm the significance of institution building as a prerequisite of private sector-led growth and good governance.

Special focus on Sub-Saharan Africa

We endorse the special focus on Sub-Saharan Africa, as the challenges to reach the Millennium Development Goals are greatest in this region. We note and welcome the several positive signals related to the sustainable growth, improved governance and increased political stability in the region while realizing the challenges that still remain. It is widely agreed that more aid is needed for the region to build on the progress and overcome its formidable problems.

We need to recognise the great potential of Africa’s own initiatives such as NEPAD and the peace keeping and reconciliation efforts of the African Union. In this context we support the Bank’s commitment for deepening collaboration with relevant partners in the areas of conflict prevention, reconstruction and analytical support.

We welcome the Bank’s Africa Region Indicative Action Plan as an important step in further defining the Bank’s strategic engagement in Africa. We also believe that the plan will serve as a useful input into the preparations for the UN Summit in September.

Scaling up service delivery in health and education

We agree with the message of the report that the human development outcomes at the core of the MDGs depend on access to basic services in primary education and health and that increased efforts are needed to scale up these services. The lack of progress regarding the human development goals on health and education in Sub-Saharan Africa is alarming. If we are to succeed in reaching the MDGs on human development we must deal with the health personnel crisis in these countries. We therefore urge the Bank to put special emphasis on this issue and help countries ensure adequate resources to deal with this issue while ensuring macro-economic stability.

We also find important the findings in managing the service delivery chain and the importance of addressing the underlying power and accountability relationships linking citizens, politicians, and service providers as prescribed already by World Development Report 2004. We take home the message for donors about the wastefulness of incompatible management information systems financed by different donors and technical assistance that fails to build true local capacity.
Trade

Improving coherence between aid and trade policies by reforming trade and opening developed country markets for the products of the developing countries is also rightly identified as an important tool of development. We agree with this and look forward to an ambitious outcome to the Doha Round which caters to the interests and concerns of developing countries, and a timely conclusion of negotiations. We realize, in addition, that technical assistance and investments in infrastructure are needed for developing countries to benefit from the potential results of the Doha round. We also believe that a necessary complement to this is that developing countries open their own markets to each other.

Increasing the level and efficiency of ODA

Providing more and more effective aid is a task that donors have committed to as parties to the Monterrey consensus and more specifically on the international fora on harmonization and alignment. We believe that much more needs to be done in this area. A number of measures are needed to carry out the Monterrey agenda and the Paris declaration, both by partner countries and donors. Particular attention should be given to the need to respect and strengthen national ownership in partner countries.

We appreciate and emphasize the importance of the commitment of the Bank and other IFIs, as reported in the GMR, to contribute to further harmonization, alignment and orientation to results. Increased cooperation among the IFIs as well as with other international development organizations needs to be further strengthened in this respect, and the IFIs should increase their efforts in using and strengthening developing countries’ own systems in their operations. We also welcome the emphasis on country focus and alignment of the development efforts with the country’s own development strategies. Experience shows that harmonisation works best in the developing countries themselves and under their leadership. Experience also shows that if donors are to succeed in harmonising development cooperation, more attention will need to be paid to strengthening the capacity of partner countries. We agree, in particular, with the conclusion in the GMR that new modes of technical cooperation are needed.

Improved aid efficiency is a prerequisite for additional development financing. Increased aid flows can only be secured by ensuring the efficient use of these flows. Absorptive capacity and aid efficiency is therefore important to consider if the much needed increases in resources are to become reality. Moreover, increased aid need to be a part of an overall coherent approach to supporting development. Here we also want to emphasize the significance of Official Development Aid as a primary source of development assistance and stress that the best option would be for donors to move towards the UN objective of 0.7 percent of GNI. We support the consideration of the idea of an interim target for 2010.

Innovative financing mechanisms

The Nordic-Baltic constituency has studied carefully the various proposals on new innovative instruments to enhance the development finance flows to developing countries and feels that further work is needed to fully establish the potential benefits as well as drawbacks that these proposals entail. We welcome efforts to scale up funding where it can be used effectively and we appreciate the work being done on the development of such new and innovative financing modalities.

We note with interest the work that has been carried out on the pilot International Financial Facility (IFF) for Immunization. We note that important issues are yet to be fully analysed. Implementation of the pilot by an interested group of countries could provide additional information for furthering the development of a workable solution of a full-fledged IFF.
However, our present concerns about IFF’s implications for future aid flows remain valid and mechanisms are needed to ensure that aid flows are truly additional, transparent, and do not drop dramatically when IFF bonds are to be repaid. It is also important that the implications for accounting in the national budgets are clarified.

Regarding proposals of global taxation we note that research on their potential viability is being carried out among others by the World Bank and we encourage the Bank to strengthen its analytical work on global taxation schemes. However, challenges in ensuring broad international cooperation and political acceptability remain to be solved. Also, fundamental elements, such as the equity impact of global taxes and the issue of additionality need to be given further consideration. However, for some countries the concept of international taxation is not acceptable.

In addition, as noted in the Bank’s background document on Financing Modalities Toward the MDGs, the international community could benefit from a more systematic work program to explore what can be done, specifically by governments, to encourage private and voluntary flows for development and to foster their effective channelling and use in support of developing countries’ own priorities. Likewise, the potential of blending and other cooperative arrangements designed to enhance the overall effectiveness of support could be further explored.

**Debt relief**

We would like to use this opportunity to acknowledge the various proposals for additional multilateral debt relief as means to release resources for developing countries’ efforts to achieve the MDGs. However, our first priority is to ensure the full financing and implementation of the HIPC. In this context we also reiterate our earlier request for a change in the methodology for calculating the need of topping up to the effect that bilateral additional debt relief is excluded.

Debt relief allows countries with good policies and governance to spend their own resources according to the priorities of national poverty reduction strategies, thereby increasing country ownership and efficiency. In such countries debt relief can also be an efficient way of transferring resources as its transaction costs remain low. However, the provision of debt relief to countries without appropriate policy and institutional framework will not ensure long-term benefits, on the contrary, it may lead to weak credit culture and moral hazard behaviour. Multilateral debt relief should also not endanger the viability of the International Financial Institutions. Therefore, while open to further discussion on additional debt relief the Nordic-Baltic Countries emphasize the importance of the full implementation of the HIPC initiative as the first priority.

If it is found necessary to extend debt relief beyond HIPC, the following principles should guide the assessment and potential decisions: additionality; preserving the financial position of the IFIs; link to clear criteria and conditionality so as to minimize moral hazard; consistency with ongoing initiatives, such as the HIPC; as well as coherence with the new framework for debt sustainability analysis and efficiency.

**Voice**

The Nordic and Baltic countries are strongly in favour of enhancing the voice of developing and transition countries in accordance with the Monterrey consensus. We note that important progress has been made on practical reforms, such as improvement of the capacity of the developing countries constituency offices. We also welcome the availability of the Analytical Trust Fund as well as the secondment program of the Bank in this respect. We should also not forget that the poverty reduction strategies provide an important instrument for developing countries to enhance country ownership and
thus their voice. Furthermore, we note that the developing countries have actively participated in the IDA 14 replenishment negotiations.

In order to move the issue forward we stand ready to constructively and candidly consider all options on the voice agenda. As previously stated we, as a first step, support an increase in basic votes to enhance the voting power of developing countries. Only very limited progress has been made during the last year. We, therefore, emphasize the need for continued discussions in the Boards of the World Bank as well as the IMF. We would welcome simultaneous progress but do not exclude the possibility of sequencing potential actions individually across the institutions. We also reiterate our plea for more flexibility among member countries in order to find sustainable solutions to these questions.

**Statement by Aleksei Kudrin, Minister of Finance of the Russian Federation**

*Global Monitoring Report 2005, MDGs: From Consensus to Momentum*

We have read the new World Bank’s Global Monitoring Report with much interest. In general we believe that this Report meets the requirements put forward by the international community, namely, it is objective in assessing the real progress towards the MDGs and towards meeting the goals of the Monterrey Consensus. This report is also an improvement on the previous version in that it presents a clearer and more complete description of the tasks facing the international financial institutions in the area of accelerating development.

Present report is focused on the problems of Sub-Saharan Africa, which faces particular challenges in attaining all MDGs. It is clear that in order to overcome this difficult situation both the African countries and the international community as a whole would have to step up their efforts. The document puts forward a five-point agenda aimed at putting the poorest countries onto a new growth path:

- **Anchor actions to achieve the MDGs in country-led development strategies.**
- **Improve governance and environment for stronger, private sector led economic growth**
- **Scale up delivery of human development services by dedicating to them more resources and improving efficiency.**
- **Dismantle barriers to trade.**
- **Substantially increase (double in the next 5 years) the level and quality of official development assistance, including reaching closure during 2005 on current proposals for additional debt relief.**

The importance of all these actions has been long recognized both by the donors and by recipient countries. International financial institutions have put them at the forefront of their activities. It is therefore hard to dispute these points. In our view the main problem is putting these proposals into practice. In this respect we would like the report to clarify obstacles to tangible progress in all these areas, and to provide realistic assessment of likely future results.

The document makes a novel attempt to analyze general and specific problems of Sub-Saharan Africa that determine the region’s failure to catch up with the rest of the world on most measures of socio-economic development. In this respect the document provides interesting and useful information.

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Any strategy to put the poorest African countries on a new development path must be based on their particular local conditions, while at the same time drawing on the global experience of resolving similar problems. The key question however remains unresolved, namely, whether the donor community is indeed prepared to provide additional resources to address African priorities, and whether the promises of aid obtained thus far can be taken seriously enough to serve as a basis for more ambitious national development strategies.

We must bear in mind that many countries that achieved remarkable progress in development and the fight against poverty had started from a similarly low base. They did not enjoy as much external assistance as does Africa. Given that many African countries are already aid-dependent, it would be particularly useful to analyze the reasons for past failures to reach the desired outcomes through bilateral or multilateral aid. Such analysis would help to clarify whether a massive increase of aid could lead to desired results with respect to achieving the MDGs.

In this context we note with optimism the acceleration of economic growth in Africa in 2004. We hope that this momentum can be sustained and supported by the international community, since lasting economic growth is the key prerequisite for overcoming poverty. Global Monitoring Report convincingly demonstrates that a low level of private investment in Africa has been an important reason behind its historically low growth rates. We believe that this low investment is due not only to poor institutional capacity and investment climate but also to the lack of essential infrastructure.

This is also the opinion of the recipient countries, whose voice and priorities should be always taken into account in any aid programs. For example, many African countries have pointed to the critical role of infrastructure for increasing competitiveness, improving investment climate, speeding up growth and reducing poverty. At the same time in the past there has been a trend of falling investment in infrastructure, caused to some degree by donors’ requirement to channel aid resources to expanded social spending.

The document makes it clear that channeling foreign aid to infrastructure investment leads to faster gains in terms of productivity and growth while at the same time avoiding the problem of poor countries’ limited absorptive capacity. At the same time channeling external resources to social sectors immediately faces local capacity constraints and leads to slower growth and loss of competitiveness.

It is therefore obvious that absorptive capacity, especially its macroeconomic aspects, should be a primary concern determining the scale, timing and structure of aid (financing investment or recurrent costs, imports or liquidity). This is especially true for countries where the share of aid in GDP and government budget is high, as in most poor African countries. Progress in resolving this problem will determine the effectiveness of foreign aid for development. Until such a solution can be found it would be very difficult to discuss the timing and volumes of additional development assistance, including proposals for possible frontloading.

Anchoring external assistance in national development strategies as expressed in concrete budgets is the key to improving the effectiveness of international aid. The document contains an interesting analysis of recent proposals for additional debt relief to the poorest countries; however the conclusions of this analysis remain unclear. We would like the World Bank and the IMF to come up with a clear and balanced answer to the questions put forward in the analysis, and to relate any proposals to the more general problem of sustainable debt levels, which is under review at present. We would also like any assessment of proposals to take account of the conclusions contained in the OED report on the HIPC Initiative.
We consider is a shortcoming that the report does not clarify the role of the private sector in speeding up economic growth and attaining the MDGs. The document emphasizes the need to remove existing obstacles to entrepreneurship in poor countries. This point is hard to contradict. At the same time we believe that regulatory failures are not the only cause of private sector’s modest contribution to growth. Moreover, it appears that entrepreneurs in the poor countries demonstrate remarkable resilience and success in extremely difficult conditions.

The World Bank has often pointed to the lack of link between national development strategies and the agenda of private sector development. The report’s section on the IFIs is almost entirely silent on the subject of promoting private enterprise. Nor does it pay sufficient attention to the role of the IFIs in developing infrastructure, including at the sub-national and regional level, despite a clear client demand for such work and its link to investment climate, competitiveness and growth. At the same time many experts agree that channeling more resources to private sector development in the poor countries is an important condition of effectiveness of additional aid.

In our opinion private sector development and improved competitiveness should be the filter through which we should consider possible effects of the new round of trade liberalization on the poor countries. The document contains some sober and balanced assessment of the benefits of this process for developing countries. It states that we should not expect miracles. The signal to the poor countries is clear: their future will ultimately depend on their own efforts in economic reform, institutional development and investment, including human capital investment. The document concludes that poor countries are not doomed to the vicious circle of poverty and aid-dependency, a conclusion which we wholeheartedly share.

We would like to thank the World Bank for this extremely useful and rich report. With the above mentioned caveats, we can support the proposed five-point agenda of accelerated development, as well as the action priorities that it implies. In future reports we would like to see clearer answers to the questions mentioned above, in particular relating to the assessment of absorption capacity, the role of infrastructure and private sector development.

Moving Forward: Financing Modalities toward the MDGs

We consider with great interest proposals that could enhance the ability of the international community to mobilize additional aid flows. The use of innovative mechanisms is especially justified in cases where traditional mechanisms are unable to quickly allocate adequate resources necessary to address urgent development challenges.

In this regard, we welcome the pilot IFF for Immunization (IFFIm) linked to Global Alliance for Vaccines and Immunization (GAVI). We believe that successful implementation of the IFFIm would directly contribute to achieving the MDG of reducing infant mortality. In addition, it would be instrumental in addressing major challenges facing the health sector in poor countries, such as:

- assuring adequate and predictable funding necessary for development and production of essential vaccines;
- stimulating private sector investment and competition necessary to maintain adequate levels of vaccine production while reducing costs;
- strengthening vaccine delivery capacity in recipient countries;
• decreasing budget costs associated with preventable deceases and thus freeing up resources for other urgent need.

Vaccination and immunization offer an especially promising avenue for cost-effective solutions of existing problems by frontloading aid. The Russian Federation is considering the possibility of participating in this initiative to the extent allowed by its budget law.

At the same time, plans to use the IFF as a mechanism for additional aid mobilization on a global scale need to be further elaborated. In particular, they need to be aligned with varying absorptive capacities of recipient countries vis-à-vis increased volumes of aid flows, including institutional and macroeconomic aspects of this issue. Present Global Monitoring Report shows that these issues have not yet been fully resolved either at the analytical or at the practical level.

We also believe that we need to continue discussing issues related to global taxes and voluntary contributions, while dropping the proposals that have no chance for a meaningful consensus. The paper proposed for the Spring DC meeting is quite useful in terms of assessing the practicality of various proposals. At the same time, we believe that it does not exhaust all possible options.

When assessing various proposed global taxes the paper gives preference to those which can be most efficient in fulfilling their direct revenue collection function while at the same time contributing to improved equity and efficiency of global resource allocation. In this regard, an obvious candidate for taxation would be agricultural subsidies in developed countries that are especially harmful to the poorest developing countries. Bearing in mind that it would be unrealistic to expect sharp reduction or elimination of these subsidies in the near future, their negative role for the poorest countries could be somewhat offset by applying a voluntary quasi-taxation mechanism. Depending on their political preferences, donor countries could choose between two options: either reduce subsidies or directly transfer resources calculated on the basis of such subsidies as compensation to the poor countries. In this case, instead of taxing trade, we would be taxing barriers to trade.

Although the proposals put forward so far appear reasonably attractive, we believe that maximum practical effect could be achieved thorough the blending of funds from various sources that could substantially enhance the flexibility and capacity of existing development finance mechanisms without introducing any revolutionary changes. Such blending arrangements could contribute to attaining the following urgent goals well described in the paper:

• addressing the needs of the so-called “gap countries” whose development financing requirements are not adequately met in the current system and which are caught between their ineligibility for either IDA or IBRD funding;

• financing large infrastructure projects in poor countries, especially those on the regional scale;

• assuring adequate financial support to private sector development in poor countries;

• providing adequate World Bank financing for infrastructure projects on sub-sovereign and municipal level (especially in the area of water and sanitation, which is directly related to the MDGs).
Despite the fact that the above proposals have been on the agenda for a long time, practical results of our discussions have yet to materialize. We believe that we should move ahead in this area more expeditiously.

The Russian Federation has always paid much attention to mobilizing resources for development. Although we have not yet completed our own program of structural reform and poverty reduction, we are trying to increase our assistance to the poorest developing countries. Thus, we have decided to double our contribution to IDA in the framework of the 14th IDA Replenishment. In March 2005 we wrote off some US $1.1 billion of Ethiopian debt and are now considering the possibility of complete write-off of the debts of the poorest countries in the framework of the Debt Initiative.

*Voice and Participation of Developing and Transition Countries in Decision Making at the World Bank and the International Monetary Fund*

The document for consideration by the Development Committee contains some systematic and useful information on past progress and proposals for future actions for increasing the voice and participation of developing and transition countries (DTCs) in decision making at Bretton Woods institutions.

On this topic we have always stressed that any possible actions in this area should be pragmatic, should not lead to further politicization of Bretton Woods institutions, and, most important, should not undermine the long standing tradition of governing by consensus. This tradition in our view is one of the key assets of these institutions that benefits all of its shareholders and ensures Bank’s and Fund’s central role in the international financial architecture.

In the last few years we made some tangible progress on the subject of voice, in particular, improved the capacity of the Executive Directors’ offices representing many poor African countries. We are convinced that an extension of the program of secondment for representatives of DTC governments would lead to greater client understanding of World Bank programs and policies, and therefore would make a solid contribution to capacity building in the borrowing countries and improve the quality of Bank-client collaboration.

We note that many of the structural measures put forward so far, in particular those concerning the reallocation of shares or changes in voting rules, are fraught with political and technical problems. Another reason for persistent lack of consensus in this area is the fact that even if such structural changes were possible, they would not lead to practical improvements of DTC voice. This is well illustrated by the example of MIGA, whose Convention ensures parity of votes between Part I and Part II countries. In practice even such radical difference of voting rules has not led to any significant manifestations of greater voice of developing and transition countries in MIGA as compared to the rest of the World Bank Group.

At the same time, we believe that many practical steps in the desired direction can be made at the level of institutional management. It is no secret that many crucial decisions that affect the quality and content of the work of Bretton Woods institutions are made by the management and staff of these institutions on a day-to-day basis. Such decisions often either are not offered for discussion by the Board of Directors, or are presented for a *post factum* approval in their most general form. For example, the Board of Directors has never officially sanctioned a reduction in financing for infrastructure in the late 1990s. Instead, this shift was made gradually, as a result of many choices made by staff and management at the operational level that tended to reflect the point of view of the large donor countries.
It is important to point out that we are in no way advocating micromanagement of the Bretton Woods institutions by their respective Boards. The existing division of authority, whereby the Boards focus on strategy and management takes operational decisions, has in general worked quite well. It is however important to ensure that the voice of developing and transition countries is heard at all levels of the system.

In this respect, we believe that increasing the share of developing and transition country nationals among the staff and management of the Bank and the Fund can play an important role. In particular, this could increase the credibility of the Bank and the Fund in the public opinion of countries undergoing economic reforms, and dispel the view that they reflect only the interests of their largest shareholders. Proposed measures in this area, and especially better anchoring aid programs in client countries’ own priorities, have a very good chance of bearing fruit. Let us therefore focus all our efforts on these practical and effective steps, so as to demonstrate that the international community is truly serious about the issue of voice.

Statement by Mr. Roberto Lavagna, Minister of Finance and Production of Argentina

Global Monitoring Report: MDGs from Consensus to Momentum

General Comments

The main message of the Global Monitoring Report (GMR) is that 2005 is probably our last chance to achieve the MDGs by 2015. To achieve the goals in time, we need to scale up our global efforts for multilateral trade liberalization and to substantially increase aid in terms of quantity and quality.

We agree with the GMR proposed five-point agenda. In fact, the proposed agenda is an extension of the two-pillar Bank strategy to combat poverty, in which the roles of developed and developing countries are well spelled out. The agenda asks the developing countries to invest in and empower the poor and to improve their investment climate for job creation and private sector-led growth. It also asks the developed countries to take the lead in dismantling barriers to world trade, which is an aspect of the investment climate, and to increase aid in terms of quantity and quality, which is key to scale up basic services delivery to invest in and empower the poor. These strategic directions should be framed in a country owned and led poverty reduction strategy, with which donors have to align their resources and around which they have to harmonize their policies and procedures.

We find the report too focused on envisioning future scenarios instead of pointing out more clearly the insufficient progress achieved in key policies and actions that are the main responsibility of developed countries: the disappointing progress at the Doha Round so far and the dismal progress in improving the quality of aid, including very slow progress in harmonization, alignment, recurrent cost financing and stability of aid flows.

While the GMR’s focus on the low-income countries (LICs) is appropriate, we are surprised to see that it makes only a brief reference to the evolution of the MICs in terms of progress toward the MDGs.

In the future, the GMR should stress its role as the global vehicle to monitor the mutual accountabilities for development. In the end, what will maintain the credibility, trust and relevance of the

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31 Representing Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay.
GMR is its capacity to monitor progress (or lack of it) in the implementation of policies and actions toward the MDGs by developing and developed countries. Moreover, progress should be presented, insofar as circumstances allow, in terms of incremental gains or losses relative to the previous period of reference, to avoid repeating the aggregate graphs contained in the initial report.

**Spurring Economic Growth**

We totally agree with the report when it states that higher aid is insufficient by itself to spur and sustain higher growth. We consider that the actions taken by the countries, adapted to their own circumstances, are the main forces that support growth. We recognize that aid is very important and that it will help in this process, but we consider that the elimination of all the barriers that impede the least developed countries, and in particular the Sub-Saharan African countries, to freely commercialize their products all over the world is even more important than aid. The benefits to these countries derived from liberalization could be substantial and help to finance their own poverty reduction efforts.

**Realizing the Development Promise of Trade**

Multilateral, reciprocal, nondiscriminatory trade liberalization offers the best approach to supporting development and the MDGs. We expect an ambitious Doha Round outcome. In particular, given that two-thirds of the welfare gains from multilateral trade liberalization are derived from agricultural liberalization and more than half of the global gains are derived from the liberalization of industrial countries, any meaningful liberalization has to emphasize agriculture and industrial countries liberalization.

We would like to highlight some of the findings of the overall trade restrictiveness index (OTRI), the most complete index of overall protectionism: (i) agricultural products are far more protected than manufacturing; (ii) middle-income countries face the highest agricultural barriers from OECD countries, with a 49 percent tariff equivalent overall restriction; and (iii) under the OTRI, the most difficult agricultural markets to access for low-income countries are Quad and other high-income OECD, with a 43 percent tariff equivalent versus 36 percent of protection imposed among them.

The chapter on trade reform is well framed, but we would not have considered trade facilitation and trade liberalization equally important. We think multilateral trade liberalization is a necessary condition for poverty reduction, whereas trade facilitation has a potential only if the markets are open for developing countries’ exports.

**Aid and Aid Effectiveness**

Achieving the MDGs by 2015 requires that developed countries fulfill their Monterrey commitments to provide more and better aid. While developing countries have been working on their part of the deal, developed countries have shifted their priorities, crowding assistance out of countries that need the most help in achieving the MDGs. Recent levels of development assistance and near-term projections of these volumes fall short of what is estimated as necessary to meet the MDGs. While debt relief has received some attention, it alone is not enough.

The report mentions that scaling up development assistance will only be effective if developing countries improve their capacity to absorb higher aid amounts. But not all constraints to this capacity are equally binding. While some take longer to overcome, others, like inadequate public expenditure management systems, can be overcome more readily. Prioritizing and sequencing interventions across the range of constraints is necessary for an effective strategy for capacity building, as is alignment of public
investment with those priorities. Moreover, we should not lose sight of the fact that most LICs have sufficient capacity to absorb a significant scale-up of aid.

The Poverty Reduction Strategy approach is growing and constitutes the enabling framework for growth and poverty reduction. However, in a situation of stringent budget constraints, the non-income dimension of poverty reduction should not cause a reduction of public investments, more so if low-income countries have a difficulty in attracting more foreign direct investment (FDI).

Donors are becoming more performance-focused, allocating more aid to the best performers and to the poorest countries. We agree that a sharper performance-based focus by all donors could strengthen the overall quality of aid. At the same time, well-coordinated and appropriately sequenced and directed aid can be very effective. To this effect, progress on harmonization and alignment should be stepped up considering that the implementation of good practices in these areas has been slow and uneven. Progress in taking on ownership of the aid process by developing countries is continuous, and the use of country systems by donors could reinforce even more this trend.

*Strengthening and Sharpening IFIs Support*

We think the report falls short in presenting the responsibilities of the international financial institutions (IFIs) and in taking a more critical stance of their past behavior. Addressing these considerations would bring much more credibility to future reports.

With respect to the World Bank, we think the Bank is overloaded with procedural requirements. Over the years, a number of activities have been added to the due diligence in bank projects – social and environmental safeguards, fiduciary requirements, participatory and consultative schemes –, which adds substantially to the cost of doing business with and within the Bank. A promising way out of this problem is to increasingly use the client country systems to deal with these issues, which not only cuts substantially the cost of doing business and scales up harmonization, but it also improves ownership and the development and institutional impact of Bank’s operations. We think future GMRs should systematically monitor progress in the use of country systems.

The drastic contraction of lending to IBRD countries is mainly explained by the growing procedural requirements the Bank has been fulfilling in the last five years, which has significantly increased the non-financial costs of doing business with the Bank. IBRD commitments averaged US $ 15.5 billion from 1990 to 1997 before the Asian and Russian crisis and declined to US $ 10.9 billion from 2000 to 2004 after the crisis. IBRDs countries are increasingly using other sources of finance that are financially more expensive and with shorter maturities and can create additional debt problems in the medium-term.

There is strong rationale for the IMF to provide countercyclical funds vis-à-vis private sector flows to countries with sustainable macroeconomic frameworks that face liquidity crisis. Sound technical judgment is a prerequisite in this respect. The IMF should streamline its conditionality to focus on the fundamentals for a sustainable macroeconomic framework. Bail-outs that delay corrective measures and favor creditors with asymmetric information and power are harmful for borrowers and entail a reputation cost.

Since ownership is a prerequisite for any successful reform, conditionality ex-post is better than conditionality ex-ante. It is clear that different countries undertook different strategies and got good results. IFIs should be humble enough to come to terms with this fact and streamline conditionality to a hard core that focuses on the basic elements of a sustainable economic framework coupled with zero tolerance to corruption and/or violations to human rights.
On managing for results, the "attribution problem", a prerequisite for any rigorous approach to the issue, has been downplayed in the report. It has not been dealt with appropriately neither in country strategies nor in individual projects. If this issue is not tackled, the results-based frameworks increasingly used in Bank’s work will have little impact on accountability.

Financing the Development Agenda

The main sources of financing development are domestic flows, aid, private external flows, and trade liberalization. The financing gap to reach the MDGs is so large that we have to use all sources of funds intensively.

Since Monterrey, there has been continuous progress in fiscal adjustment in developing countries, but a significant financing gap persists. An ambitious Doha Round could benefit the global economy with a yield of US$ 95 Billion per year by 2015 from the liberalization of goods only, excluding dynamic gains and gains from services liberalization.

The most recent calculation of aid needs, taking into account the domestic and trade efforts, is given in the recent Millennium Development Project, which states that annual development assistance should double to US$ 135 billion in 2006 – approximately 0.44 percent of donors GDP (far below the 0.7 percent of GDP notional target for those countries) – and be further increased thereafter.

Given the large remaining financing gap and the fact that the most recent studies show that absorptive capacity is not a binding constraint if aid is doubled during the next five years, we should act in all remaining fronts.

First, donor countries have to deliver on the promises already made after Monterrey. The delivery of the committed funds should increase the quality and effectiveness of aid going forward. Aid has to be predictable, aligned with country strategies, harmonized around client country delivery and evaluation systems, untied, and it should have the possibility of financing recurrent costs. Developed countries have to make an urgent effort to advance in all these quality aspects to ameliorate the lack of a significant scale-up of aid to meet the MDGs.

The innovative mechanisms of additional financing are all very welcome.

We see much potential in the International Finance Facility (IFF) to front-load much needed funds to give significant push to the implementation of policies and actions to achieve the MDGs in the short term. We are surprised that some donors are not willing to subscribe the IFF because they cannot commit funds multi-yearly; meanwhile, they ask developing countries to have multi-year fiscal planning to improve expenditure and revenue management. We are eagerly expecting the pilot IFF results in order to scale up the IFF as soon as possible.

A global tax mechanism is highly complementary to the IFF as it would produce a permanent stream of revenues over time. We are aware of the administrative and incentive difficulties that this proposal entails, but we see much potential in the proposed pilot of restricting the collection to an aviation tax that would bring benefits to both aid and the environment.

We also welcome the proposed blending arrangements, which give more flexibility to the concessional element of aid flows while providing middle-income countries with an innovative mechanism of concessional financing to allow them to reach the MDGs and fight the pockets of poverty that remain in many of them.
We also welcome the voluntary contributions, in particular the best practice they are developing for aid delivery with minimal bureaucratic requirements, and we certainly expect that they further increase, not only as a reaction to natural catastrophes but to reach the MDGs to combat poverty, which is the gravest permanent catastrophe of our time.

Remittances are also an excellent non-bureaucratic way of increasing financing for development, but the Doha negotiations need to deliver robust results in the liberalization of labor services among developed and developing nations in order to scale up the impact of remittances.

**Voice and Participation of Transition and Developing Countries**

Voice is a complex and multidimensional issue. Progress has been made in strengthening Executive Directors’ offices, and it is feasible in areas where the dialogue is mature enough for implementation, namely, higher representation of nationals from developing and transition countries (DTC) in senior management positions, Board effectiveness, filling the gap between allocated shares and actual voting rights, and the increase in basic votes and membership shares to moderate levels. We can support those areas of the voice issue where there are good chances of reaching consensus.

On the other structural issues, such as voting rights and capital structure of IBRD and IDA, and Board size and composition, we think progress is not mature enough to reach a consensual decision and, therefore, we are of the opinion that more dialogue is needed on these issues.

We would concentrate our future dialogue on double majorities, a topic which has already proven to be good for increasing voice and participation in some Regional Development Banks. We ask the Bank to continue exploring ways of reaching consensus on this topic. However, most of the pending issues would require a simultaneous solution of the structural issues on the quota allocations in the IMF. Moreover, we think that deliberations on these issues are the exclusive realm of the authorities of the Bretton Woods Institutions (BWIs), and that there is no need for external consultations to arrive at fundamental decisions.

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

We welcome the discussion of the Global Monitoring Report 2005, Financing Modalities toward Achieving the MDGs, and Enhancing the Voice of Developing Countries in the Bank and Fund. All these items are closely related to achieving the MDGs. I would like to take this opportunity to share with you my observations on those issues.

**Global Monitoring Report 2005**

We appreciate the five-point agenda articulated in the Report, namely anchoring MDG efforts in country-led development strategies; spurring and sustaining economic growth, scaling up delivery of human development service, realizing the development promise of trade, and increasing the level and effectiveness of aid.

It is our view that the choice of development approach must primarily draw upon development practices in the developing countries. In this context, formulation of a development strategy must fully reflect the ownership of the developing countries. Sustainable economic growth is central to the overall social development in the sense that it gives powerful impetus to the progress in social indicators. In addition to economic growth, upgrading public sector management, improving efficiency of public
services, ameliorating investment climate, as well as increasing spending on human development services will also have a positive bearing on achieving the MDGs.

In this connection, we recognize that development is a process of economic growth associated with overall improvements in a multitude of social indicators, including education, health, environment, etc. Only by adopting a comprehensive, balanced and coordinated development strategy can prosperity and benefits from the economic growth reach every citizen.

Mr. Chairman, while developing countries are formulating their own development strategies and pressing ahead with reforms in key economic development areas, it is important, however, to have the consensus and support from the international community, especially, in terms of ODA flows and real openness in trade.

It has been five years since the MDGs were set by the UN in 2000. International community reached consensus in Monterrey, where developed countries committed themselves to providing sufficient funding for realizing the MDGs. But according to the estimates of the Report, a doubled increase of ODA in the next five years would be required to finance necessary progress. For that reason, mobilizing sufficient ODA has become an essential task for the international community.

Since Monterrey, the international community has made positive efforts in this regard. IDA14 replenishment negotiations have been completed with a significant increase over IDA13. However, we cannot overlook the fact that some developed countries still fall way short of the target of increasing the ODA to 0.7% of GNI. The lack of resources remains the bottleneck for meeting the MDGs. To increase development financing will require doubled efforts and tangible actions by the international community, and the developed countries in particular.

Trade has an important impact on economic development. The development promises must be fully realized in the Doha Round. A multilateral, reciprocal and non-discriminatory world trade system is the best way for realizing development promises of trade. Given their weight in the world trade system, the developed countries should set an example in ensuring the success of the Doha negotiations. Increasing market access for the developing countries, opening agricultural product markets, and eliminating agricultural subsidies would be a huge boost to economic growth in developing countries.

**Financing Modalities**

Sufficient development financing is key to meeting the MDGs. We support the Bank and Fund’s efforts to study innovative financing modalities. However, financing modalities could only solve the technical aspects of development financing and will not automatically warrant its additionality without the political will of developed countries. Therefore, the political commitment of developed countries to raising the level of ODA is the prerequisite for financing modality innovation. To that end, we call upon developed countries to take concrete actions in this regard while increasing ODA at the same time. Fundamentally speaking, no matter which modality is adopted it should eventually result in a substantial increase of the level of ODA.

We should give full play to the MDBs in mobilizing global development financing, with the World Bank as the major platform. IBRD and IDA themselves are important financing channels, which ought to be strengthened. To this end, we hold that the IBRD should enhance its viability by reducing financing and operating costs in order to mobilize more stable resources for MICs to reduce poverty and achieve harmony in economic and social development. To support poverty reduction and economic development in LIC’s, we call for increased contribution by developed donor countries to ensure the financial sustainability of IDA. The Fund also has its own role to play in this regard. We encourage the
Fund to give more serious considerations to strengthening the role of SDRs in the context of the financing modality innovation and international monetary system reform.

We support the IFF proposed by the UK and welcome the progress in preparation of pilot IFF for Immunization. And we expect it will be launched this year so as to provide experience in terms of legal infrastructure, management structure, market operation and cost risks, etc for the larger IFF to draw upon. We have to be aware that there is no perfect aid mechanism that would satisfy every country. It is our hope that countries with due willingness and readiness would take collaborative actions first and reach agreement on implementation, so as to encourage more countries to join in.

We fully support blending arrangements with grants/loans/guarantees. It enhances the responsiveness and flexibility of development aid, and increases the leverage of development funds. Development aid should be tailored to fit different country circumstances. We urge the Bank to set up a specialized “third window” so as to scale up this blending strategy in low and middle income countries.

In short, the Bank should act immediately to set specific objectives and timetable with regards to promoting implementation of financing modalities. To provide sufficient, sustainable and effective development aid to achieving the MDGs, it is vital for the Bank to maximize its role as a global development institution by pursuing a comprehensive approach which features in mobilizing political support, testing pilot program, and focusing on implementation.

Enhancing the Voice and Participation of Developing Countries in IFIs

Full participation by developing countries is imperative for establishing a fair and just international economic order. Increased participation of developing countries in decision-making is a prerequisite for the Bank and Fund – as an important component of the global economic governance - to fulfill their mandate of economic development and poverty reduction. To enhance the voice of developing countries, it is critical to increase their voting power. We support the efforts of this Development Committee to work continuously on this issue. We urge the two institutions to come up with feasible options to enhance the representation of the developing countries.

Statement by Mrs. Ngozi Okonjo-Iweala, Minister of Finance, Nigeria\textsuperscript{32}

This year presents a unique and historic moment during which the international community must decide either to seize the opportunity by taking bold actions to attain the Millennium Development Goals (MDGs) or risk losing the fight against poverty, the world’s greatest enemy against peace and security. We strongly urge that we all seize this opportunity to marshal the momentum that is so urgently needed to save lives from preventable disease and unnecessary deaths. The MDGs can and must be achieved by 2015. To this end, Sub-Saharan Africa presents the world with its most formidable development challenge as it is the only region with almost half the population living in absolute poverty. This is unacceptable in a free and fair world.

Global Monitoring Report 2005 - MDGs: From Consensus to Momentum

We welcome this year’s Global Monitoring Report (GMR) for its comprehensive and candid analysis of the progress to-date and for proposing a clear roadmap towards achieving the MDGs. The

\textsuperscript{32} On behalf of Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Seychelles, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.
emphasis placed on implementation is particularly timely. We also welcome the emphasis placed on Africa’s progress and challenges and agree that the lessons are relevant to other regions.

The GMR highlights yet again, the daunting challenges facing the international community in achieving the MDGs. It underlines the importance of seizing the opportunity provided by this year’s UN review of the MDGs, to scale up action. The theme of this year’s GMR - MDGs: From Consensus to Momentum – is therefore most appropriate.

In the coming years, however, it will be useful to explore ways of further improving the usefulness of the GMR by clearly focusing on progress achieved in implementing policies and measures during the preceding year. Such a stock-taking exercise could also be facilitated by setting intermediate targets, where possible, against which progress can be measured. The GMR could also be supplemented by coverage of selected topics aimed at better informing deliberations of the Development Committee (DC).

Nearly five years after the UN Millennium Declaration, we are disappointed to note that, at the current pace, only the target of halving income poverty is likely to be met in most regions by 2015 but the risks of falling short are far greater for the human development goals, especially in health. Moreover, the number of people with HIV/AIDS continues to grow. In education, half of the regions will not meet the targets of universal primary school completion, gender equality in primary and secondary schools, and the situation is worse for gender equality in tertiary education. Notwithstanding some progress in other regions, Sub-Saharan Africa is at the risk of being off track on all the MDG targets.

The cost of failure to speed up action is already too high. As many as 200,000 children under five die of preventable diseases and 10,000 women die of maternal complications every week in the developing world. More than 115 million children in developing countries are not in school. In Sub-Saharan Africa alone, two million people will die of HIV/AIDS in 2005, and WHO estimates that every day 3000 under five children die from malaria, and these numbers could increase.

It is against this backdrop that we fully concur with the conclusions of the GMR that without tangible movement to accelerate action, the MDGs would be in serious jeopardy but that the year 2005 provides a unique opportunity to garner the necessary momentum. We also agree that within the remaining ten years to 2015, rapid progress is possible.

The Monterrey Compact provides an adequate framework for taking actions aimed at meeting the MDGs. We therefore welcome recent indications that developed countries are making efforts to meet their part of the Compact. The last two years saw some increase in official development assistance (ODA), although progress in reaching the agreed target of 0.7 percent of GNI falls far too short. In this regard, we would like to commend first, the five countries – Denmark, Luxembourg, Netherlands, Norway and Sweden - that have already met this target, and second, the six countries that have announced a timetable for reaching the target, namely Belgium, Finland, France, Ireland, Spain and the United Kingdom. We urge other developed countries to follow suit. We wish also to commend donor countries for undertaking to increase IDA resources. The timely response to the Tsunami disaster, clearly demonstrates the international community’s capacity to respond to disasters in order to save and restore livelihoods.

The agreements reached at the recent Paris High-Level Meeting on Donor Harmonization aimed at improving aid effectiveness at country level, will be an important element in scaling up aid. The Blair Commission for Africa has also come up with fresh ideas regarding how to quickly and more efficiently deliver aid. Moreover, the UN Millennium Report, 2005 makes specific policy and financing recommendations aimed at ensuring achievement of the MDGs.
We take note that the GMR estimates a financing gap of at least $50 billion per annum, a figure that is within range of the $73 billion estimated in the UN Millennium Report. For Africa alone, the UN Economic Commission for Africa has projected a gap of $25 billion per annum. These estimates serve only to underline the urgent need to substantially scale up ODA to speed up progress towards the MDGs during this development decade. We wish therefore to acknowledge the progress already made and to appeal to the development partners to deliver on their commitments. In the same vein, we wish to underscore the importance of meeting the agreed 30 percent increase in IDA 14 Replenishment as a starting point. We would also like to urge developed countries to quickly and positively respond to the call for additional debt relief by the Blair Commission for Africa.

We would like to underscore that additional debt relief is key to releasing resources to invest in the MDGs. It is politically very difficult to explain to Africans that the same countries that are calling for reaching the MDGs are also relatively slow to take action on comprehensive debt relief for low income African countries including non-HIPCs. This situation tends to send mixed signals to all concerned.

On their part, developing countries have also continued to implement strong reforms aimed at enhancing growth prospects, and improving public sector management and accountability. Most countries in Sub-Saharan Africa (SSA) have made significant progress in creating policy frameworks for macroeconomic stability and higher levels of economic growth. As a result of these reforms, the SSA region has experienced sustained increase in the average GDP growth rate from 3.1 percent in 2002 to about 3.8 percent in 2005. During that period, average inflation decelerated from about 8 percent to 4 percent as a result of major reforms in the management of public resources. A number of countries in SSA have experienced growth rates of more than 5 percent a year for several years now. Continental institutions such as the African Union and NEPAD are increasingly playing an important role in ensuring peace and security and promoting regional integration. Nevertheless, we accept the need to do more to broaden and deepen reform to accelerate growth rates up to 7% per annum.

Sub-Saharan Africa countries are also making significant progress in the fight against corruption. Much more needs to be done and we must be conscious not to relent in this fight against corruption. In my country Nigeria, in recent weeks, there have been unprecedented successive moves to sack and arraign highly placed public officials and Politicians for corrupt activities. Whilst we fight internally, we also urge developed countries to ensure that corporate governance standards are upheld for their businesses and those that would be corruptors in our countries are brought to book. We further call on parties holding proceeds from corruption in their banking systems to repatriate them. Whilst Switzerland had set a good example, through a Supreme Court ruling to repatriate the looted $500 million Abacha funds to Nigeria, it has now been more than two months since the ruling with no efforts to implement this in sight. This is raising questions about sincerity and putting in doubt what was a good signal for other countries.

Looking ahead, implementation of the African Action Plan as approved by the Bank Board recently should further improve absorptive capacity and prospects for achieving the MDGs. We wish therefore to call upon the DC to take note of the Action Plan.

Going forward, the GMR has proposed a useful five-point agenda for accelerating progress, including related accountabilities for both developed and developing countries. We would urge that the design of actions to implement the agenda should further be informed by the need for (i) increased fiscal space for critical public infrastructure investments and support for regional infrastructure initiatives, (ii) careful diagnosis of country-specific impediments to growth, and (iii) the importance of increasing and speeding up implementation of infrastructure projects, and (iv) the need for urgent measures to arrest...
unnecessary loss of life due to preventable causes such as HIV/AIDS, malaria, unpotable water supplies and poor sanitary conditions.

Scaling up ODA will have to be based on a comprehensive package of broad measures. In the medium-term, real scaling up will have to come from (a) raising ODA to the agreed target of 0.7 percent of GNI, (b) free and fair multilateral trading arrangements, (c) improvements in investment climates to encourage private foreign direct investment, and (d) deliberate actions to improve the flow of private voluntary income transfers. In the short- to medium-term, however, it will be important to (i) front-load ODA including the use of innovative global financing instruments, (ii) concretely address the burden of external debt without compromising additionality, (iii) improve aid effectiveness and delivery mechanisms through closer harmonization at country level, and to (iv) improve management of public finances and state capacity to deliver services.

This year also presents an opportunity for taking concrete steps on the global trade agenda. In this connection, we note with satisfaction that July has been set as the deadline for drawing up a plan to reduce subsidies, something that is essential in order to ensure successful Doha Trade Round negotiations in 2006. To ensure that developing countries benefit from global trade reforms, we urge the Bank to scale up its support in building the analytical capacity, knowledge base and skills of trade negotiators in developing countries, especially in Sub-Saharan Africa.

Recognizing the critical role of private sector development for growth and poverty reduction, we welcome the renewed focus by the World Bank Group on supporting country-led efforts to implement Private Sector Development programs. To this end, we commend the steps which have been taken to operationalize IFC's Strategic Initiative for Africa, including the recently approved Private Enterprise Partnership Facility (PEP).

Debt Relief

We welcome the further progress made in implementing the enhanced HIPC Initiative, especially the fact that four more countries – Honduras, Madagascar, Rwanda and Zambia – have reached the completion point since last September, bringing the total to 18 countries. In order to give all debt distressed countries the opportunity to benefit from the HIPC debt relief, we call upon the donor community to meet their commitments under IDA 13 and IDA 14 to ensure full funding of the Initiative. We would also to re-iterate our call for the need for debt relief to non-HIPC low-income countries whose debt distress levels continue to undermine their efforts towards the MDGs. In this respect, we also welcome the further work on the new debt sustainability framework and urge that it take MDGs into account. We also urge that the work and piloting of this be accelerated.

Moving Forward: Financing Modalities toward the MDGs

In our view, the debate on the innovative financing mechanisms should be seen in the overall context of taking concrete steps to raise additional ODA to cover the financing gap alluded to earlier. While some donor countries have already reached the UN target for ODA, many more countries are yet to do so. Furthermore, unless developed countries show leadership, actual ODA flows will increase only marginally, something that would have the effect of pushing attainment of the MDG targets even further into the future. As discussed earlier, the cost of delivering aid on a business-as-usual basis is not acceptable. It is therefore important to come up with mechanisms for front loading ODA and ensuring predictability in aid flows.

It is in this context that we wish to welcome the progress made in exploring the feasibility of the proposed new financing mechanisms, especially the International Finance Facility (IFF). We therefore
look forward to the lessons to be drawn from the pilot program, *the IFF for Immunization (IFFm)*, sponsored by the UK Government and the Global Alliance for Vaccine Immunization. We also note that further work is underway to refine proposals for global taxation mechanisms, which could complement the IFF quite well. We urge that these proposals be implemented as soon as their feasibility is ascertained and a minimum number of developed countries reach agreement.

We agree that voluntary contributions and personal remittances are becoming an important source of finance at the household level. While these flows are not a substitute for ODA, we would urge that everything possible be done to facilitate and increase these flows. It should be noted that personal remittances would be difficult to securitize in most developing countries.

*Voice and Participation of Developing and Transition Countries*

The enhanced participation and voice of developing and transition countries (DTCs) in the Bretton Woods Institutions (BWIs) has been on the international agenda for some time. At Monterrey in 2002, the international community agreed on the importance of addressing this issue. Within the World Bank, the question of voice and participation of DTCs in BWIs has been under discussion since the 2003 Annual Meetings in Dubai, where a consensus emerged to carry out further work.

It was therefore in this context that the DC at their October 2004 meeting urged the boards of the Bank and Fund to jointly explore all relevant options. The Committee further requested the two institutions to produce a report regarding the feasibility of these options, to allow the committee to address the necessary political decisions during this year’s Spring Meetings. We have taken note of the two papers issued by the Fund and the Bank on this matter and wish to express our disappointment that little progress has been made on the critical structural issues.

We wish, however, to commend the two Boards for their efforts to strengthen the offices of the African Executive Directors. In this regard, we welcome the establishment of the Analytical Trust Fund and the Secondment Programme.

*Concluding Remarks*

Finally on behalf of our constituency member countries, let me take this opportunity to thank the Bank President, and our dear friend, Jim Wolfensohn for his outstanding leadership and passion in dealing with the development challenges facing Sub-Saharan Africa. For me, it has been a special honour and privilege to have known and worked with Jim over the years. We congratulate him on his new post and wish him every success in his future undertakings. In the same vein, let me welcome the incoming President, Paul Wolfowitz, who I understand has made a commitment to put Africa and poverty reduction high on his agenda and I look forward to his visit to the continent soon.

Let me close by conveying my Constituency’s desire to see the process of selection of future Bank presidents made more open, and transparent with greater consultations with all interested parties. A similar open, transparent, and competitive approach is necessary for appointments to senior management positions in the Bretton Woods institutions. Such an approach must take into account the multilateral nature of these institutions. We note that the existence of a balance of power in the Bretton Woods Institutions in which developing countries increasingly feel they are not adequately heard or represented, could lead to a creeping loss of credibility for the two institutions which would be an undesirable turn of events. We urge the developed countries and the management of the two institutions to pay requisite attention to this issue.
Statement by Mr. Fathallah Oualalou, Minister of Finance and Privatization, Kingdom of Morocco

On behalf of the group that I represent, I would like to begin by paying tribute to Mr. James Wolfensohn, whose term as President of the World Bank Group is nearing completion, for his tireless efforts over the past ten years to build international consensus around the pressing need to make poverty reduction a central concern of the international economic and financial community.

Through his leadership, experience, and personal qualities, President Wolfensohn has left his mark on the Bank and on our Committee. These qualities have made it possible for our institution to discharge fully its role as a knowledge and development bank, and to establish an unprecedented global partnership serving member countries and the interests of economic and social development in general.

I would also like to congratulate Mr. Paul Wolfowitz on his unanimous appointment to the position of President and to wish him complete success in his work. I am confident that Mr. Wolfowitz will strengthen further the work of our institution, in pursuit of the harmonious development of the people of this planet.

The 71st meeting of our Committee is taking place against the backdrop of a deceleration of global growth compared to 2004. According to World Bank projections, global GDP is expected to decline from almost 4 percent in 2004 to 3.1 percent. This may be attributable to more sluggish growth in developed countries (2.4 percent in 2005 compared to 3.2 percent in 2004) and a hike in interest rates and oil prices. This slower growth rate may also result from the decline in the volume of global trade, which is expected to fall from 10.3 percent in 2004 to 7.7 percent in 2005.

This slowdown in growth is also expected to impact developing countries, inasmuch as a rate of 5.7 percent is expected in 2005, compared to 6.6 percent in 2004. This is the average rate; clearly, significant differences exist from one developing country to another, some of which have been impacted by unfavorable exogenous factors.

Another factor contributing to this situation is inadequate financial flows to these countries, despite their significant reform efforts aimed at improving the investment climate, with the assistance of the international financial community.

Compounding this situation is the fact that developing countries continue to face major challenges stemming from the need to reduce poverty in a context of vulnerability to exogenous shocks, in particular those related to the volume of and conditions attached to international financing, the prices of oil and raw materials, and climatic vagaries.

As a result of this situation, the international community must step up its efforts to provide assistance to developing countries aimed at increasing the level and effectiveness of aid, with a view to achieving the Millennium Goals, establishing the necessary conditions and mechanisms for adequate financing of the development agenda, successfully concluding multilateral trade negotiations, and ensuring a higher level of representation of developing countries in the Bretton Woods institutions.

On behalf of Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Morocco, Pakistan, and Tunisia.
We commend the IMF and World Bank for preparing the Second Global Monitoring Report on the achievement of the Millennium Goals.

We are all cognizant of the fact that achievement of the Millennium Development Goals will have a positive impact not only on the living conditions of the people of developing countries, but also on fostering long term peace and security the world over.

We agree with the conclusion of the report that the credibility of the global compact forged by the MDGs and Monterrey Consensus hinges on expediting its implementation.

Consequently, and taking into account the scope and urgency of the challenges, we must, working in partnership, undertake action that is concerted, tangible, and expeditious, in order to accelerate the pace of progress towards attainment of the goals by 2015.

Despite the progress made, the conclusions of the report confirm the finding that the current pace of progress in developing countries and in Sub-Saharan African countries in particular remains well below what is required for achievement of the MDGs, particularly those linked to universal completion of primary education, gender equity in education, and a reduction in infant mortality.

The same disturbing situation can be seen with respect to the goals of access to potable water and sanitation.

For this reason, we think that an approach of joint responsibility must be adopted to reverse the current trends, in order to ensure a brighter future for the people of our planet.

In this context, developing countries must assume a significant share of this responsibility and should step up their efforts in the areas of strengthening democracy and good governance as well as achieving strong and sustained economic growth that is private-sector-led and underpinned by macroeconomic and structural reforms.

These countries must also establish the infrastructure necessary for the provision of basic social services and human development targeting the poor.

Developing countries should, in parallel with these efforts, continue to promote a culture of performance-based management. Communication of results regarding achievement of the Millennium Goals through better statistical data production tools is also necessary.

Developed countries must fully assume their responsibilities at several levels, by:

- promoting high levels of growth that are likely to serve as a catalyst for growth of the global economy, while curbing factors that lead to instability such as current account imbalances;

- expediting international trade liberalization so that it can become a veritable engine of global growth, while taking into account the needs of developing countries. Decisions must be made quickly in order ensure greater access to markets, in particular by dismantling tariff and non-tariff barriers to the export of goods and services from developing counties and eliminating agricultural subsidies. In particular, this requires the favorable and rapid conclusion of the Doha Round and the reform of WTO rules. The conclusion of
asymmetrical agreements with developing countries should be one of the priorities of this agenda.

- increasing substantially the volume of aid by untangling it and making it more predictable and efficient. Against this backdrop, it is our view that despite a slight increase in development assistance compared to previous years, the volume of this assistance was barely 0.27 percent of the GNP of donor countries in 2003 and falls far short of the needs of developing countries and the goal of 0.7 percent agreed to by the international community.

Donors should step up their efforts to harmonize and simplify operational procedures, in accordance with the Paris Declaration of March 2005, aimed at reducing transaction costs linked to aid mobilization. To that end, donor countries and international financial institutions must rise to the challenge of taking expeditious and concrete action to implement the provisions of this Declaration as well as those of Marrakesh on management for results.

International financial institutions, particularly the IMF and World Bank, should also step up their efforts to support reforms led by developing countries and to implement programs linked to poverty reduction and an improved private sector environment.

To that end, these institutions should ensure that their approaches and instruments are adapted, on an ongoing basis, to the needs of member countries.

Moreover, international financial institutions should support trade facilitation and infrastructure development programs that are key to the development agenda and the achievement of the Millennium Goals.

We also call on these institutions to expedite efforts to permit all low-income countries to benefit from the HIPC Initiative.

These institutions should also continue their efforts to establish a debt sustainability evaluation framework for low-income countries, based on a systematic analysis of their debt situation. In that context, just as steps must be taken to ensure that financing tied to achievement of the MDGs is not transformed into a new debt burden, so too we must not allow sustainability concerns to lead to the depletion of concessional funding. In that regard, we support initiatives aimed at achieving more substantial debt relief for all poor countries.

Financing the Development Agenda

We support all the efforts of the various development partners to establish mechanisms intended to expedite mobilization of the additional resources needed to achieve the Millennium Goals.

In that regard, we reiterate our support for the establishment of an International Finance Facility and, in view of the groundswell of political support for this initiative, we call for its rapid implementation.

We also hold the view that the institution of a system of global taxes could constitute an important mechanism for generating significant and stable additional flows of development financing. Consequently, an effort should be made to obtain political consensus for this system, in order to establish the conditions for its implementation.
The voluntary contributions collected by NGOs from individuals and corporations to finance development needs should also be encouraged, along with the establishment of mechanisms that pave the way for blend financing.

*Enhancing the Voice and Participation of Developing and Transition Countries in Bretton Woods Institutions*

Enhancing the effective participation of developing and transition countries in decision-making in the Bretton Woods institutions is likely to confer greater legitimacy on the decision-making process of these two institutions and create the consensus needed to facilitate achievement of the Millennium Goals.

Without a doubt, commendable efforts have been made in recent years in terms of logistical and human resources to enhance the representation of developing and transition countries on the Executive Boards of the Bank and IMF.

However, we hold the view that effective participation of these countries, which are home to more than 84 percent of the world’s population, requires the establishment of structural measures, aimed in particular at enhancing the voting powers of developing and transition countries in these two institutions.

We hope that a consensus can be quickly reached among member countries, with a view to implementing the structural measures needed to attain this objective.

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

*Global Monitoring Report 2005: MDGs: From Consensus to Momentum*

The year 2005 is a critical year towards global efforts to achieve the Millennium Development Goals (MDGs). All parties involved must strengthen their individual commitments embodied in the Monterrey Consensus, with shared responsibilities falling upon developing countries, their developed partners, and the international financial institutions. A useful tool to monitor commitments is the Global Monitoring Report (GMR) which provides an annual comprehensive assessment of progress on policies and actions needed to achieve the MDGs.

For the GMR 2005, we note with concern that while progress has been made towards the attainment of the MDGs, it has been uneven and slower than envisaged. Of particular concern, is Sub-Saharan Africa, where most countries run the risk of falling far short of the goals. For this reason, we think that GMR 2005’s focus on that region is timely and appropriate.

We broadly agree with the GMR 2005’s proposed five-point agenda for accelerating progress towards the MDGs. We think it constitutes a realistic and comprehensive set of steps which together with political will can pave the way for the attainment of the MDGs. Allow me to elaborate our thoughts on the matter.

On anchoring actions to achieve the MDGs in country-led development strategies, we highlight two critical aspects. First, is the importance of country ownership. This involves the identification of issues and consultations with a wide variety of agents to reach consensus on a poverty reduction strategy.

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34 On behalf of Brazil, Colombia, the Dominican Republic, Ecuador, Haiti, Panama, the Philippines, Suriname and Trinidad and Tobago.
(PRS). Backed up by analytical work and capacity building efforts, country ownership not only incorporates realism into the PRS but also motivates executing agents. Second, is the need to link the PRS to a medium-term fiscal framework. Such a framework help determine the appropriate budgetary allocation to priority programs as well as help donors align and harmonize their assistance. In this regard, we note with satisfaction that 47 countries are implementing PRSs, and another 12 have prepared interim PRSs, that increasingly embody the MDGs.

We reiterate our view that growth is a necessary condition for poverty reduction. Despite averaging 6.5 percent GDP growth in 2004 – the highest level in more than a decade – developing countries’ growth is far from even and satisfactory. Indeed, Sub-Saharan Africa’s GDP would have to double for the region to achieve the income goal. Since achieving higher rates of growth would only be possible in an environment where the private sector can flourish, we support the proposed actions to improve the environment for stronger private sector economic growth. Of special interest to us is strengthening fiscal management, particularly the structure and quality of public spending. A well managed fiscal sector will help attract and retain private sector investments, strengthen capacity in the public sector and improve the quality of governance while supporting policies aimed at sustainable growth with social justice and income distribution.

The third action point of scaling up the delivery of human development services touches on an issue that our Constituency has consistently raised - the urgent need for flexible and predictable financing for recurrent cost intensive services offered by providers such as health workers and teachers. At the Board of the WBG, we have supported all projects targeted to increase the supply of skilled service providers with the caveat that this increased supply means little if adequate financing is not provided to sustain it in the long term. We note in this year’s GMR that an additional external financing of US$3 billion per annum, at a minimum, would be necessary to achieve the primary education goal in low-income countries. And at least an additional US$ 25 billion per annum would be needed to meet the health goals. On the recipient countries’ side, we emphasize that sound expenditure management, marked by integrity and efficiency, and continuous monitoring on development outcomes, are critical conditions to make adequate use of financing recurrent costs. On the donor countries’ side, we see a disconnect between recurrent, local, and largely personnel costs that countries need to finance, and the technical assistance financing that bilateral donors are actually providing, noting that 70 percent of all aid to education consists of technical assistance. We encourage both recipient and donor countries to close this gap.

On the fourth action agenda, our Constituency has been fully committed to the successful outcome of the Doha Round. In our view, a sharp reduction in market access barriers is the key in a multilateral, reciprocal, non-discriminatory trade liberalization process and requires a dramatic change in the agricultural trade policy of high-income countries. We highlight the GMR’s affirmation that trade policy in high-income countries is more than seven times as restrictive in agriculture as in manufacturing. The commitment rooted in the Monterrey Consensus of allocating 0.7% GDP to ODA can easily be offset by the gains derived from the successful conclusion of the Doha Round of around US$ 250 billion per year by 2015, with more than one third of the global gain accruing to developing countries. As much as two-thirds of the estimated global gains are related to the reform of agricultural trade. According to the GMR, this would imply a boost to the GDP of low-income countries of about 2 percent, and that of Sub-Saharan Africa of 1.3 percent. We also attach importance to recent developments in regional integration and in the formation of free trade areas (FTAs).

We fully support a substantial increase in the level and effectiveness of official development assistance. We believe that the proposal to double ODA in the next five years to support the MDGs, particularly in low-income countries and Sub-Saharan Africa, is achievable if donors actually take concrete steps to fulfill their commitment of providing 0.7% of GDP as ODA. We took note with satisfaction that, after a decade of almost continuous decline, aid volumes have been recovering since
2001, with a real increase by 12 percent during 2002-03 in net ODA. This increase in the volume of aid takes into account, the absorptive capacity of recipient countries, the ownership of development programs articulated in their PRSs, their progress in governance and institutional capacities, as well as the progress on alignment and harmonization among donor countries.

We agree that particular attention has to be placed on aid effectiveness. We also agree with the GMR that aid is often fragmented, volatile, and more aligned with donor agendas and preferences than country priorities, as well as entails high transaction costs. In this regard, we welcome the adoption of the set of indicators of aid quality approved in the Second High Level Forum on Aid Effectiveness, held in Paris in early March. Budget support or sector-wide programs are appropriate in some cases as countries make progress in improving public expenditure programs. A mix of grants and loans would also be appropriate for countries that have (or risk having) a debt sustainability problem. We also believe that it would be possible to conclude current proposals for additional debt relief during this year.

By endorsing the GMR 2005’s focus on Sub-Saharan Africa, our Constituency acknowledges that momentum should be seized to channel aid to low income countries, given the risk that those countries may not be able to achieve the MDGs. In addition to aid, LICs need incentives to strengthen government institutions, a process that may take a long time before initial results are apparent. It is our view that aid flows should not be withheld until those results do materialize.

Notwithstanding the critical challenges facing LICs, we recall that poverty is not confined to specific geographic regions of the globe. Middle income countries are also home to large numbers of people living on less than US$ 1 dollar per day. Pockets of poverty exist in MICs because of unequal income distribution and uneven geographic distribution of economic activities. Addressing these pockets of poverty is key to the achievement of the MDGs in most of those countries.

However, most MICs face fiscal constraints even as it needs to scale up its social programs and much needed investments. Infrastructure is critical for MICs’ poverty reduction efforts, including those for water and sanitation, and transport. For this reason, aid provides the needed resources for spending for the poor and vulnerable groups in MICs. We call on Multilateral Development Banks (MDBs) to increase financing for infrastructure as well as develop a new lending window to help MICs deal with global capital volatility and external shocks. We also call on them to reduce the costs of doing business with the Bank. For example, the use of fiduciary policies which rely on national safeguards could significantly reduce the non-financial costs of operations. An enhanced involvement with MICs would not only fulfill the Bank’s mandate, but would also improve its financial position.

**Financing the Development Agenda**

The need for increased, more stable, and predictable aid calls for a renewed impetus in the design and implementation of innovative financing modalities. We are aware that ODA relies on national budgets and thus, subject to political circumstances. But hunger cannot wait. We recall the Declaration of New York of September 20th, 2004 which stated that “at the present stage of technological progress and agricultural production worldwide, the persistence of (extreme poverty) is economically irrational, politically unacceptable and morally shameful”. The Declaration also stressed that it is “appropriate and timely to give further attention to innovative mechanisms of financing – public or private, compulsory and voluntary, of universal or limited membership – in order to raise funds urgently needed to help meet the MDGs and to complement and ensure long-term stability and predictability to foreign aid”. Last February 2005 in Brasilia, Brazil, Chile, France, Germany and Spain reiterated their commitments to innovative mechanisms with their Action Plan Against Hunger and Poverty, with the support of 112 countries. President Lula has been enthusiastically advancing this agenda in all fora. The time has come for the international community to seriously examine the merits and feasibility of innovative non–
distortionary modalities such as the International Finance Facility, nationally applied and internationally coordinated taxes, voluntary contributions, blending arrangements, remittances, and the special issuance of SDRs. We invite the Bank and the Fund to take advantage of this political momentum to deepen their analysis on the subject and offer solutions to outstanding implementation issues.

Our support for the International Finance Facility hinges on the premise that frontloaded aid commitments generate social and economic returns on investments higher than borrowing costs. We note that there are still four outstanding issues related to the implementation of the International Finance Facility and hope that these will be resolved with the pilot IFF for immunization. As a pilot program, the IFF Immunization fits all the basic requirements for the use of a frontloading mechanism. It is an excellent example where frontloaded investments in research and vaccination offer far more results than resources allocated over time for the same purpose. We encourage countries who have signified their interest in joining the IFF immunization pilot case to resolve outstanding issues and proceed with implementation in the soonest possible time.

Whereas the IFF is targeted to finance investments, nationally applied and internationally coordinated taxes would better address the funding of recurrent costs. We are aware that taxes of that nature must be realistic, based on sound principles, and viable both operationally and financially. Also, it is imperative that tax mechanisms neutral to market equilibrium contribute to increase the volume of aid. We fully agree that any tax would also be subject to the adequacy of its revenue yield, its impact on equity and efficiency in the wider economy, and the ease of its collection. A set of criteria is therefore critical to allow comparisons among alternatives. Moreover, it is important that political momentum be used to overcome the remaining political obstacles facing global taxation efforts.

Blending mechanisms are of particular interest to our Constituency, not only because they help enhance effectiveness and the structure of incentives toward good policies, but also because they seem tailored to address the financing requirements of reducing the pockets of poverty in MICs. We strongly encourage the World Bank to deepen its work on this critical issue.

Given the various proposals on financing modalities for development, we reiterate our position that the best course of action is to move simultaneously in several fronts. Further research, additional data, supplementary quantitative analysis, and quantitative simulations are still needed to better assess all options.

Voice and Participation of Developing and Transition Countries

Broadening and strengthening of the participation of developing and transition countries in the decision-making process at the Bretton Woods Institutions is an important principle of the Monterrey Consensus. We therefore reiterate our long held position that a comprehensive discussion of mechanisms to strengthen the representation and influence of developing and transition countries (DTCs) in the Bretton Woods Institutions is needed. We believe that significant progress can only be made once member countries reach political consensus.

We also maintain our belief that the fundamental way to strengthen the representation of developing and transition countries in the Bretton Woods Institutions is by increasing the cumulative voting power of DTCs. In our view, this representation can be strengthened by means of a combination of a careful change in the formulae for calculating quotas in the International Monetary Fund and an increase in the number of basic votes. The quota formula could be simplified so as to give more weight to GDP measured in purchasing power parity terms. An increase in basic votes would restore the original share of DTCs when the BWIs were initially established. Therefore, the structural aspects of voice and representation of DTCs must remain on the agenda of the BWIs.
Nonetheless, we have supported other initiatives to enhance the increased participation of developing countries in the Bank and Fund decision making process. These include measures such as the addition of new positions to a number of multi-country Chairs; the creation of a second Alternate Director for multi-country Chairs; the extension of mandates for Executive Directors; and the establishment of an Analytical Trust Fund. We also extended our full support for country-owned Poverty Reduction Strategies, decentralization of decision-making and operational staff in the countries, and capacity building.

Within the framework of enhanced representation of developing countries, we highlight the issue of increasing the use of the special majority of 70 percent to approve decisions on policy issues. Without challenging the traditional decision-making process based on a broad consensus, an increased special majority of votes on critical decisions could give additional assurance that the voice of developing countries would be taken into account.

With respect to IDA, a discrepancy remains between votes allocated and actual voting rights because not all Part II members have yet subscribed to the full amounts allocated to them. In our view, this scenario reflects not only the financial constraints faced by developing countries but a possible lack of interest in the IDA governance structure. This may probably be related to the imbalance in the decision-making power between IDA-Deputies and the IDA Board of Directors. We recommend that a significant part of the IDA decision-making process be returned to the IDA Board of Directors, thereby increasing the voice and representation of the developing countries.

In closing, we reiterate the critical importance of addressing structural issues of voice and participation of DTCs. We should begin by simplifying the IMF quota formula. Given the linkage between the Fund and Bank’s capital structure, we urge the Fund to take the bold step to review the quota formula. With the Fund taking the lead, changes in the quota formula would immediately impact access to financial resources.

Statement by Mr. Didier Reynders, Deputy Prime Minister and Minister of Finance of Belgium

At the outset, we would like to express our gratitude to President Wolfensohn for his achievements in making the World Bank a capable and talented development institution. During his tenure, crucial issues such as country ownership, transparency, and accountability were given their due prominence. We also congratulate Paul Wolfowitz on his election as the next president of the World Bank Group, and look forward to helping him build on this strong record.

Taking Stock of Recent Development Performance

We take heart from the progress made, and from the proven track record of the Millennium Development Goals (MDGs) as a useful and practical platform to make development a concrete, rather than abstract, concept. They were also believed to be realistic in 2000, when they were launched. As the Report to the United Nations Secretary-General reminds us, the MDGs are the most broadly supported, quantified, and time-bound targets for addressing poverty in its various dimensions – income, hunger, disease, inadequacy of shelter and exclusion – while promoting gender equality, education, and environmental sustainability.

35 On behalf of Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, Turkey.
The MDGs are about people, and are too important to fail. Yet every week, the developing world is experiencing a catastrophe of the scope of the recent tsunami that hit South and South-East Asia: 200,000 children under the age of five die of disease, and 10,000 women die giving birth. While we take comfort from the fact that progress in China and India will probably help achieve the income poverty target of the MDGs overall, we are concerned that others appear to be out of reach.

Sub-Saharan Africa is the continent facing the most challenges. Many of the HIPC countries and low-income countries under stress are found in this part of the world. So are some of the most debilitating wars (civil and otherwise) – making it easier for disease, ignorance and misrule to set back development by decades. These scourges are compromising the security and the progress of neighboring countries that are establishing a solid track record in areas as broad as malaria prevention, basic education, and private sector development.

In many of these cases, one of the key problems has been one of deep dysfunction of the public services. Policies are not adequately coordinated or even contradictory. Public expenditure management is undermined by weak civil service frameworks, the absence of procedures and outright corruption. Furthermore, donors have not always helped the consolidation of fragile resource mobilization frameworks – as underscored by President Karzai of Afghanistan recently. In the most difficult cases, the State has altogether imploded, and day-to-day management focuses on expediency.

Abject poverty must be fought as a matter of principle. We believe that, at the minimum, every human being must be given a chance to rise above poverty. We also believe that the global fight against poverty is a matter of common interest. Home-grown development and convergence toward higher living standards will limit migration, encourage economic activity through trade, help pull together a global consensus on the environment, and generally improve global security. Developing countries’ progress is also developed countries’ gain.

Recent Achievements in Development Policy

On the Donor Side

The Monterrey declaration set high expectations for the increase in ODA to 0.7 percent of the GNI of donor countries. ODA to developing countries increased by 4.6 percent in real term from 2003 to 2004, following a 4.3 percent increase from 2002 to 2003. European countries took important steps in fulfilling this commitment. European commitments to the IDA-14 replenishment reached almost 60 percent in SDR terms. Bilateral ODA flows of many European countries have also increased. Moreover, some countries extended debt relief bilaterally beyond the Enhanced HIPC Initiative. Among them, Belgium is committed to grant 100 percent debt relief for guaranteed commercial loans to HIPC countries and Austria provides 100 percent debt relief for the same loans on a case by case basis. Donor coordination, harmonization, and alignment have also made important strides, as noted in the Paris Declaration. A number of donors, including the World Bank, have committed to working with country systems as far as their fiduciary due diligence would allow. Furthermore, the World Bank has moved ahead with the streamlining of its procedures. These shifts in approaches on the donor side have been shown to be effective, especially when the government of the client country has taken an active role of leadership at the political and operational level. And yet, more needs to be done.
On the Client/Recipient Side

Recipient countries throughout the world have recorded progress in different policy and administrative areas. Destitute African countries, despite the challenges facing them, are no exception. NEPAD has offered a home-grown vision of African development, and has been the basis for meaningful actions, including mutual peer reviews of economic performance, an active focus on governance at the domestic and regional levels, new plans for infrastructure, and a better coordination of the agenda of regional integration. Some Governments have taken decisive steps toward rooting out corruption, including at the highest levels of their leadership. Others have responded favorably to the harmonization and alignment initiative by improving their public expenditure management systems, including their external aid mobilization mechanisms. We applaud these efforts, but here again, more needs to be done.

The Unfinished Agenda

2005 - A Milestone Year

A number of major reports on poverty in the world will have been published by year-end, such as the U.N. Secretary General’s Report, the U.N. Millennium Project Report and the UK Commission for Africa Report. They will probably lead to some reorientation of the agenda to fight poverty. Thanks to President Wolfensohn, the Bank is in a position of leadership to help shape this agenda. Now that increases in external aid have been significant, the spotlight will be on the quality of external aid and implementation. The Bank has ample resources under IDA-14, and we trust that the new president will be keen to work on their effective use. These two factors give the Bank a window of opportunity to shore up the credibility of the business of development assistance. Conversely, if resources are not used to tangible effect, additional development aid, including the IDA-15 replenishment, will be compromised. Managing for results, which was endorsed by the Committee at its meeting in September 2002, remains more than ever on top of the development agenda.

Public Expenditure Management as the Underpinning of Effective Policies

To make policy discussions relevant, public expenditure management must be made leak-proof and effective. In some countries, this requires small adjustments to existing systems. In others, it requires a fundamental reengineering of the public expenditure management systems. In the most dysfunctional cases, it may require the recruitment of international staff to fill the critical positions and give credibility to financial management. As President Wolfensohn pointed out during one of his most recent trips abroad, the very first priority for a government must be to fight “corruption, corruption, corruption.” It all starts with sound public expenditure management systems.

Together with improvements of public expenditure management, the levels of domestic revenue collection will provide a first indication of the resolve of recipient countries. In the face of progress on regional economic integration, the challenge of increased domestic revenue will require a fine sequencing of trade liberalization measures, tax administration improvements, and tax policy reforms to offset the fiscal losses from lower international trade tariffs.

Comprehensive Policy-Making in a Big-Picture Setting

For countries with functional administrations, the Bank must scale up the dialogue on the trade-offs between policies within the overall strategy. Although agriculture will remain the basic activity for most of the population of many developing countries for some time, over time development inevitably leads to a relative fall of its share of GDP. Livelihoods in agriculture are inherently limited by the availability of land and the state of the art in production techniques. The policy implications are clear, and
need to be implemented quickly. Cities must be ready to accommodate the influx of rural migrants. Sanitation networks, the land titling system, roads and transportation, and energy grids need to be upgraded. Education must broaden its scope and adapt the final years of schooling to the demands of the new economy. The health care network must reconsider its deployment. And formal social protection systems need to offset the erosion of the rural community-based systems.

Financial Resources of the Bank Group

Grant Allocation Under IDA-14: Refining the Criteria

The allocation of IDA grants will be the first practical application of the external debt sustainability framework. While the debt distress criteria are sound, changing circumstances could test their adequacy and lead to more claims on IDA grants than the financial sustainability of the institution would allow. We propose to introduce, in time, criteria reflecting the urgency of support to basic social services, contingent on the monies being used on improving these services. The rationale for this refinement is to contain the deterioration of human development and limit its effects on neighboring countries, while preserving the financial sustainability of IDA.

Financial Sustainability of the Bank

The World Bank’s relatively strong track record as a development finance institution is in large part due to its unambiguous function as a bank with niche expertise in specific sectors. Its fortunes as a knowledge center and trusted advisor to governments rest on the credibility of this business model. It is therefore important that, in the absence of other sustained sources of financing, the World Bank work with a mix of financial instruments that are compatible with its long term sustainability under realistic forecasts. Loans and credits are necessary components of the global development architecture and an essential element of maintaining the Bank’s financial sustainability.

Improving the Bank’s Development Effectiveness

Voice and Participation

We recognize the need to ensure that developing and transition country members are better heard. Various proposals have been made. We are strong supporters of efforts to increase the voice of the disenfranchised at the grass-roots level, and believe that the Poverty Reduction Strategy approach has been a positive contribution. We are also supportive of proposals to improve the management of the Bank’s client relationship at the operational level in light of specific administrative capacity deficiencies in the poorest countries, and the Bank’s complex administrative arrangements. More diversity in the ranks of senior management, beyond being desirable in and of itself, would also improve the Bank’s ability to listen to its clients and other shareholders. Among the structural measures that could be envisaged, the increase of basic votes in IBRD may be one of the most promising at this stage. Finally, we are strongly in favor of maintaining the Bank’s effectiveness by applying sound principles of corporate governance for a financial institution.

Strategic Staffing

The Bank must improve its ability to serve its clients. We share the view expressed in the Organizational Effectiveness Task Force report that this requires (i) a strengthening of the delivery of client services; (ii) a simplification of planning and budgeting in Bank operations; and (iii) an overhaul of HR management policies and practices. In practice, this should result in more senior and qualified staff on
small country desks – to reach this objective, there needs to be an adjustment to staff incentives, along with an increase in resources for advisory activities and national statistics systems.

**New aid delivery mechanisms**

We should collectively remain committed to the goal of raising our ODA to 0.7 percent of our GNI. The Bank is in a unique position to help its developed country members achieve this goal by coordinating the launch of new financing mechanisms which can only be a complement to donor countries’ progress towards the 0.7 percent target. The International Financing Facility, under its immunization variant, can be used as a pilot. In particular, the ultimate mobilization of the cash to back the bonds that would finance its development, and the accounting treatment of contributions in the donors’ accounts, will require further examination. An international tax on fuel is an interesting option given some of its positive externalities. A combination of both is still another option worth exploring. At this stage, other options such as the global lottery should not be discarded without in-depth examination. Further, debt relief could also be considered on a case-by-case basis while relying on a solid debt sustainability analysis, as long as the exercise does not lose all credibility by extending debt relief for new liabilities incurred since the HIPC Initiative was made effective.

**Statement by Mr. Chaiyot Sasomsub, Deputy Minister of Finance, Thailand**

*Global Monitoring Report 2005*

We welcome the assessment of the status of development toward the Millennium Development Goals (MDGs) target stated in the 2005 Global Monitoring Report (GMR). We recognized that progress has been made in recent years, but much more need to be done to achieve all MDGs by 2015. We note from the Report that, although the income poverty MDG is likely to be achieved at the global level, millions are still living at less than $1 a day and many regions are falling behind from the human development goals.

However, we feel that the Report placed emphasis especially on one region and overlooked problems in others. As a multinational institution, we would like the Report to be more balanced by giving equal emphasis to problems facing every region. Although, we agree that problems do exist in Sub-Saharan Africa, but we feel that there are other small and poor countries in the other regions that have the same or even greater problems. For example, a country in our group have the same poverty incident but without assistance from the outside world due to political differences.

Pertaining to the five-point agenda for accelerating progress toward the MDGs, we support all initiatives but we feel that the utmost important aspect besides having a well received agenda is the ability to transform them into action. On this note, we would like to comment on some of the issues stated in the GMR.

On improving environment for stronger economic growth, we believe that the sound macroeconomic framework is the key. It is a vital element for creating the enabling environment for private sector investment. In addition, we support the proposal in the GMR that regulations for doing business must be improved and all procedures must be transparent. We also share the view that strengthening public sector governance would accommodate private sector investment particularly by reducing the costs of doing business as well as providing better services for the general public.

On dismantling barrier to trade, we believe that putting the Doha Round back on track must be accorded the highest priority. We would like to stress the need for increased market access for exports of
developing countries. The Agreement reached last year was a remarkable achievement, and therefore, we must build on it. Developed countries must lead by reducing barriers in heavily protected agricultural markets, but all countries must contribute.

On the scaling up service delivery, we strongly support for the increasing of the supply of skilled service providers especially for teachers, doctors and nurses, but this is much easier said than done. To increase skilled service providers, we need to have a long-term plan where we must nurture this process right from the beginning, and support must be provided for the low income countries with true understanding, that result could not be achieved instantly or in any near future.

With regard to Official Development Assistance (ODA), we agree that effective aid is extremely important to allow developing countries to reach our MDGs by 2015. We share the view that ODA is increasing but it is still far from what is needed. This is very much in contrast when compared with the degree of aid flow during the tsunami incident last year, which proved that actually we do have the capability to increase aid. So, we urge the developed countries to increase the level of ODA in order to meet the Monterrey commitments.

On strengthening and sharpening International Financial Institutions (IFIs) support, we generally agree to the indicated priorities stated in the GMR, and would like to call for improved cooperation between the IFIs and the borrowers, and among the IFIs themselves. With common goal in managing for development result, roles of each IFIs should be clearly defined so that efforts are not wasted. Recent activities, where TA grants were built into various loan agreements and CAS prepared by the World Bank together with other regional development banks, have tremendously improved the quality of aid flow; however, we believe that we can do better with improved coordination and cooperation.

As for the future, we strongly support the continuation of the GMR, but believe that the Report, in the future, should be more focused by touching on specific issues that can lead to immediate implementation while maintaining the broad picture of the global development agenda. The focus for each year’s agenda should depend on the current situation and on the needs basis by taking into account the progress toward the MDGs.

Financing the Development Agenda

The progress report on the Financing Modalities showed that we are one step closer to reality from our last discussion. Hence, we would like to congratulate on the progress that has been made so far. However, we still believe that all these mechanisms need to be given immediate and greater consideration and cooperation before we can move forward on this agenda.

In relation to the four financing modalities presented in the progress report, we feel that we have made progress on the International Finance Facility (IFF) but still far away from reality on the global taxation. However, the other two modalities, the voluntary contribution and blending arrangement, are well-written and worth to pursue further.

First, we support the pilot project which would test the mechanism of the IFF and feel that this instrument, if being implemented, would serve the need to increase up-front aid in order to achieve the MDGs. However, we are concerned about constraints that donor countries might face in dealing with a long-term budget to finance the repayment of the IFF bonds. The questions also rise as to how and which institution would manage this mechanism. We strongly believe that many aspects of this mechanism need further exploration and look forward to hear the progress of the study as well as report from the pilot in the next meeting.
On the issue of global taxation, we strongly believe in the context of this modality. The idea is sound but we are still distance away from implementation. The illustration on taxing aviation fuel is a good example. The revenue that could be generated by such mechanism could surely help in propelling development agenda, but there are various issues and concerns such as the rules of the game and the incentive to collect that need to be addressed before moving forward.

Third, with regard to voluntary contribution, it is evident that there have been extraordinary outflows in response to the tsunami disaster which demonstrated the potential for such contribution. As a representative from the group that was severely affected by the tragic incident, we feel the pain for our people who were left homeless. Our children lost their parents and others lost their loved ones. We know that the feeling of poverty is not much different from what people feel after such disaster; therefore, we encourage voluntary contributions for development.

Last but not least, on the blending arrangements, we strongly support the initiative. The blending arrangements can help to ensure that low income countries are not overburdened by debts in their quest to achieve the MDGs. They can also generate non-financial gains by bringing about greater harmonization of donor priorities and enhancing collaboration among donors and between donors and recipients which could eventually improve the absorption capacity of recipients. In this regard, we would like to support the Bank for exploring the use of blending arrangements in gap and middle-income countries, and would like to urge the bilateral donors to support this important and very beneficial arrangement as well.

We are hopeful that issues that we discuss today on development agenda will be seriously taken into account by all parties concerned, and hope that the Development Committee will receive positive report on progress made after the conclusion of this meeting as well as looking forward for very important discussion on the voice and participation of developing and transition countries at the Fall Meeting.

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

We come together at an important moment in the history of the World Bank. The transition in the leadership of this institution is occurring at a time of tremendous gains in living standards around the world, the depth and breadth of which we have not witnessed in decades. Yet the challenges before us, particularly with respect to Sub-Saharan Africa, have never been clearer. The reports provided to the Development Committee this year, in particular the Global Monitoring Report reflect the enormity, complexity and profundity of the road ahead.

The Primacy of Growth

Economic growth, led by the private sector, is the most effective means of promoting sustainable development and reducing poverty. Therefore, with the United States and China leading the way, 2004 was enormously important to the development aspirations of the world’s poor, with growth of 5.1%. Moreover, world economic growth continues to be strong overall and the outlook for this year and next is very positive. We are particularly pleased to see the strong results in emerging market and sub-Saharan African economies and a strong recovery in Latin America led by private consumption and business investment. We note that while increased growth rates in sub-Saharan Africa are welcome, high and sustained growth rates are needed over an extended period of time to reduce poverty significantly.

The Role of ODA

We recognize that official development assistance can play a critical role in economic and social development, particularly in assisting those who have shown the capacity and willingness to use aid
effectively. The Monterrey Consensus exemplifies this approach for it recognizes that aid can complement other sources of financing for development, especially in those countries with the least capacity to attract private direct investment and other sources of financing.

The United States has already followed through on our Monterrey promise to increase official development assistance by 50 percent over the 2000 levels by 2006. This commitment was met in 2003, three years ahead of schedule. In 2004, our ODA increased another $2.7 billion to reach $19 billion, a near doubling since 2000. These dramatic increases illustrate that we do not need to resort to innovative financing mechanisms to deliver critical resources to developing countries. Moreover, our assistance to sub-Saharan Africa has tripled over this period and it is on track to increase even further. The first Millennium Challenge Corporation compact, with Madagascar, has been approved and another seven of the other 16 eligible countries are from sub-Saharan Africa. With respect to HIV/AIDS, President Bush has requested nearly $3.2 billion in FY06 from our Congress, which would represent the third year of steadily increasing funding toward the President’s pledge of $15 billion in 5 years. We are committed to reach our goals of preventing 7 million new infections, supporting treatment for 2 million people, and caring for 10 million people, including orphans and vulnerable children.

With respect to the multilateral development banks, we are pleased to have participated in the successful conclusions to the IDA-14, AsDF-9 and AfDF-10 replenishments. We are particularly pleased with donors’ leadership in: improving transparency and accountability at the World Bank; implementing a robust measurable results system; and substantially increasing grant financing for poor countries which will have lasting effects. In this manner, these replenishments will strengthen the institutions not just in terms of financial capacity, but also in terms of delivering effective assistance on the ground.

Aid is most effective when it is aligned with recipients’ priorities, when it reduces transaction costs through harmonized procedures and donor coordination, and when there is a clearer focus on managing for results. The Paris High Level Forum was a significant step toward action on harmonization and alignment, and we look forward to further progress on aid effectiveness as donors implement the Paris Declaration. We also welcome the IDA-14 results measurement framework and believe it can serve as a model for bilateral and multilateral donors alike.

Other Financial Flows

While ODA can play a critical role in advancing efforts to attain our common development goals, it is just one part of the total picture. In fact, private sector resources – both domestic and international - dwarf traditional development assistance. From an international policy perspective, two areas in particular hold great promise for developing countries, trade and remittances.

The U.S. government strongly supports multilateral, reciprocal trade liberalization under the Doha Development Agenda and is working toward that goal. An ambitious result to liberalize agriculture, industrial and consumer goods, and services would promote growth and development. We believe the Bank and the Fund should continue to emphasize the gains from liberalizing trade, not only with respect to the policies and practices of developed countries, but also the benefits accruing to developing countries from taking action to liberalizing their own barriers. In today’s global economy, an internationally competitive services sector, including financial services, is essential. A World Bank study found that countries with fully open financial services sectors grow 1.0% faster, on average, than other countries. Another study suggests that financial development alleviates poverty beyond its affect on aggregate growth. Thus, financial sector liberalization can have a disproportionately positive effect on the poor and should be a primary component of national development strategies. There is also an urgent need for greater support for trade capacity building. The U.S. has provided substantial bilateral assistance
for trade-related capacity building, and we would like to see more mainstreaming of such support by the
World Bank and other international organizations.

As we have noted before, remittance flows can be a critical contributor to poverty reduction and
locally-driven private sector-led growth. Global remittances have grown dramatically in recent years,
climbing to an estimated $126 billion in 2004. Despite technological advances, the vast majority of
remittance flows continue to travel through slow and/or expensive formal channels or informal networks.
The World Bank has been leading the international effort to improve remittance statistics, identify
barriers to the provision of competitive remittance services, develop strategies to address those
impediments, and enhance the development impact of remittance flows. We urge the Bank to continue its
leading role and work closely with member clients, other MDBs and the private sector on this important
cross-cutting issue.

Policy Reform

From a domestic perspective, financial flows, official or private, will provide little benefit without
the proper foundation for economic growth and prosperity. It is private sector investment, both domestic
and foreign, that has historically been the factor that has ensured sustainable growth in developing
countries. Firms create jobs, provide goods and services, and contribute to the tax revenues that provide
public funding for health and education. The Bank’s 2005 World Development Report provided clear
evidence that the lack of a conducive climate has been the main impediment to investment in most parts
of the developing world. We are pleased that the World Bank is giving increased attention to this issue
through its analytical work such as the Doing Business series, and its lending and policy advice. We urge
that this issue be given even greater priority in the future.

A number of recent reports have stressed the importance of improved public sector management
to development in general, and Sub-Saharan Africa’s development in particular. As we have repeatedly
stressed in terms of the Bank’s internal operations, increased transparency with respect to both fiscal
revenues and expenditures, when coupled with increased participation, can help to make institutions more
accountable and public spending more responsive to public demand. More attention to this issue is
needed. In addition to further information on measurable development results, we suggest a sharply
focused Global Monitoring Report for next year devoted to public sector financial management and
combating corruption.

Debt Forgiveness

We believe the international community needs to take prudent and appropriate steps to ensure
long term debt sustainability for low-income countries. The shift to greater use of grant financing by IDA
and the AfDF will help to reduce the continued accumulation of unsustainable debts. However, the
existing debt burdens in Heavily Indebted Poor Countries (HIPC) remain high and will continue to act as
a constraint on economic growth for years to come. Consequently, the international community needs to
go further by providing up to 100 percent debt stock relief of IDA and AfDF obligations for HIPC. In
addition, those bilateral creditors not providing 100 percent relief on pre-Cologne Summit (June 20,
1999) debt should take steps immediately to do so.

These actions, combined with the new increases in grants going forward, will put these poor
countries on a sustainable path immediately. Our proposal not only drops the debt of yesterday, but
prevents debt from burdening countries again well into the future. Furthermore, it does so without risking
the IFIs’ capacity to provide net resource transfers to deserving countries going forward. However, in
providing this much needed relief, we must be careful not to divert resources that would otherwise have
gone to increase direct aid flows. We must also be careful not to subvert the performance based
allocation of resources, which would reduce the delivery of resources to countries where they could be used most effectively.

Sub-Saharan Africa

We strongly support the increased focus of the international development community on the challenges faced in sub-Saharan Africa. This region typifies many of the development challenges that the international community is seeking to remedy. We recognize and support the commendable recent strides made by many of Africa’s countries. The average of 5% growth, represents an eight-year high, and 2005 is expected to be at a similar level. Single digit inflation across the continent is another welcome accomplishment which will help create a more stable macro-environment. These results are the product of improved policies, but also exogenous impacts such as high commodity prices. Given that growth rates higher than 5% are needed to make the desired significant impact in poverty, we urge countries to further deepen reforms and continue efforts underway at macroeconomic stabilization so that higher rates can be achieved in coming years.

Regarding some of the specific changes needed for Africa’s growth to accelerate and poverty levels to fall significantly, we strongly support the attention the Global Monitoring Report and the International Financial Institutions have directed towards fiscal management improvements and the structure and quality of public spending, improvements in the enabling business environment – Africa’s economic output could increase by more than $70 billion over the next ten years if the average African country’s quality of business regulations equaled that of the average OECD country -- and public sector governance. We also welcome the increased attention being paid by a number of African countries to managing for results.

The African Peer Review Mechanism is an important effort designed to catalyze an ownership and accountability culture in all of Africa. Its success depends on all countries taking it seriously. Africa’s recent improved growth is also the result of a decrease in conflicts on the continent. The overall trend in reduction in conflict means that businesses can restart, governments should have more funds available for social services and donors will be more inclined to provide assistance. While the trend is positive, continued progress is still needed to make Africa conflict-free. While some of the news in Africa is very positive, it remains a very poor continent, very vulnerable to many types of shocks. While we all would like change in Africa to be as rapid as possible, as the Commission for Africa report states, donors must recognize that in most African countries change will be long, slow and complicated.

Voice and Participation

Governance of the IFIs is a very important issue. The United States attaches a high priority to preserving the global character of these institutions. Careful consideration and consultation is needed to address the complex issues involved and we believe the time is ripe.

Transition

In closing, I would like to praise President Wolfensohn for his extraordinary service during his tenure as President of the World Bank. His many accomplishments – from dealing early-on and forcefully with corruption to his steadfast interest in increasing the focus on the results of the Bank’s operations – will have a lasting and positive impact. We look forward to working with President-designate Wolfowitz as he leads the institution in the fight against poverty through economic growth in furtherance of our common development goals.
Statement by Mr. Sadakazu Tanigaki, Minister of Finance, Japan

First, I would like to express my sincere appreciation to President Wolfensohn for guiding the World Bank Group over the past ten years with truly outstanding leadership. During his presidency the Bank Group has strengthened its strategies to fight against poverty. His initiative has inspired more developing countries to formulate their poverty reduction strategies under their ownership, and to share their strategies with development partners, so that they can align their assistance. Now, our focus shifts from formulation to implementation of these strategies.

I also welcome the Executive Directors having unanimously selected Mr. Wolfowitz on March 31 to succeed Mr. Wolfensohn. Japan is well prepared to make an active contribution to ensure that the Bank Group continues to implement relevant, efficient, and effective support under the leadership of the new president.

I believe that the conclusion of the Fourteenth Replenishment of IDA (IDA14) is one of the most important and concrete steps taken recently to help make progress toward the Millennium Development Goals (MDGs). We must continue to do our utmost to make this replenishment come into effect as early as possible. In this regard, I am pleased to report that prior to this meeting the bill for IDA14 was approved in our Parliament and Japan is now ready to deposit an Instrument of Commitment upon the request of the management.

Efforts to Achieve the MDGs

I support the balanced approach of this year’s Global Monitoring Report, which stresses a five-point agenda to accelerate progress toward the MDGs, namely, (i) country-led development strategies; (ii) improvement of the environment for private sector-led economic growth; (iii) scaled-up delivery of human development services; (iv) trade; and (v) enhanced level and effectiveness of official development assistance.

Developing countries vary on many fronts, such as natural endowment and administrative capacity. Thus, it is essential for each country to set practical goals under its ownership toward achieving the MDGs in its Poverty Reduction Strategy Paper (PRSP) and to steadily implement the measures in it. In formulating a PRSP, it is also necessary to ensure its consistency with a mid-term fiscal framework, paying attention to the macroeconomic balance and public debt sustainability.

The key to poverty reduction is sustainable economic growth. Improving investment climate and strengthening infrastructure is crucial for sustainable growth. In this regard, I would like to mention that a joint study on infrastructure development in East Asia by the World Bank, the Asian Development Bank, and the Japan Bank for International Cooperation was released in March. This study points out a number of important issues related to infrastructure development:

- The public sector cannot cover all financing needs for infrastructure development. To attract private financing, government should play a key role in improving investment climate.
- To strengthen accountability, it is important to involve civil society in infrastructure projects and introduce infrastructure service competition.

I hope that future infrastructure projects by the World Bank will be guided by these findings.

Progress toward the MDGs is particularly at risk in the area of human development such as health and education. Thus, it has been argued that more aid should be extended to cover recurrent costs in this

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area. However, this opinion must be carefully examined in the context of whether the aid might not hamper the incentive for recipient countries to increase their fiscal revenues, or whether they have a long-term plan to achieve a fiscal structure that will allow them to cover their own recurrent costs.

Multilateral trade liberalization through the Doha Round will be indispensable for the development of the world economy and will benefit all countries. As we look toward the sixth WTO Ministerial Meeting in Hong Kong in December, Japan is committed to making efforts to forge an agreement that would be acceptable by all member states and regions.

The importance of aid harmonization and alignment has been stressed as the vehicle to increase aid effectiveness and reduce transaction costs for developing countries. At the Paris High Level Forum on Aid Effectiveness, Japan announced its own action plan to improve aid effectiveness, and some Asian countries, as well as other countries, introduced their good practices to participants. I believe that these good practices could be shared with other regions, and that the World Bank Group, which established close working relationship at the country level, should play a central role to implement the “Paris Declaration”.

Importance of supporting Africa

In Sub-Saharan Africa, almost half the population lives on less than a dollar a day and the incidence of poverty rose between 1990 and 2001.

To deliver poverty reduction in Sub-Saharan Africa, broad-based economic growth accompanied by private-sector development is necessary, as we have witnessed in Asia. This requires improvement of the investment climate and infrastructure development, and we should bear in mind that Asian countries utilized loans for these purposes. To meet financing needs for infrastructure development in particular, we have to effectively use not only grants but also loans, giving deliberate consideration to debt sustainability, thus steadily fostering a credit culture.

In this context, Japan made a new proposal to strengthen the role of International Financial Institutions in promoting private sector development in Africa. For example, we proposed that a multi-donor special trust fund be established in the African Development Bank Group with the target size of about 200 million USD for the next five years. This fund will aim to provide technical assistance to foster small and medium-sized enterprises’ development, strengthen financial institutions’ capacities, and improve public-sector governance. We also proposed that concessional ODA loans of up to 1 billion USD be provided over the next five years in partnership with the African Development Bank Group to support private-sector development and investment-climate improvement in Africa.

Furthermore, Japan will participate in the Asia-Africa Summit to be held from April 22 to 24, in conjunction with the fiftieth anniversary of the Bandung Conference. Furthermore, through the TICAD process we are determined to promote trade and investment between Asia and Africa with the assistance from international institutions, including the World Bank.

Sub-Saharan Africa is not on track to achieve such the MDGs as child mortality and primary education. Nearly two-thirds of all people with HIV/AIDS live in this region. The international community, in intensifying its effort to help achieve MDGs, should place greater emphasis on timely and appropriate delivery of public services, while ensuring effective use of aid. To improve public service delivery, we need to strengthen capacity building in Sub-Saharan Africa.
As for Japan, in the area of fighting communicable diseases, we have already announced that it will provide a total of 10 million bed nets by 2007. This initiative will help to protect approximately 40 million people against malaria.

**Debt Relief**

In addressing the debt issue, we believe it essential to make specific progress in the Enhanced HIPC Initiative, whose sunset date was extended to December 2006. In this regard, we welcome the fact that four countries have reached their completion point since the last Development Committee meeting. To deal with debt issues hereafter, we should make good use of the Fund and the Bank framework for debt sustainability analysis to assess a debt level of each country and to provide assistance with an appropriate mix of loans and grants, thus avoiding further debt distress.

We recognize the need for further action to address the debt issues of the Multilateral Development Banks (MDBs). In deliberating specific actions, we have to adopt a case-by-case approach, taking into account the debt sustainability analysis, and policies and institutional environment in each country. To promote developing countries’ self-sustainable economic growth, we should not overlook the importance of fostering credit culture even for low-income countries, which means effective utilization of external resources and good external debt management.

In this regard, I would like to emphasize that uniform 100% debt relief of MDB debts could invite moral hazards on the part of borrowers, as it may reduce the debt well beyond the level needed to ensure debt sustainability. As for eligibility, further debt relief of MDB debts should be limited to post-Completion Point HIPC’s, because, in principle, non-HIPC countries’ debt issues should be addressed first within the traditional Paris Club arrangement.

Instead, Japan made a new proposal regarding debt reduction. We proposed that debt be lowered to a sustainable level, based on the debt sustainability analysis by the Fund and the Bank. In addition, the proposal allows for further debt reduction in countries with good policies and institutional environment, to create a room for future borrowing so that they can continue to make effective use of loans yet remain capable of making steady debt payments.

**Additional financing mechanism**

Regarding the International Finance Facility (IFF), we share the point described in the Bank’s paper that financing through bond issuance will be more costly than traditional aid financing. In addition, I am concerned that the creation of new institutions will lead to overlaps with existing organizations and increases in administrative costs. Moreover, the impact of decrease in aid flows post-2015 has not yet been clearly overcome. Japan finds it difficult to take part in this facility due to constraints related to our budgetary systems.

For the same reasons, we also find it difficult to take part in the IFFIm—the IFF for Immunization. However, Japan have been addressing health issues with particular interest in expanding provision of vaccines for children and will continue our support in this area in tandem with the IFFIm.

Regarding global taxes, we are concerned that establishing taxes earmarked for development expenditures would create fiscal rigidity. Also, it would be hard to identify taxable objects that clearly have close link to ODA, thus making it difficult to justify them as taxes earmarked to development expenditure. Moreover, because we still have to overcome many difficult issues, such as how to establish a global taxation authority and how to coordinate specific tax schemes among participant countries, the
feasibility of global taxes seems to be rather low. We also have to carefully consider who would make
decisions to use and allocate these tax revenues and how those decisions would be made.

*Voice and participation of developing countries*

It is important for both the Fund and the Bank to pay due attention to the voice of developing
countries and to implement options step by step, wherever politically feasible.
Regarding the structural issues related to the governance of the World Bank, we firmly believe that the
Bank should discuss these issues, in parallel with the quota review of the IMF.

*Tsunami support*

In closing, I would like to extend my sincerest condolences to those who lost loved ones in the
recent earthquake and the unprecedented tsunami in the Indian Ocean last December and another
earthquake in March. As an Asian neighbor, Japan provided assistance to the maximum extent possible
in three ways—financial resources, human resources, and knowledge and expertise—while drawing upon
our experience in disaster prevention.

Hereafter, it is vital for us to provide medium- to long-term assistance for rehabilitation and
reconstruction in the affected countries. We expect the Bank to play an important role in this regard,
while fully collaborating with other donors.

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

Over the past ten years, the international community has arrived at a common understanding on
development issues – thanks, not least, to the vision and leadership of World Bank President James D.
Wolfensohn. The DC documents that have been submitted to us reflect this broad common understanding
and highlight the central challenges of the coming years.

*Achieve a sustained increase in economic growth in developing countries and ensure the participation of
the poor*

Without a boost to the economies of the developing countries and a resultant major increase in
economic growth, it will be impossible to ensure debt sustainability in the long term or to achieve the
Millennium Development Goals. While the growth rates of developing countries' gross domestic products
have risen in the past few years – in 2004, overall growth was as high as six and a half percent –, this has
barely benefited the poorest countries of sub-Saharan Africa. The economic growth of three and a half
percent in sub-Saharan Africa is paralleled by high population growth, which means that per capita
growth is much lower. In order to reach the Millennium Goals, per capita incomes in the poorest countries
must be significantly increased.

In recent years, the view on economic policy approaches has changed radically. The structural
adjustment programs of the 1980s and 1990s did not reach their goals; they often led to higher poverty.
Economic growth in particular fell far short of expectations. The World Bank has since abandoned its old
structural adjustment strategy and replaced it by the new approach known as development policy lending.
The new thinking is based on the following precepts:
• The liberalization and privatization of economic processes must not be rushed. Rather, successful liberalization depends on the right institutions and legal instruments being established in good time.

• Economic reforms can only be successful if the government of the country concerned stands behind them and has developed them itself (ownership). This means that governments must be given sufficient freedom to define their own reform strategies.

• The conditionalities attached to donor support (World Bank, IMF, etc.) must be reduced and must reflect the partner countries' own strategies.

In principle, a climate of macroeconomic stability is favorable to higher rates of economic growth. However, two qualifications need to be stressed. First, there is no universal definition of successful stabilization. The traditional concept relies heavily on performance on the inflation and fiscal fronts. However, there are strong arguments for including relatively high economic growth rates and sufficient international reserves as additional targets. There is a need for assessing successful stabilization in greater depth. This must then serve as a basis for discussing economic policy implications.

Secondly, there is a need to identify growth-enhancing public investment opportunities. Additional public investment, if it is financed in a sustainable manner and favors growth-sensitive sectors, can be expected to increase factor productivity and crowd in private investment. In particular, there is a strong case for treating investment and other expenditure differently for the purposes of fiscal policy goals. Besides, it is important to exclude, where appropriate, commercially run public enterprises when setting fiscal targets. This issue is of particular relevance to Latin America. There is a need for a more flexible approach. We await with interest the results of the ongoing work of the IMF and the World Bank on this issue.

Poverty reduction will be greater the more successful we are in harnessing the productive potential of the poor by means of broad-impact, pro-poor growth strategies. Experience in many countries has shown that the poverty gap may become wider in the course of increasing growth. There is a need for better understanding the links between growth and poverty reduction and for identifying growth strategies that have a broad impact. Pro-poor growth must be primarily geared towards fostering sectors and regions of relevance for the poor, and fostering those factors of production which they own (especially capacity for unskilled labor and land).

Fight corruption, enhance transparency and accountability, further increase participation and promote political reform

No state model has proved as successful over the long term as democracy. But democratic reform processes are complex and require all forces within society to be involved:

• The formal introduction of democratic elements must be accompanied by a political process that takes place within society with the support of the people. Achieving true democracy is a long-term process that requires all forces within society to be involved. Above all, it cannot be decreed from above.

• We also know that democracy takes very different forms across the world. All countries must respect human rights and other fundamental rights. However, this does not mean that there is one universally valid model of democracy. Each country must adapt its path to its own specific situation.
Democratization and economic development are linked with each other. The two aspects can reinforce each other. Economic and fiscal space can facilitate reform. Political reform, in turn, gives people scope for action and choice, thus forming the basis for the involvement of the people – in the form of economic and social investment as well as non-profit initiatives.

These insights also form the main fundamental principles of the PRSP approach. This approach is about every country defining its own path, both in terms of the substance of the development strategies and in terms of the way in which the various players in society participate in the process. The donor community facilitates the process by means of financial resources, debt relief, and advice.

In future, our experience with participatory processes must be institutionalized, and transparency and accountability must be further enhanced. Without legal certainty, accountability and institutionalized participation processes, it will neither be possible to reduce poverty on a lasting basis nor to achieve a significant increase in private investment. An essential aspect in this regard is the creation of greater transparency and accountability in the field of government revenue and expenditure, and decisive action against corruption. Thus, it is vital to further strengthen budgetary procedures, improve their transparency (tracking) and strengthen auditing bodies.

It is primarily the bilateral donors and the UN system that have the task of fostering political reform processes along the lines described above. German development cooperation supports a great many projects in the fields of legal and justice system reform, constitutional advice, promotion of decentralization and municipal development, development of effective public sector institutions, anti-corruption, support for parliaments, and empowering women and building civil society capacity. Especially in the areas of fighting corruption and enhancing the transparency of public finance and institutions as well as realizing human rights, we will work much more closely with the World Bank in future, particularly in order to strengthen the links between these areas and the PRSP processes.

**Strengthen international law and cooperation**

The growing economic interdependence between countries requires that the international political and legal framework be strengthened. The UN has a vital role to play in this regard. The United Nations is a forum, a vanguard and a decision-making body for the resolution of global issues. Beyond its political, economic, social and cultural agenda, it forms a decisive cornerstone for the further development of international law. It also constitutes a normative, legitimizing framework for the operations of other multilateral institutions such as the Bretton Woods Institutions or the WTO. This year, decisive discussions will be taking place and, hopefully, decisions will be taken in order to better equip the UN for the challenges of our time. The Secretary-General has submitted a report with remarkable proposals. His efforts for UN reform deserve our full support.

The industrialized countries would jeopardize their own credibility and that of the international system if they applied double standards:

- **Example 1: Corruption control.** The promotion of democracy and the fight against corruption require a particularly high degree of credibility of our own policy. Double standards are even more harmful in this field than in others. Even in extreme situations, we must still uphold fundamental human rights and judicial rights. For example, in our efforts to fight terrorism, suspects must be called to account in trials that conform wholly with the principle of the rule of law. The Convention against Corruption adopted by the UN General Assembly in fall 2003 must now be ratified and implemented by as many countries as possible.
Example 2: Trade. The industrialized countries have been demanding that developing countries open their markets and strengthen their exports in order to help achieve higher growth rates and reduce poverty. At the same time, the industrialized countries have been distorting markets with their subsidies and what are in some cases prohibitive tariffs in the agricultural sector, depriving the developing countries of export opportunities in the very sectors in which they have the greatest potential for development (e.g., cotton). So our goal must be to completely eliminate all forms of subsidies for agricultural exports as soon as possible, significantly reduce other trade-distorting agricultural subsidies, and reduce tariff peaks, which have a detrimental impact on development, and tariff escalation. Progress must be made before the WTO Ministerial Conference in Hong Kong in December if the Doha Development Round is to live up to its name and to be concluded in 2006.

Example 3: Core labor standards. The core labor standards have been laid down in the UN Social Covenant and are thus considered chartered human rights. The core labor standards must be mainstreamed consistently in the policies of the World Bank and in our partner countries. The industrialized countries must set a good example by ratifying all International Labour Organization Conventions on which the core labor standards are based. After all, we agreed back at the World Social Summit follow-up conference "Copenhagen+5" in 2000 that countries would commit themselves to such ratification.

Meet global challenges together

In the course of the increasing globalization of economic processes and growing interdependence between countries and regions, it is becoming ever more important to establish a viable strategy and framework for the provision of global public goods, in other words, for the type of public goods that is associated with harm or benefits that transcend borders. In this context, multilateral institutions such as the World Bank are of special importance. The World Bank is particularly well suited to initiate multilateral processes involving a multitude of players, to structure the debate and to coordinate contributions.

Given this background, there is a need for the World Bank to further pursue and strengthen the strategic orientation of its "Global Programs." So far, no multilateral Framework has been laid down to coordinate efforts and set priorities with regard to the individual goods. Just like in the PRS process at the country level, paths must be found to combine and link the efforts of governments, nongovernmental organizations and private donors. What the World Bank could, and should, do is to launch and structure this process, which should lead to the establishment of an urgently needed strategic Framework for the provision of global public goods.

As the strategic framework for global public goods is developed, the following aspects should serve as guidance:

- As we deal with the provision of global public goods, greater attention must be given to the poverty aspect. The provision of these goods and the reduction of poverty need to take place in parallel in order to ensure development on a lasting basis. After all, poverty not only poses a barrier to many public goods (such as environmental protection), it also prevents people from equitable participation in the relevant political processes.

- Given this background, crowding out must be prevented and the financing of global public goods must be put on a sound and appropriate basis. So far, many of the efforts for the provision of global public goods have been undertaken to the detriment of other ODA
contributions, which is evident from growing shares in what are, in total, stagnating transfers. This means that we also need to examine options for tapping additional sources of funding.

- Global public goods must not be financed at the cost of other development tasks. The main task of the World Bank is to make a significant contribution towards reducing global poverty. Its financial and other resources must be devoted to these purposes.

- Cooperation with other donors plays an important role. The main imperative for the World Bank in this regard is to combine its own instruments in a more meaningful way with those of other bilateral and multilateral donors, for instance financial transfers and technical advice.

One example is energy efficiency and renewable energy. Cost-effective, reliable and sustainable energy is of central importance for our proclaimed goal of poverty reduction, but also for the prevention of environmental degradation. I am convinced that to this end, it is indispensable to give increased support to the dissemination of renewable energy forms and to reduce the subsidizing of traditional forms of energy. Some renewable energy sources are already competitive, especially when it comes to the provision of decentralized energy for the poor. However, some still require additional market development. The related cost must not be imposed on the developing countries. There is therefore a need for all players involved to engage in close cooperation, ensure that their efforts are mutually complementary, and grant mutual access to expertise and studies. The World Bank has an important role to play in this regard. In the longer term, it must become an "encouraging bank" for renewable energy. Now the Bank must systematically implement the agreed increase in the share of renewable energy support in its portfolio.

The World Bank continues to have a key role to play in middle-income countries. In these countries, it is not only a matter of promoting economic development. The Bank has three additional central tasks in these countries. Firstly, it has to orient its activities in these countries (as in others) more closely to the goal of poverty reduction through sustained, socially balanced economic growth. Secondly, economic development must be accompanied by protection from external shocks, to which these countries continue to be vulnerable in spite of their more advanced level of development and which have grave consequences for the global economy as a whole. Finally, this group of countries is of key importance when it comes to the provision of regional and global public goods, such as preventing financial and environmental crises, containing epidemics, promoting peace and security and regional stability. The renewed focus of the World Bank on infrastructure will help foster economic growth. However, this must not result in the watering down of the safeguards. And it must be ensured that the envisaged infrastructure projects are closely linked to pro-poor growth strategies.

Achieve a substantial increase in ODA and further improve its quality

In order to achieve the international development goals, it is vital to boost both the effectiveness and the volume of our development cooperation. Together, we have pledged to give these tasks top priority. Many developing countries could already make effective use of substantially increased donor contributions. And it may be assumed that these contributions not only have a direct impact but also act as an important catalyst for the implementation of necessary reforms and the mobilization of additional investment capital.

In Germany, the share of development cooperation resources (ODA) in GNI will rise to 0.33% in 2006 (from 0.28% in 2004). We will thus meet the commitment we made prior to the Monterrey Conference, as well as our commitments from the EU Barcelona Declaration. However, this can only be the first step. Within the EU, we are currently working on a step-by-step plan for further increases in ODA. Federal Chancellor Schröder expressed a clear commitment to the United Nations 0.7% target at
the World Economic Forum in Davos. The timetable to reach the ODA target, which I have presented in my capacity as the German Federal Minister for Economic Co-operation and Development, is in line with the EU roadmap for the ODA target. It aims at reaching an ODA ratio of 0.5% by 2010 and 0.7% of GNI by 2014.

Although considerable scope is available for increased financing for development to be used effectively, the situation varies from country to country and from sector to sector. Problems of absorption and a lack of a development are two sides of the same coin. We must continue our efforts to better align development cooperation with national development programs and to simplify and harmonize the practices used by the various donors. Advancing this agenda will be an important precondition for enhanced absorptive capacity. The decisions made in Rome, Marrakesh and Paris mark important milestones. It is now a matter of integrating the decisions into the relevant operative procedures and country programs. Germany is committed to that.

**Ensure debt sustainability**

High levels of debt and, more generally, developing countries' great vulnerability to changing environments jeopardize these countries' own efforts for development. The IFIs' lending policy therefore needs to take better account of debt sustainability aspects in future. Two principles in particular must be noted in this connection:

Balance of loans and grants. While the World Bank should generally continue to give loans to poor countries, it should also provide grants to the extent required if the provision of loans poses a threat to debt sustainability. So the decision whether to support low-income countries with grants or with loans must primarily be based on their debt sustainability. In this connection, it is important to maintain the World Bank's character as a bank while simultaneously enabling the provision of grants on a limited scale based on the said principle.

Maintaining the World Bank's financial integrity. Another important aspect is the need for clearly identifying the impacts of the increased provision of grants and of additional debt relief on the World Bank's financial integrity. Germany wants development banks that continue to be financially powerful and have high self-financing power. They must have a clear development mandate that is distinct from those of other multilateral institutions, and they must continue to play a central role in international development cooperation.

Germany therefore supports the present Debt Sustainability Framework. It constitutes a crucial prerequisite for recognizing new debt crises early on and preventing them in future. The Framework now must be implemented consistently, which requires close coordination between the Bretton Woods Institutions and other development partners.

Moreover, assistance should be provided to poor countries – where needed – in the form of further multilateral relief. However, the form and volume of such relief are still a matter of debate at this point. The Federal Ministry for Economic Cooperation and Development (BMZ) has presented a proposal based on the following principles:

- Ensure long-term debt sustainability. Multilateral debt relief should further improve long-term debt sustainability in low-income countries. The relief effort should help create an additional cushion for the event of negative exogenous shocks.

- Equal treatment for all low-income countries. All low-income countries should be dealt with according to a set of criteria that are generally applicable. The general criteria include, for
example, the World Bank's internal rating procedure within the framework of the CPIA (Country Policy and Institutional Assessment) Index and the thresholds – to be agreed upon – for the degree of indebtedness. Decisions are taken on a case-by-case basis.

- Appropriate incentives. Further debt relief should benefit primarily those countries whose governance has improved.

- Compatibility with the IMF/World Bank Debt Sustainability Framework. The proposal should be linked to the new debt sustainability framework and its core principles, which are framed in such a way that future debt crises will be avoided (forward looking). This aspect will also be taken into account in future loan decisions (e.g. within the framework of IDA 14 with regard to the future credit-grant ratio for LICs). There is a need for further discussion about the definition of suitable thresholds.

- Ensuring the highest possible transfer of resources to developing countries. Debt relief should, to the greatest possible degree, contribute to an increase in the net transfer of financial resources while minimizing costs to donors.

- Ensuring international financial institutions' financial solidity and lending capacity.

**Tap new sources of financing for development**

If we want to achieve the Millennium Goals, we need additional new and innovative financing instruments. Germany is making active, results-oriented contributions to the relevant debate. In addition to the dialogue within the EU, Germany is also working closely with France, Spain, Chile and Brazil ("Lula Group") in order to make headway on the relevant proposals.

Germany supports the IFF and is in favor of testing this mechanism with a pilot measure for immunization campaigns, referred to as IFFIm. We are currently in the process of clarifying the legal and technical issues around German participation.

It makes sense to combine the frontloading of aid through an IFF with backloading, for example in the form of global taxes. Together with the Lula Group, we support the idea that these taxes should be raised nationally but coordinated internationally. This will help make it easier to implement the endeavor and avoid the establishment of new supranational bodies.

Both the EU and the Lula Group are currently taking a very close look at the possibilities for introducing international taxes on air travel. I am confident that at least one of the present options can be agreed upon among a limited number of countries to start with.

Another instrument that was proposed by Federal Chancellor Schröder in Davos is a tax on speculative currency transactions. The findings of a study commissioned by the BMZ (in 2002) show that such a tax is a feasible idea. However, it would need to be implemented based on international coordination; all the financial centers in one time zone at least would need to participate. All political decision-makers responsible should take a good look at this instrument without ideological blinkers.
Processes of economic and social development are intrinsically linked with the concept of ownership. Reforms must be firmly rooted in terms of culture and political economy. It is therefore indispensable to strengthen recipient countries' ownership. In addition to the proposals already mentioned for improving the quality of ODA, the following aspects are of particular relevance in this connection.

As successful development strategies are rooted in the specific context of the countries, local analytical capabilities must be better tapped into or deliberately built up. The international community must therefore lend more active support to the developing and transition countries in charting their own paths. For example, it is crucial that the programs take full account of the underlying determinants of growth and of the factors influencing the response of the real economy to macroeconomic policies. Such an approach requires country-specific assumptions about the underlying economic and structural relationships. This analytical input can only be produced in collaboration with local researchers. In this context, Poverty and Social Impact Analyses (PSIAs) is an important instrument; they should be undertaken on a systematic basis.

It is also important to take macroeconomic issues into account in the PRSP process. For instance, experience gained with PRSPs to date has shown that the issue of alternative macroeconomic policies has been almost completely neglected. The participation of civil society needed for the drafting of PRSPs has so far not extended to macroeconomic issues either. There must be a discussion of the various options and the related trade-offs in light of the specific country situation. The PRSP process should be used to that end.

Moreover, the conditionalities attached to World Bank programs must be further focused on core areas and become more results-oriented. Experience gained with structural adjustment programs has shown that conditionalities usually only reach the desired goals if they support the recipient country's general policy. However, this realization makes traditional conditionality baseless. A further way of enhancing ownership would be to formulate performance criteria, to the greatest possible degree, in the form of output or outcome indicators. Germany has voiced its position, among other things, at an international workshop held in Berlin last week. We now look forward with interest to the results of the ongoing review of the World Bank's conditionality policy.

Finally, developing countries need to gain a stronger voice in the decision-making structures of the World Bank. Strengthening the voice of developing and transition countries in World Bank bodies is vital to retaining the institution's credibility. Giving all shareholders the chance to play an active part in decision-making processes is a prerequisite for the acceptance of the measures concerned. The 2002 Monterrey Conference on Financing for Development and the Monterrey Consensus have confirmed that action is needed in this regard. Germany has therefore vigorously supported the voice process and proposes – in addition to the aforementioned measures to strengthen ownership – that the opportunities of developing and transition countries to participate in the World Bank's decision-making structures be increased. In particular, Germany advocates a substantial increase in developing countries' basic votes. This would particularly benefit the poorest developing countries and the countries of Africa. Moreover, thought should be given to the introduction of the principle of "double majorities" for decisions on operational or staffing matters (similar to the practice used at the Global Environment Facility, GEF). It is possible, and indeed desirable, to move ahead with reforms of this kind on the basis of sequencing.
Statement by Mr. Gerrit Zalm, Minister of Finance, The Netherlands

This is the last Development Committee meeting Mr. Wolfensohn will attend in his capacity of President of the World Bank. On the first of June, he will leave a World Bank that has strengthened its commitment to poverty reduction and recognises the importance of interacting with civil society; a Bank that has also put equitable growth, good governance and the fight against corruption firmly on its agenda.

Under Mr. Wolfensohn’s leadership the Bank respects developing countries’ authority over their own development processes and recognises the importance of streamlining its policy conditionalities, of programmatic finance and of aligning its own policies with those of recipient countries. This all adds up to an ongoing commitment to working in partnership with multilaterals and donors. That is no small achievement.

Under Mr. Wolfowitz’ leadership we expect the Bank to build upon this legacy and to remain a driving force for marshalling better quality of aid, more predictable aid and more volume of resources to tackle poverty, by convincing donors to live up to their Monterrey commitment to raise ODA levels. Quite frankly, I feel that the international community should be more ambitious in order to reach the 0,7% target earlier than 2015 as stated in the report of the UNSG.

Let me turn to the issues on the agenda of this Development Committee meeting.

Global Monitoring Report 2005

The Global Monitoring Report 2005 confirms that much has been achieved, but also that much more must be done to achieve the Millennium Development Goals. Not only in Sub-Saharan Africa but also in other regions: Asia has the largest number of poor people, Latin America still has major inequalities and in Eastern Europe and Central Asia there are significant reforms that require international support.

My constituency commends the Bank for this report and supports its five-point agenda. This agenda is feasible but its success will depend primarily on all countries having the political courage to accept its implications.

In my view, one important point merits additional attention: capacity building.

The Global Monitoring Report recognises that developing countries are responsible for formulating and implementing their own development strategies for achieving equitable and sustainable growth. In the first place this requires capable, democratic and transparent institutions that can provide an enabling environment for growth led by the private sector and for scaling up service delivery to the poor in education and health. The 2004 Doing Business report and the conclusions of the WDR 2005: A Better Investment Climate for Everyone give evidence that deregulation and a better investment climate encourage foreign direct investment and lead to economic growth, job creation and inclusion of the poor in economic activity. The WDR 2004: Making Services Work for Poor People highlights the importance of service delivery for eradicating poverty.

Donor countries and international agencies can do a great deal to help. In addition to supplying sustained, flexible and predictable financial assistance, harmonising their efforts and aligning their procedures with recipient countries’ policies, they should address the current mismatch between the

36 On behalf of Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Republic of Macedonia, Moldova, The Netherlands, Romania and Ukraine.
required financial assistance and the support offered. The Paris Declaration on Harmonisation and Alignment is very clear about this point.

A good deal of funding is provided in the form of technical assistance, while funding of recurrent costs, in particular wages of teachers, doctors and nurses, is needed to provide for decent salaries and to invest in and preserve human capital in developing countries. Countries need this type of funding to develop and maintain capable, democratic and transparent institutions. Retaining capacity is especially important in the health and education sectors, where the need for progress towards the MDGs is the most urgent.

Financing of recurrent costs should therefore not be limited to exceptional cases and need not always be phased out, as long as we take into account the recipient country’s fiscal sustainability and whether it has the ability and the will to continue financing these institutions after donor funding ends. Financing of recurrent costs by donors should be conditioned on sound fiscal and debt management policies of recipient countries. In this respect I would further like to stress that mobilizing domestic resources – for instance, by improving the tax collection rate – can be a major source of funding for development.

**Financing for development**

My constituency again calls on all donor countries to increase their levels of ODA to 0.7% of GDP or higher. The Netherlands gives 0.8% of its GDP in ODA.

My constituency supports the idea of providing additional multilateral debt service relief to low-income countries, to promote development and help them achieve the Millennium Development Goals. We believe that multilateral debt service relief should be part of a coherent, integrated development strategy, which includes further trade liberalisation. Therefore, we call upon countries, in particular those who support further debt relief, to actively advocate concrete steps in the run up to the important WTO meeting later this year in Hong Kong.

We can make debt service relief more effective by adopting certain modalities, which I will now describe.

First, we propose that debt service relief be available in principle to all IDA-only countries. That would guarantee equal treatment. Second, since debt service relief is in fact a form of budget support, it should only be given to countries with sound budgetary policies. If budgetary policies deteriorate, debt service relief should be suspended. Third, in order to reduce moral hazard, we should also make sound debt management a requirement for debt service relief. This implies that if a low-income country continues to borrow when it has exceeded its debt sustainability threshold, again, debt service relief should be suspended. Finally, to encourage donors to participate in the debt relief initiative, my constituency proposes letting them decide for themselves which qualifying countries they want to grant debt service relief. The IMF and World Bank can play a coordinating role by monitoring which countries have a financing gap.

The financing of multilateral debt service relief should be additional to other funding. The Netherlands is willing to contribute to IDA/AFDF debt service relief for our qualifying partner countries and poorer members of our constituency, in line with our share in IDA. To finance the IMF debt relief, the Fund could sell a relatively small amount of gold to create an investment account as part of its balance sheet. Only the accrued profits would be used for debt relief. This would make resources available for additional debt relief, and the financial position of the Fund and IDA/AFDF would remain solid. To limit any negative impact on the gold market, the proposed gold sale should in principle be accommodated.
within the current Central Bank Agreement for 2004 to 2009. We welcome the recent IMF paper on this issue.

We hope other countries will support this form of debt service relief and by doing so will increase their ODA spending, in line with the Monterrey commitments.

As for the recently agreed debt sustainability analysis framework, my constituency urges the IMF and the World Bank to implement this framework and to make future financing conditional on the results of the sustainability analyses.

*Representation of transition and developing countries*

The IMF and the World Bank are truly global institutions given their almost universal membership. Their constituency systems provide for involvement of all countries in the decision-making process. This is a unique feature. The formation of constituencies takes place on a voluntary basis and it should remain like that. In this respect, I would like to point out the advantage of so-called mixed constituencies that contribute to a fruitful cooperation between debtor and creditor countries. The overall system of representation is sound.

In addition, my constituency would like to point at the efforts made so far to strengthen the most heavily burdened constituency offices of the developing and transition countries. Naturally, improvements can be made in the effectiveness and efficiency of decision-making processes within the Bank. My constituency supports updating the amount of basic votes.
Statements Submitted by Observers

Statement by Omar Kabbaj, President of the African Development Bank Group,

Introduction

On behalf of the African Development Bank Group and on my own behalf, I wish to express my appreciation for the invitation to attend the 71st Meeting of the Development Committee. The focus of the meeting on progress towards the Millennium Development Goals (MDGs) -- as well as the issue of mobilizing adequate resources to help developing countries meet the MDGs -- are obviously of special interest to all countries and, in particular, to African countries and their development partners.

Accordingly, I would like to take this opportunity to briefly review Africa’s recent economic performance and the progress that African countries are making towards achieving the MDGs. I will then discuss the financing needs of African countries, recent trends in ODA flows to Africa, as well as other policy measures -- namely debt relief and trade reforms -- that the international community could take to ensure adequate resource flows to African countries. I will conclude by reviewing the role that the African Development Bank Group plays in this global endeavor, as well as the measures it has taken to mobilize resources to finance the development programs of its regional member countries (RMCs).

Africa’s Recent Economic Performance and Progress towards the MDGs

Recent Economic Performance

Over the last decade, Africa’s economic performance has shown a steady improvement as an increasing number of countries have adopted and implemented profound economic reforms. Most African countries have made notable progress towards putting in place a stable macroeconomic framework by following prudent fiscal and monetary policies. They have also undertaken major structural reforms and adopted policies to encourage the development of the private sector. In addition, many have developed Poverty Reduction Strategies, often guided by the MDGs.

These reform programs and policies have had a positive impact on generating macroeconomic stability and on raising economic growth rates. GDP growth rates, which had declined to 1.4 percent in the first half of the 1990s, rose to an average of 4.1 percent in the last five years, that is, 2000-04. The trend towards increased macroeconomic stability is also reflected in the decline of the Africa’s inflation rate from an average of 28.3 percent in the first half of the 1990s to 10.2 percent in the 2000-04 period. Fiscal deficits have similarly declined from 5.3 percent in the first half of the 1990s to 1.4 percent in the 2000-04 period.

Africa’s economic performance in 2004 has been particularly noteworthy. Its GDP is estimated to have grown by 5.1 percent in 2004 – the highest since 1996 -- resulting in a per capita income growth of 2.8 percent. The high growth rate, in large part accounted for by a favorable external environment, was however also accompanied by a strengthening of macroeconomic fundamentals. The region, overall, experienced a fiscal balance for the first time in decades, and monetary growth slowed considerably. These factors contributed to Africa recording an average inflation rate of 7.7 percent, the lowest in over two decades. The current account also improved significantly, recording a surplus of over $5 billion.

As was the case in the past, growth in 2004 exhibited a considerable variation across individual countries. Some 20 countries achieved GDP growth rates of above 5 percent and 14 others recorded growth rate of between 3 and 5 percent, with only three countries witnessing negative growth rates,
compared with six in the preceding year. In addition, it is encouraging to note that the leading reforming countries on the continent such as Burkina Faso, Ghana, and Mali in West Africa, Mozambique, Tanzania and Uganda, in East and Southern Africa, and Tunisia and Morocco in North Africa continued to perform well, despite the heavy pressure that rising oil prices placed on the external accounts of some of these countries.

**Achieving the MDGs**

Although the economic performance of African countries has improved in the last decade, meeting the MDGs will continue to be a major challenge for most. Indeed, recent reports on the progress of African countries, including the recent United Nations Report “Global Plan to Achieve the Millennium Development Goals” – led by Professor Jeffrey Sachs -- make clear, that on current trends, with the exception of North Africa and possibly a few counties in Southern Africa, the rest are unlikely to meet the goal of reducing the number of people living in poverty by half by 2015. Some countries may, however, achieve some of the MDGs related to education and health.

Progress towards the MDGs will therefore require concerted action by African countries and strong support from their development partners. Domestically, particular attention would need to be given to the following:

- **First**, maintaining peaceful and stable conditions: Much has been achieved on the Continent in the recent past to bring to an end long-running conflicts; others have, however, erupted in some regions and efforts will necessarily have to be made to resolve them.

- **Second**, deepening economic reforms to reduce the high incidence of poverty: Halving the number of people living in poverty by 2015 would, require that more countries continue to raise their growth rates and reach the level of 6-8 percent required to achieve the MDGs. Towards this end, African countries would need to sustain the prudent macroeconomic policies they have implemented in recent years and deepen their reform programs. In particular, much attention would need to be given to financial sector and governance reforms, as well as strengthening regional cooperation and integration arrangements, particularly in the context of the NEPAD initiative.

- **Third**, continued efforts to fight the relentless surge of the HIV/AIDS pandemic by designing and implementing appropriate medium to long-term programs.

**Africa’s Financing Requirements for Attaining the MDGs**

As is well known, a major constraint facing most African countries in seeking to achieve the MDGs is inadequate level of resources to finance the required investment in key sectors, such as agriculture, education, health, and infrastructure. In most African countries the levels of incomes and savings are extremely low, limiting the possibilities for increased domestic resource mobilization. Indeed, despite the improvement in Africa’s economic performance in recent years, savings rates, which averaged 17.5 percent in the first half of the 1990s, increased to only an average of 19 percent in the post-2000 period.

Mobilizing the resources required for attaining the MDGs would require a number of complementary actions. Domestically, there is a need to deepen financial and banking sector reforms to enhance domestic resource mobilization. In addition, more attractive conditions for the private sector would need to be put in place to encourage greater private investment from both domestic and external investors. In particular, as Africa’s share of global foreign direct investment (FDI) remains very low,
much would obviously be gained by pursuing appropriate policies and creating the domestic environment to attract larger volumes of FDI to augment domestic savings and investment.

Such efforts will require the support of the international community, if African countries are to make progress towards the MDGs. Support is critical in three areas: increased ODA flows to Africa; further debt reduction; and improved access for Africa’s exports.

With respect to ODA, there is a general increase that it would need to be scaled-up considerably. The Commission for Africa has, for example, called for an immediate doubling of ODA to Africa to $50 billion a year. In addition, it has called for 100 percent debt cancellation and urges rich nations to drop trade barriers and remove agricultural subsidies that hurt poor countries. These have been echoed by the World Bank and the IMF, with these two institutions also arguing that an increasing number of countries have improved their absorptive capacity to use such resources effectively. The Bank’s own estimate indicates that for the 30 or so African countries in need of additional external assistance, and judged to be in a position to use aid effectively, the requisite increase in assistance is in the order of $20-25 billion per annum.

After declining for much of the 1990s, ODA to Africa has risen substantially over the last three years, although much of the increase is accounted by debt relief. This positive trend will need to be maintained, with the goal of doubling of ODA current levels in the next five years. Towards this end, more attention should be given to recent proposals to find innovative ways of scaling up and front-loading ODA. Two important proposals have been tabled in this regard: the first is the proposal of the French Government to consider various forms of global taxation; the second is the International Finance Facility (IFF) proposed by the United Kingdom and supported by France.

More efforts should also be made to improve the efficiency and effectiveness of ODA. At the March 2005 Paris High Level Forum on Aid Effectiveness a number of proposals were adopted to strengthen country ownership and to harmonize donor policies and align them with systems in place in developing countries. The donor community – in close cooperation with developing countries – would need to take urgent action to implement these proposals.

As well as increase ODA and enhance its effectiveness, there is also a need to reduce further Africa’s external debt burden. Much progress has been made in recent years in part due to the HIPC initiative. Of the 32 African countries that were expected to qualify for HIPC debt relief, 23 have so far become eligible and two – Burundi and Congo are expected to qualify in 2005. It is also noteworthy that six countries -- Ethiopia, Ghana, Madagascar, Niger, Senegal, and Zambia -- reached their completion point in the last two years bringing the total to 13. As most of the remaining seven countries are either in conflict or emerging out of conflict, we urge the international community to assist them re-establish peaceful conditions, as well as help them clear their arrears and commence their reconstruction efforts.

With regards to further debt relief measures, we are encouraged by the initiative taken by the United Kingdom to provide additional debt relief on the debts owed by post-completion HIPC countries to the international financial institutions. We urge other countries to support this initiative, as it would release considerable resources for investments aimed at reducing poverty in the low-income countries. In addition, we welcome the decision of the donor community to base future ODA financing terms on an in-depth analysis of debt sustainability to reduce the risk of debt distress in the future. This is expected to result in a considerable increase in the level of grant financing by the international financial institutions.

With respect to external trade, African counties continue to face major impediments in the form of heavy domestic support and export subsidies for agricultural products provided by the industrial countries to their farmers. These have the effect of reducing considerably the export earnings of African
countries. In addition, non-tariff barriers are often imposed and African countries face tariff escalation on the exports of processed and manufactured exports, although the AGOA initiative of the United States and the Everything but Arms (EBA) initiative of the European Union have eased some of these obstacles. We are also gratified by the progress made in the WTO July 2004 Framework, which sets out modalities for the elimination of protectionist measures. In this regard, we urge the industrial countries to throw their weight behind the ‘July Framework’ to expedite the speedy fulfilment of the Doha Development Agenda.

The African Development Bank Group and Africa’s Financing Needs

The Strategic Vision of the Bank Group

Since its establishment some forty years back, the African Development Bank’s principal mission has been to mobilize resources to support the development efforts of its regional member countries. Towards this end, it has adopted poverty reduction and achieving sustainable economic growth as its over-arching objectives, as laid out in its 1999 Vision Statement and its 2002 Strategic Plan. The Bank views the Millennium Development Goals (MDGs) as essential benchmarks to assess the economic and social progress of its regional member countries, as well as its own contribution. And given the varied stage of development across the region and countries, the Bank has adapted its Strategic Vision to the development challenges facing the different groups of countries.

For middle-income countries that have access to its ‘hard’ ADB window, its vision is to assist these countries improve the competitiveness of their economies by helping them implement key reform programs, upgrade their infrastructure, and strengthen their private sectors. For the low-income countries that have access to only the concessional resources of the African Development Fund (ADF) and the Nigeria Trust Fund (NTF), the focus remains on poverty reduction and promoting sustainable economic growth. The priority areas of intervention have therefore been agriculture, education, health, governance reforms, private sector development, sustainable management of natural resources, and gender equality. In post-conflict countries, the Bank places high priority on arrears clearance, capacity building, and the rehabilitation of basic social and physical infrastructure. And in all countries, the Bank Group gives high priority to its support for regional cooperation and integration efforts.

Since its establishment, the Bank Group has approved a large number of loans, grants, and debt relief operations to its regional member countries. This has been made possible by resources mobilized from the capital markets through its ADB window and from donors through the ADF and NTF windows. In addition, the Bank Group has established a number of special-purpose facilities. Over the last decade alone, the Bank Group has mobilized a total of $25 billion to support the development efforts of its regional member countries.

Lending, Grant and Debt Relief Operations

As of the end of 2004, the Bank Group has approved loans, grants, and debt relief of close to $52 billion to its regional member countries, of which $30 billion was from the ADB window, $21 billion from the ADF, and over $400 million from the NTF. The approvals include debt relief amounting to $4 billion in nominal terms.

The year 2004 for the Bank was particularly noteworthy, as the Bank Group’s approvals reached the highest level since its establishment, with lending, grant, and debt relief operations reaching $4.3 billion. Of this amount, $2.4 billion was in support of non-concessional operations through the ADB window, including private sector operations amounting to $260 million. The balance of nearly $2 billion was accounted for by concessional operations in the low-income countries. In addition to its own lending and grant operations, the Bank Group, through its co-financing operations, succeeded in mobilizing
additional resources, which stood at $3.1 billion. Thus, the total amount of resources generated for its regional member countries -- including the Bank’s own resources -- stood at $7.4 billion in 2004 compared to $6.3 billion in 2003.

**Resource Mobilization for Debt Relief**

In response to the debt crises of most low-income African countries, the Bank Group has been active in the HIPC initiative from the very start. As I noted earlier, it has to date approved $4 billion of debt relief to the 23 African countries that have qualified. Over 80 percent of the resources required to finance the Bank Group’s involvement in HIPC has been financed by ADF donors. Beneficiary countries have used the resources freed by debt relief to finance important poverty-reduction interventions, particularly in the health and education sectors.

**Resource Mobilization for the African Development Fund**

The year 2004 was particularly important for the Bank Group in terms of mobilizing new concessional resources through its ADF window. State Participants in the ADF agreed on an ADF-X (2005-2007) replenishment level of approximately $5.4 billion. This represents an increase of 43 percent over the actual resources mobilized under ADF-IX and represents the highest replenishment in the history of the Fund.

The framework for Fund operations under ADF-X also incorporates a number of significant new features: *first*, the level of grant resources has more than doubled from 21 percent under AFD-IX to about 44 percent, with 26 countries, or two-thirds of the eligible countries, now receiving assistance solely in the form of grants; *second*, the special allocation for multinational projects has been increased from 10 to 15 percent of total ADF resources to allow the Fund to provide additional financing for such projects, particularly in the context of the NEPAD initiative; *third*, the increased envelop of resources will allow low-income countries to allocate more resources to water supply and sanitation, in line with the Bank’s Rural Water Supply and Sanitation Initiative; and *fourth* an initial allocation of approximately $150 million has been made to support the Bank’s Post-Conflict Country Facility, with a commitment to increase this amount if required.

**The Post-Conflict Countries Facility (PCCF)**

In addition to its regular lending and grant operations, the Bank Group has established a Post-Conflict Countries Facility (PCCF) to help such countries clear their arrears with the Bank Group and help them reengage with the international community. As I noted earlier, the Facility has been established with an allocation of approximately $150 million over three years from the net income of the Bank, and an additional $150 million from the African Development Fund. Efforts will be made to mobilize more funds from bilateral and multilateral sources. The resources of the facility will be used on a case-by-case basis to assist post-conflict countries that meet specific criteria. Two countries – Burundi and Congo – have already benefited from the facility and the Bank Group has started its regular operations in these countries.
The NEPAD Infrastructure Projects Preparation Facility

At I noted earlier, the Bank Group gives high priority to promoting regional cooperation and integration to enable the many small countries of Africa to gain from economies of scale and the benefits of larger markets. Its efforts have been boosted in recent years by the leadership role that it has assumed for regional infrastructure and banking and financial standards at the request of the NEPAD Heads of State Implementation Committee. The Bank has developed a framework for such standards and this has been incorporated into the African Peer Review Mechanism.

In infrastructure, the Bank has drawn up a NEPAD Infrastructure Short Term Action Plan (STAP), which outlines priority investment projects and programs for the period 2002-2007 in the energy, transport, water and sanitation and Information and Communications Technology (ICT) sectors. The estimated total investment cost of the projects included in the short-term action plan is approximately $8 billion, of which half is envisaged to be financed by the private sector. The Bank has already approved $520 million to finance projects identified in the plan, and has mobilized a further $1.6 billion from other sources to co-finance these projects. Work has also started on the preparation of a medium to long-term action plan, in close collaboration with the regional economic communities and in cooperation with the World Bank and the European Union. A special NEPAD multi-donor infrastructure facility to assist regional economic communities and countries in the preparation of bankable infrastructure projects has been established. The fund was seeded with a grant of C$10 million from the Canadian government.

The Rural Water Supply and Sanitation Initiative

Another major initiative that the Bank has launched is its Rural Water Supply and Sanitation Initiative (RWSSI). The immediate goal of the Initiative is to accelerate access to sustainable safe water supply and basic sanitation in rural Africa, with the objective of reaching a coverage of 80 percent by 2015 – in line with MDG goal for this sector. Its fundamental conception is, first, to mobilize the international community around a common framework, with African governments assuming leadership and, second to help raise the required financial resources to achieve the MDG for water supply and sanitation.

Preliminary estimates of the total investment requirements indicate that it would be in the order of $14.2 billion. The resources requirement for attaining the intermediate targets set for 2007 is $4.6 billion - or about $1.5 billion per year for the next three years. Current resource flows to rural water supply and sanitation would cover around 40 percent of the cost – including country contributions of around 20 percent. The Bank Group has committed to provide up to 30 percent of the total financing requirements from both its concessional and non-concessional windows – the ADF and ADB. The balance of the resource needs therefore stands at about $460 million per year up to the end of 2007.

The Initiative was discussed at the International Conference on Rural Water Supply and Sanitation in Africa on 1 April in Paris, organized by the Bank and co-hosted by the French Government. African governments strongly supported the Initiative and the donor community also indicated its intention to provide additional financing, with some countries making actual pledges.

Concluding Remarks

In conclusion, I believe that we would all agree that while most African countries – and particularly Sub-Saharan countries -- face daunting challenges in meeting the MDGs, notable progress are, nonetheless, being made by many. Their success in the future will, however, depend, on the one hand, on African countries continuing to deepen their reforms, and, on the other, on the international community significantly increasing ODA flows to Africa, providing further debt reduction, and
improving access for Africa’s exports. Promising starts have been made on all these fronts and we call on the donor community to re-dedicate itself to honoring the pledges it made at Monterrey and other fora.

The African Development Bank, on its part, has, in the last decade, succeeded in mobilizing considerable resources -- with $25 billion over the last ten years -- to support the development efforts of its regional member countries. In the future, it will strive not only to scale-up its support but also to enhance the development effectiveness of its operations by working closely with its regional member countries and with all its other development partners.

Statement by Mr Louis Michel, Commissioner for Development and Humanitarian Aid, European Commission

At the Millennium Summit of 2000, and more specifically at the Monterrey Conference of 2002, developed countries committed to more and better aid and developing countries promised better policies and improvements in governance. Together they made a “global deal” with a view to reaching the Millennium Development Goals by 2015.

The first global stock-taking exercise is coming up with the UN High Level Event in September this year. The Commission warmly welcomes the Global Monitoring Report as one of the major contributions to this exercise.

Confronted with the challenges of poverty, and of globalisation which excludes entire populations groups and countries, a change of behaviour is necessary. We all need to contribute to this, with political leaders to the fore. We need to do this, not only for reasons of human solidarity, but also for world security and stability. The European Union, the foremost international donor and largest trading partner of developing countries, has a particular responsibility for development in general and for Africa in particular.

This is the reason why, in view of the forthcoming UN High Level Event, the European Union is now in the process of defining a common position amongst its membership on how to accelerate progress towards attaining the MDGs. In this respect, earlier this week, the Commission has adopted proposals, on the subjects of finance for development, policy coherence for development and a stronger focus on Africa, the continent which presents the biggest challenge. It is expected that EU member states will adopt a common position on the basis of these proposals in June.

Higher Levels of Aid and Improved Quality of Aid to Reach the MDGs

In Monterrey, the EU promised to increase the average share of its GNI that will be spent on ODA from 0.33% in 2000 to 0.39% in 2006. It also promised a series of measures to increase the quality of its aid. Current figures indicate that we managed to exceed this target. Four of the five countries that have reached the UN 0.7% target are actually EU Member States. Six other EU Members have publicly committed themselves to reach 0.7% by 2015 and provided a timetable.

The Commission proposes two interlinked targets to be reached by 2010:

- an individual ODA target for each Member State, differentiated between Member States having participated to the Barcelona commitments and those which have accessed the EU after 2002. The Commission proposes that the 15 first Member States increase their ODA to a new individual baseline of 0.51% GNI, where they have not yet reached it. The Commission proposes that latest Member States (EU-10) reach 0.17% GNI.
• a collective average target for the Union of 0.56% ODA/GNI.

This would represent an increase in EU ODA estimated at €20 billion a year by 2010 (from an estimated €46 in 2006 to €66 billion in 2010). These targets would allow the EU to reach 0.7% of ODA by 2015.

Major efforts are underway to increase the quality of aid. On coordination, alignment and harmonisation, the EU committed itself to concrete targets which go beyond the general conclusions of the 2nd HLF in Paris at the beginning of March, in particular to: (1) providing all capacity building assistance through coordinated programmes with an increasing use of multi-donor arrangements, (2) channelling 50% of government assistance through country systems, (3) avoiding the establishment of new project implementation units, (4) doubling the percentage of assistance provided through budget support or sector wide arrangements and (5) reducing the number of un-coordinated missions by 50%.

EC and EU Member States’ development cooperation strategies are increasingly based on developing country’s national poverty reduction strategies or similar frameworks Poverty Reduction Strategy Papers (PRSP) and national poverty plans provide the operational framework for making progress towards the MDGs at country level.

We share much of the Report’s support for increasing results orientation both on donor and recipient country side. But we should go further. Aligning projects and programmes with priorities and national processes, reducing the number of conditionalities, and strengthening ownership must receive the highest attention. In addition, donors need to do much more to improve joint support for higher quality data and monitoring systems. This should include administrative data as well as surveys. The Commission believes that support for better monitoring information is even more important than the Report suggests.

Policy Coherence for Development

Non-aid policies of developed countries have a major influence on whether developing countries will be able to attain the MDGs. Their potential to make a positive contribution to the development process in these countries should be fully exploited. Developed countries’ policies in areas such as trade, agriculture, fisheries, food safety, transport and energy have a direct bearing on the ability of developing countries to generate domestic economic growth, which is the basis for any sustained progress towards the MDGs. Developed countries’ migration policies, through their impact on migrant remittances flows, have an influence on the balance of payments position of many developing countries. Developed countries’ environmental policies not only directly affect global progress towards ensuring environmental sustainability (MDG7), but have consequences for virtually all other MDGs. Developed countries’ policies on research and information society have great potential for improving access to health and education in developing countries. Developed countries’ approaches to globalisation and fragile states are essential to creating a conducive political context for attaining the MDGs. All these policies of developed countries should furthermore have a proper gender equality perspective, to avoid them losing half of their potential impact. And they should be embedded in a stable and secure environment, as there can be no development without peace and security; and no peace and security without development.

To strengthen the coherence of EU policies in support of the MDGs, the Commission has identified priority areas where the potential for synergies with development policy objectives is considered particularly relevant. For each of these priority areas the Commission is proposing general orientations, or ‘coherence for development commitments’, that we hope EU Member States will adopt as part of our common position for the UN High Level Events (HLE). By making all European policies more
coherent with the Union’s commitment to global poverty reduction, we will give a major push to the achievement of the MDGs.

**Focus on Africa**

Sub-Saharan Africa lags far behind the rest of the world in reaching the MDGs. Estimates show that on current trends most African countries would not be able to reach the MDGs until much later than 2015.

The Commission therefore proposes a ‘Focus on Africa’. An increase of resources for sub-Saharan Africa is a vital component of this. We need to ensure that a sufficient share of the increase in official development assistance goes to Africa. We also need to put Africa in the centre when reshaping development policy. All proposals made by the Commission, as regards policy coherence and on increasing quality of aid should indeed be applied to Africa as a priority.

The Commission also proposes to accelerate its action in a limited number of selected areas identified as key multipliers for development, namely governance, interconnectivity and equity. In addition to the already substantial EU programmes in Africa, including in the framework of the Cotonou Agreement, the Commission proposes to fill existing gaps and catalyse other actor’s actions, particularly in those three areas:

- **Supporting Africa’s renewed efforts in governance:** to give a strong incentive for Africa owned governance reforms, the Commission proposes to support the implementation of reforms that the Africa Peer Review Mechanism (APRM) will trigger. The Commission also proposes a replenishment of the Peace Facility so as to provide the African Union and the sub-regional organisations with the necessary financial muscle to cope with Africa’s conflicts.

- **Building the interconnection of Africa’s networks and trade:** Many infrastructure services in Africa are excessively expensive by global standards largely due to the lack of interconnectivity among African countries. This is a major impediment for private sector growth and integration into the global market. The Commission proposes a partnership on infrastructure. The Partnership, based on the AU/NEPAD strategies, will support the establishment of sustainable cross-border infrastructure essential for the interconnectivity of the continent. Finance will be provided in a way aimed to leverage also private sector investments.

- **Supporting more equitable African societies:** While it is necessary to continue increasing access to social services, the Commission also calls for more attention to social cohesion, promotion of decent work, and environmental sustainability. Among other things, the Commission proposes to take account of concrete policy measures taken by developing countries to improve equity and environmental sustainability as part of the criteria that determine aid allocations by donors. This will ensure additional resources for countries willing and able to address issues of inequality and marginalisation.

The magnitude and the urgency of the task ahead are big. The EU can make a difference and is committed to do so.
Statement by Mr. Lennart Båge, President, International Fund for Agricultural Development

The U. N. General Assembly High Level Plenary Meeting in September will provide the occasion for world leaders to review progress and intensify commitments for reaching the Millennium Development Goals (MDGs). Citizens around the world are mobilizing a Global Call to Action Against Poverty to encourage the leaders to take bold measures. The conclusions of the Development Committee, based on its review of the 2005 Monitoring Report, can serve to inform the deliberations and decisions of the High-Level Plenary.

Redoubled efforts to achieve the MDGs must give priority consideration to the fact that three out of four poor people in the world live in rural areas. With respect to hunger, the distribution is even more skewed. While an estimated 20 percent of the roughly 850 million who suffer from chronic or acute malnutrition live in urban areas, 80 percent are in the rural areas and ironically, fully half of this majority live in households of small-scale farmers.

Investment in agriculture and rural development is essential to successful efforts to halve poverty and hunger, the first MDG. There is growing evidence that those developing countries that are on target to meet the MDGs are ones that are significantly investing in rural development. In particular, the progress toward reducing poverty and hunger in South and East Asia correlates with high levels of investments in agriculture. Investment in agriculture in sub-Saharan Africa has been particularly low in recent years. It is encouraging to note that African leaders pledged in 2003 to increase investment for agriculture to 10 percent of national budgets within five years.37

Donors need to follow the action of the African leaders by reversing the decline in resources for agriculture and rural development that has occurred over the past 20 years. For example, official assistance to least developed countries for agricultural development during the period 1983 to 1987 was USD 2.51 billion. By 1998 to 2002, the amount had fallen to USD 0.94 billion, a staggering 62 percent drop. This pattern is found in nearly all bilateral and multilateral development agencies.

I urge the Development Committee to emphasize the central importance of agriculture and rural development in the context of the MDGs to overall international poverty reduction efforts.

To succeed, these increased levels of investment must be geared to approaches and policies that address the challenges and constraints faced by small-scale farmers and poor rural producers. These include the need for secure access to land, water, technology, and other productive resources and support for non-farm enterprise and employment. They also include access to markets in the context of globalization, which provides potential new opportunities for small-scale producers. These opportunities can only be tapped if small-scale farmers and producers can acquire necessary new skills, information, and capacity and can organize themselves to achieve greater influence and bargaining power. Financial services and rural infrastructure that respond to the needs of poor producers are linchpins for investments to reduce rural poverty and hunger.

Ultimately, agricultural and rural development that sustainably reduces rural poverty requires fundamental social and political change. Governments must eliminate the discrimination and exclusion that marginalizes women, ethnic groups, and youth in rural areas. Decentralization of government decision making and operations can create greater possibilities for accountability. And rural people need to create and strengthen their own organizations to be able to identify and advocate for their own economic, social, and political interests.

The voices of the rural poor need to be heard by national governments and development organizations. Their experiences and perspectives must be reflected in national poverty reduction strategies. Involvement of rural poor communities in the formulation, implementation, and evaluation of poverty reduction strategies can help to ensure that rural poverty reduction is integral to national strategies.

In IFAD’s experience, rural farmers, producers, and communities bring indispensable knowledge and experience to the development of strategies that reflect the particularities of the local situation. With respect to agricultural development, it is especially important that local factors are fully recognized and taken into account. IFAD has learned that strategies that build on bottom-up processes and that strengthen local institutions and local accountability are essential to ensuring sustainability of development efforts.

The good news today is that we know more than ever about who is poor, why they are poor, and what must be done to overcome poverty. Before us is the hard work of translating this knowledge into actions and mobilizing resources that will transform landscapes of poverty into country sides of hope and prosperity.

Statement by Mr. Juan Somavia, Director General, International Labour Office

As we approach September’s review by the UN General Assembly of the Millennium Declaration five years on, there is an opportunity for the multilateral system to commit itself to working together more closely and more coherently toward the end of attaining the Development Goals. Greater integration of economic and social policies will indeed be essential at all levels, from the global to the national, as will the implementation of international commitments already made, as we are not on target for meeting the development goals by 2015. The Global Monitoring Report before you today bears the subtitle “from consensus to momentum”. From my vantage point, two observations are fundamental: first, the major momentum that is lacking today is productive job creation; second, attaining the development goal of poverty reduction relies critically on progress in Africa.

We need to give far more weight to the creation of productive jobs if we are ever to attain the objective of halving the numbers of those who live in extreme poverty by 2015. At recent rates of economic growth, the objective will not be attained in much of Latin America and it is far from being attained in Sub-Saharan Africa. But the issue isn’t growth alone, it is sustainable, job-rich growth – and “job-rich” refers not only to a quantitative dimension, more jobs at given rates of growth, but decent jobs as well. While the Secretary General’s report to the General Assembly for September underscores the importance of “providing decent jobs that both provide income and empower the poor, especially women and young people,” greater emphasis needs to be given to the centrality of productive employment for poverty reduction than was contained in both the Millennium Declaration and the Development Goals. In my opinion, we need to think of productive employment as a development goal in its own right – not as another MDG, but as a cross-cutting objective that can make all the other goals be realized.

For some years now, the ILO has been working on this view of development in its partnership with the World Bank on PRSPs in several countries. Our own contribution to the PRSP process has focussed on the central role of employment, and more broadly, decent work, as a development objective. And states can’t do it alone. In our work, we have expressed the objective of our constituents of government, business, and workers, and their own experts to guide us. Harnessing their expertise is a sure means of staying on solid ground, as they live in the real economy. The focus on decent jobs is timely for three reasons. First, our review of global employment elasticity trends shows that the share of
employment growth in global output growth has been about one-third over the past decade – and, indeed, the employment intensity of growth shows a decline from 1999 to 2003 in most regions of the world. Clearly, some of this decline is cyclical in nature, arising from the global downturn at the beginning of the decade. But, as the IMF’s recent World Economic Outlook stated, world output growth registered just over 5 percent in 2004 and is expected to cool slightly to 4.3 and 4.4 percent in 2005 and 2006, respectively. At current levels of employment creation, this just isn’t enough to absorb new entrants into the global labour market, and it is therefore no wonder that people are asking “where are the jobs?”

There are other ways of thinking about the problem. For example, the five-percent increase in global growth translated into the substantial sum of 4 trillion US dollars. Yet that increment to global wealth resulted in a decline in global unemployment of only 500,000. Among other things, what this amounts to is an increase in capital’s share and a decline in labour’s share of national income. It is equally instructive to compare the current weak employment intensity of growth with the past. What distinguished the 1960s from more recent decades were higher rates of economic growth. But for a variety of reasons, the argument can probably be sustained that growth was also more employment-generating, occurring as it did in a context of greater macroeconomic stability and more labour-intensive technologies.

The second reason to focus on decent jobs has everything to do with one of the main items on the agenda for September – our collective security. Too little attention has been paid to the fact that there is a strong economic foundation to security and stability, and, therefore, economic roots to insecurity as well. By insecurity is meant all forms of destabilizing social and political outcomes that can happen when, in a world of great wealth and potential, hundreds of millions of people suffer from want. This linkage is hardly new: economic foundations of security risks are recalled in the ILO’s very Constitution when it observes that “poverty anywhere is a threat to prosperity everywhere” – a threat, a menace, a risk arising from excessive inequality to which the response must be greater fairness and opportunity for all in the global system.

Commenting recently on the UN’s Report of the High-level Panel on Threats, Challenges and Change, leaders of the African Union adopted a Common African Position, the “Ezulwini Consensus”, which in my view correctly highlighted the economic roots of security when it said: “Africa is of the view that the Report did not sufficiently stress the critical linkage between development and poverty as root causes of insecurity.” The Consensus further recommends that the Secretary General “should take into account the recommendations of the Report of the World Commission on the Social Dimension of Globalization”, as the World Commission report “provides a crucial base for addressing poverty and other systemic issues that impede Africa’s development”. A strong element of that base is the emphasis given the centrality of productive employment for poverty reduction and for promoting a fairer globalization. At their Extraordinary Summit in Ouagadougou in 2004, heads of state of the African Union committed themselves to “support and implement the recommendations of the World Commission report.”

There is a palpable “prise de conscience” of these challenges in Africa where they now top the policy agenda. In their Declaration at the Ouagadougou summit, the AU Heads of State and Government committed themselves to “place employment creation as an explicit and central objective of (their) economic and social policies at national, regional and continental levels, for sustainable poverty alleviation.” It is also the case that Africa’s Finance Ministers are fully on board with this agenda. Indeed, in their memorandum to heads of state for the Ouagadougou summit, the finance ministers said that: “it has been demonstrated that there is a close correlation between decent work and poverty reduction”.

Our research also finds a high degree of variation in the employment intensity of growth around the world. In many countries, however, where population trends make it such that labour supply growth
is greatest, so are levels of youth unemployment. Youth unemployment rates are almost universally a multiple of adult unemployment rates, but they are particularly so in regions of rapid population growth, among them, the Middle East and North Africa, where youth unemployment stood at 26 percent in 2003, and Sub-Saharan Africa, where it was 21 percent. Another observation – and this, despite the foregoing comment on unemployment – is that countries of high labour supply growth are also the ones where the employment intensity of growth is greatest. And here, too, the MENA and SSA sub-regions lead the league.

How is it that high unemployment can coincide with high employment intensity? The reason is straightforward: people are being absorbed into low-productivity jobs and self-employment mainly in the informal economy. This is employment that does not lead to poverty reduction, but that very often merely swells the ranks of the working poor, the highest percentage of which as a share of total employment is in Sub-Saharan Africa. There are thus two ways of looking at the same challenge, one emphasizing inadequate employment generation per se and the other focussed on employment generation of inadequate quality – a sort of “survival in poverty” model. We do need policies to support structural transformation in the longer term. Ultimately, of course, we want to see economies diversify. We want to see people move from low value-adding activities to sectors and occupations adding higher value and higher income. But that is the longer term, and for the present, we need more integrated policies to support both productivity and jobs where people are actually working in a Sub-Saharan Africa, and the majority work in agriculture.

However one states the challenge, the solution runs through a common channel, accelerating rates of sustainable growth or, put another way, making markets work for people. It is clear that solutions to the growth challenge must come through the market. More people need to be given a fair chance to benefit from markets. It is equally clear that present policies are not delivering the goods and this, in turn, can erode trust in open markets and, indeed, trust in the capacity of open societies and democratic institutions to deliver. To advance development in today’s interdependent world the way forward reposes on the recognition of two premises. The first of these is that, however much development is a national responsibility, no country can go it alone, particularly the poorest. This concept of solidarity, of moral responsibility is clearly expressed in the report of the World Commission on the Social Dimension of Globalization when it calls for better governance at both national and global levels; it is also emphasized in the UN Secretary General’s report on the implementation of the Millennium Declaration, and in the recent report of the Commission on Africa which calls inter alia for a doubling of development aid. The overall message of all these reports is one of joint responsibility for development. In the case of Africa, a collective effort by Africans themselves and the developed world is called for. Accelerating aid, particularly that aimed at building capacity through investments in education, skills, health, and infrastructure, and facilitating greater African participation in the international trade regime through reform of the international trade rules are two international policy actions through which to accelerate growth at the national level.

The second premise is implied by the first: if the present policies are not working to accelerate job-rich growth, development, and poverty reduction, one reason is that policies have lacked coherence. Examples abound. Trade rules are not fair for everybody. Financial market liberalization has benefited some and caused havoc for others. Of course, the Millennium Development Goals represent an important step toward forging greater coherence in the multilateral system. Heads of state of the African Union themselves have called for greater coherence in underscoring the explicit link between the goal of decent work and poverty reduction.

We need a more balanced and integrated approach to development. Policy coherence is definitely needed, but coherence in the wrong direction will not deliver the goods. Growth alone is important and should lead to employment generation, but a focus on growth alone is inadequate. Investment leads to
growth, and this is of primordial importance. But the investment focus needs to be across the board. For example, 61,000 affiliates of multinational enterprises directly employ about 54 million people in the world today – which is just under the number of new entrants to the global labour force in just one year. Investment policies need also to focus on the self-employed, micro and small and medium-sized enterprises, which create the bulk of jobs in the world, usually in less capital-intensive activities. This can be good for employment, but innovation, productivity and competitiveness all need to be stimulated in the small-scale sector. The self-employed and small firms need access to credit, support through business services, training and access to affordable technologies, and all these interventions should serve employment creation as the central policy objective. Governments need to facilitate the sustainable growth of the private sector. The ILO’s worker and employer constituents come from the world of work: their policy advice on how to make things happen is a critical resource for governments.

We are working on these questions with other agencies of the multilateral system. The aim is to look at development from the angle of what development is supposed to accomplish – to give individuals and their families the opportunity of improving their economic and social standards and, through this, their possibility to pursue the lives they choose. In September, countries will be called upon to draw up detailed plans on how they intend to achieve the goals of the Millennium Declaration by 2015. An explicit strategy for productive job creation for poverty reduction ought to be a central part of those plans. It is our belief that the World Bank can play a fundamental role in making this happen.

Statement by Mr. Amadou Boubacar Cisse, Vice President (Operations), Islamic Development Bank

The Islamic Development Bank (IsDB) Group has the privilege and honour to participate in the 71st Meeting of the Development Committee, which has on its agenda the following items: Global Monitoring Report 2005: MDGs - From Consensus to Momentum and Progress Reports on (i) Financing the Development Agenda, and (ii) Voice and Participation of Developing and Transition Countries. All these agenda items cover critical development challenges facing the developing countries, including the IsDB member countries, and assume special significance in terms of their immediate operational relevance as well as enhancing the effectiveness of assistance provided by multilateral development banks, including the IsDB Group.

As the developing countries and development community approach the sixth anniversary of the U.N. Millennium Declaration, there is hope that many regions in developing countries will be able to achieve wide-ranging improvements in various socio-economic indicators. However, progress towards attainment of various Millennium Development Goals (MDGs) and targets by many African countries remains a cause for serious concern. Sincere efforts of various members of the development community, including the IsDB Group, to assist the African countries by way of debt relief, supporting poverty alleviation programmes, and unhindered exports market access have certainly improved their overall economic prospects and resources to tackle entrenched socio-economic indicators.

On this occasion, the IsDB Group wishes to reiterate its commitment to forge further collaboration with the development community in the common cause of social emancipation and economic progress of the poor and the underprivileged people in the developing world. Along with other participants, the IsDB Group is expecting fruitful discussions and debate during the 71st Session of the Development Committee. The IsDB Group would like to take this opportunity to briefly present recent economic performance of the IsDB member countries, to share its perspectives on the agenda items, and to identify areas for further cooperation and partnership.
Recent Economic Performance

According to the latest World Bank estimates, the global economic growth reached 3.8 percent in 2004, which is the highest rate in the past four years. Real GDP growth of developing countries increased from 5.3 percent in 2003 to 6.6 percent in 2004. Excluding China and India, the economic growth achieved by developing countries was 5.8 percent in 2004 as compared to 3.9 percent in 2003. However, different regions of the developing world, in particular where IsDB member countries are located, seem to indicate a less than desirable economic performance. In the Middle East & North Africa region, the economic growth declined from 5.8 percent in 2003 to 5.1 percent in 2004 while, in the South Asia region, the growth rate declined from 7.8 percent in 2003 to 6.6 percent in 2004. However, the silver lining is that, despite many imponderables, the Sub-Saharan African countries grew from 3.4 percent in 2003 to 3.8 percent in 2004 and are further expected to grow at 4.1 percent during 2005.

As regards the real GDP growth of fifty-five IsDB member countries, as a group, it remained almost unchanged at 5.7 percent in 2003 and is estimated to be 5.6 percent in 2004. The LDMCs maintained their rising rate of economic growth: 5.3 percent in 2002, 5.6 percent in 2003, and an estimated rate at 6 percent in 2005. Inflation in IsDB member countries remained largely subdued under 8 percent in 2004 while the current account balance showed rising surpluses owing mainly to higher income of oil-producing member countries.

The IsDB member countries recorded the highest flow of net foreign direct investment (FDI) at US$29.16 billion in 2003 and then declined to an estimated flow of US$25.7 billion in 2004. The LDMCs continued to receive net FDI flows of over US$5 billion, both in 2003 and 2004. On the external debt front, the stock of IsDB member countries foreign debt rose by about US$6 billion to reach an aggregate level of US$888.4 billion. The stock of LDMCs external debt rose by US$5.7 billion to reach a total of US$114.4 billion in 2004.

In terms of economic prospects, the World Bank forecasts that the global economic growth will decline from 3.8 percent in 2004 to 3.1 percent in 2005 while the economic growth of developing countries, excluding China and India, is expected to slide from 5.8 percent in 2004 to 4.8 percent in 2005. The current financial imbalances pose a risk of a global economic slowdown. The emerging economies face new set of vulnerabilities arising directly from the burgeoning increase in the U.S. current account deficit that reached US$666 billion, which is equivalent to 5.6 percent of U.S. GDP. The baseline forecast of a milder economic slowdown in 2005 could turn out to be more severe depending on the extent of disorderly exchange rate movements and renewed inflationary pressures causing interest rates to rise further.

For the IsDB member countries, risks and uncertainties arising from global financial imbalances generate concerns for the future economic development prospects. Adverse movements in financial variables and a potential economic slowdown, particularly in the U.S. and the E.U., could set back the gains achieved through wide-ranging market reforms, sectoral restructuring, trade liberalization and integration measures implemented over the past two or more decades. Set against these challenges, the emergence of major growth nodes in the Asian region provides an opportunity to developing countries, including IsDB member countries, to diversify and strengthen new economic and trade relations. In this

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38 The IsDB member countries related economic performance data is based on estimations made in September 2004.

39 Of the fifty-five member countries, the IsDB Group classifies or treats 28 countries as the 'least developed member countries' (LDMCs), which makes them eligible to receive concessional financing and flexible terms and conditions in ordinary financing.
regard, the IsDB Group would like to call upon the major economies in the Asian region to launch an initiative for granting of unhindered market access to exports from the least developed countries, in particular to exports of Sub-Saharan African countries. Such an initiative by the major emerging Asian economies will most likely accelerate growth impetus of Sub-Saharan African countries, assist in the attainment of MDGs, and strengthen South-South cooperation.

Global Monitoring Report 2005: MDGs – From Consensus to Momentum

The IsDB Group would like to express sincere appreciation and commend the World Bank for producing the Global Monitoring Report, 2005. The previous Global Monitoring Report, 2004 identified a number of actions aimed at accelerating the attainment of MDGs in the least developed countries. Also, the U.N. Human Development Report, 2003 had identified crisis countries against the various MDGs targets, i.e. where the current indicators are extremely entrenched and the current rate of progress is also slipping back. Given the inadequate levels ODA flows to full fund the implementation of MDGs, such crisis countries need the donors’ attention and to target resources in the light of their absorptive capacities. The international donor community needs to urgently commit to supporting crisis countries by providing grant-based financing to implement poverty alleviation programmes. It has been estimated that additional aid need to increase in the range of US$40-100 billion annually in order to fully support the implementation of MDGs and related targets. It requires almost doubling the current level of ODA to reach 0.43 percent of DAC countries' gross national income, which is still below the target of 0.7 percent reaffirmed in the Monterrey Consensus.

More than half of the low human development countries and one-third of the medium human development countries are accounted for by the IsDB member countries. In terms of implementation progress towards MDG target 1, there are thirteen IsDB member countries which are characterized by both entrenched or extreme income poverty and the rate of progress is also slipping back. There are four more member countries where the rate of progress is too slow to meet the income-level poverty reduction target by 2015. For the other MDGs targets related to education, health care, and environmental sustainability, the situation of the IsDB member countries is not desperate and many member countries appear to be on track.

Given that the majority of the LDMCs are in Sub-Saharan African region and also face serious challenges to attain the MDGs, the IsDB Group committed itself to substantially increase the volume of financing within the framework of the New Economic Partnership for Africa (NEPAD). The IsDB Board of Governors, on the occasion of the 27th Annual Meeting held in Ouagadougou, Burkina Faso in October 2002, issued a ‘Declaration on IsDB Group Cooperation with Africa’. Under this Declaration, the IsDB Group pledged to attain financing target of US$2 billion over a five year period from 1424H to 1428H (2003-2007). After two years of its implementation, the IsDB Group cumulatively approved projects and trade operations amounting to US$850 million by February 2005, which represents 42.5 percent of the US$2 billion earmarked under the Declaration.

Financing the Development Agenda

The international development agenda is basically encapsulated in the form of U.N. Millennium Declaration and the action plan emanating from the Monterrey Consensus. The overall thrust of the international development agenda is to strengthen global economic environment which is conducive to sustaining high growth in low-income countries. It also includes support for participatory approach to setting national development agenda for resource allocation and distribution policies aimed at poverty reduction and sustained improvements in important aspects of human welfare.
While there is little disagreement on the development agenda itself, there are many imponderables in the way of mobilizing appropriate types of financing. It is well understood that profligate external borrowings with little regard to its costs is no longer an option. Given the slow progress towards achieving MDGs, it is more opportune that the international community moves towards some kind of an agreement on innovative approaches to mobilizing concessional and grant-based type of resources. Some of the innovative proposals to mobilize grant-type of resources, like the international finance facility or tax on international passengers, have yet to find consensus among the DAC member countries.

According to the Global Development Finance 2005 report, the total private and official net debt flows reached US$325 billion in 2004, which is significantly higher than the flows in 2000-2. It also appears that, in recent years, the official aid is shifting from loans to grants. Net private capital flows, including debt and equity to developing countries, rose by $51 billion to $301.3 billion in 2004. Of this, net foreign direct investment totaled $165.5 billion, up by $13.7 billion in 2004.

The net resource flows to fifty-five IsDB member countries totaled US$32.7 billion in 2003, which is higher than US$28.8 billion in 2002, but still lower than US$36.3 billion in 1998. There were five member countries who had negative net resource flows during 2003. The ODA commitments for all IsDB member countries stood at US$35.5 billion in 2003, which is significantly higher than US$24 billion in 2002. Quite obviously, there are large variations of ODA commitments among the member countries.

In 2003, the IsDB Group adopted a Strategic Framework whose three objectives are promotion of Islamic financial industry and institutions, poverty alleviation, and cooperation among member countries. To realize these strategic objectives, the IsDB Group committed itself to providing development assistance and related operational activities in the following six priority areas: human development, agricultural development and food security, infrastructure development, promotion of intra-trade among member countries, private sector development, and research and development (R&D) in Islamic economics, banking and finance. In line with the Strategic Framework, the IsDB Group continued to expand its development assistance to member countries in a variety of ways. The total net approved operations increased from US$3.6 billion in the Hijra (H) year 1424H (2003-04) to US$4.9 billion in 1425H (2004-05). Of these net approvals, the sectoral distribution were mainly in intra-trade and project financing in sectors such as education, health, public utilities, and transport and communication.

A recent development in the IsDB Group strategy for resource mobilization was the issuance of five-year US$400 million Sukuk in August 2003. At this moment, the IsDB Group is in the process of mobilizing US$1 billion under the 'Euro Medium-term Note' Sukuk programme which will fund the implementation of the Strategic Plan providing development assistance to member countries during 2005 and 2006. In addition, the resource mobilization strategy led to the setting up of US$730.5 million IsDB Infrastructure Fund in December 2001, which is the first public-private investment vehicle of making equity investments in infrastructure projects in member countries. Also, the Awqaf Properties Investment Fund was established in 2001 to utilize income from the real estate endowment properties towards economic uplifting of the poorest and the destitute while the World Waqf Foundation was established in

40 The Global Development Finance 2005 report raises various concerns regarding the rapid build up of the foreign exchange reserves by the developing countries. In this regard, it may be noted that the share of central banks investments the IsDB Group Sukuk paper was close to 40 percent. Thus, investments by central banks in Sukuk papers is an efficient mechanism to recycling of foreign exchange reserves back as financing of infrastructure projects. Other MDBs may also consider adopting this financing mechanism and thereby provide the utilization of developing countries foreign exchange reserves in infrastructure investment opportunities.
2001 to manage and safeguard endowments as well as to develop synergy among the pro-poor investment activities of NGOs and philanthropic organizations.

Earlier, the resource mobilization strategy led to the establishment of a number of entities and affiliated funds designed to serve the specific developmental needs of member countries. For instance, the Islamic Corporation for the Development of Private Sector was established in 1999 to serve as vehicle for the promotion of private sector activities, the Islamic Banks Portfolio for Investment and Development was established in 1987 to mobilize the liquidity available with Islamic banks for long-term investment in member countries, and the IsDB Unit Investment Fund established in 1989 to mobilize resources through securitization of long-term assets.

Turning to the development assistance extended by the IsDB Group to the LDMCs, total net approvals totaled US$836 million during 1425H (2004-05) while the cumulative amount stood at US$6.8 billion. In addition, the IsDB Group approved debt relief packages amounting to US$144 million in 2003 NPV terms to the fourteen HIPC eligible member countries.

Finally, it may be noted that the recent evolving scenario in the international energy market has also become an important development issue for the developing countries, including the IsDB member countries. These developments suggest the need to develop a common approach by the multilateral development banks towards the financing of efficient mix of renewable and non-renewable energy resources. The outlook for the energy market suggest that some energy resource-rich least developed countries will require institutional capacity building assistance to both manage resource mobilization and development of their untapped energy resources. Moreover, many other developing countries would need short-term assistance to mitigate the adverse impact of oil prices on their balance of payments. In the past, the share of the IsDB Group financing of oil imports in its import trade financing operations stood at 41 percent. Activation of similar financing facilities of oil imports by multilateral financing institutions will assist the oil importing developing countries to tide over their short-term balance of payments difficulties.

Voice and Participation of Developing and Transition Countries

The IsDB Group welcomes the efforts of the World Bank and the International Monetary Fund to enhance the voice and participation of developing and transition economies in their decision-making process. Needless to say, the IsDB stands ready to learn from the experience of other multilateral development banks for the benefit of our member countries. The IsDB Group supports the strengthening of the developing and transition countries ownership of their development programmes and to build their capacities to these ends. We believe that these are important elements to enhance their voice in the policy making at the multilateral level.

Better cooperation between the World Bank and the IMF by clearly identifying the division of labour is essential for harmonized approach and increase the participation of developing and transition countries in their decision-making process. This enhanced participation is consistent with the current efforts for improving development assistance effectiveness by instilling a sense of greater ownership of poverty reduction strategy papers. The IsDB is confident of the capacity of the both the World Bank and the IMF to carry forward changes that will strengthen the participation of their developing and transition member countries.

However, the IsDB Group does not face internally this issue since its membership is entirely composed of developing countries and countries in transition. Unlike other regional development banks, there are no developed countries as non-regional members in the IsDB Group. However, some of the issues raised under this subject are also relevant to the IsDB Group. These include mainly the voting
structure and strength, the capacity for owning programmes and projects financed, the level of decentralization, the degree of transparency, and the diversity of staffing.

Like other multilateral development institutions, the voting structure in IsDB Group is dependent on the number of shares subscribed. Traditionally, the approach is to rely more on consensus rather than on majority or vote counting on specific issues. This consensus approach has facilitated the participation of all IDB member countries in the process of decision-making, both at the level of the Board of Governors and the Board of Executive Directors. In addition, the election of the President, increase in the capital of the Bank, and diversity of senior Management from Asia, Middle East, and Sub Saharan regions, the establishment of regional offices in three regions, the diversity in staffing, the launching of new initiatives are all undertaken in the spirit of giving greater voice to member countries and regions that have relatively low voting share. The consensus approach of decision making at the highest level automatically leads to greater participation of the twenty-eight least developed member countries (LDMCs) as well as transition member countries in Eastern Europe and Central Asia in the affairs and activities of the IsDB Group.

Furthermore, the voice and participation of the LDMCs in the affairs and activities of the IsDB Group is enhanced through periodic evaluation of its operational activities by setting up an outside group of 'eminent persons'. The objective of setting up of such an eminent persons evaluation exercise is to provide voice, to obtain feedback from the beneficiaries of operational activities as well as to provide future directions to operational focus of the IsDB Group. Another example of giving voice to the stakeholders of the IsDB Group is to regularly conduct dialogue with member countries on operational and strategic issues. For instance, the IsDB Group recently held discussions in April 2005 with representatives from member countries regarding the terms and conditions of its development assistance. This approach can be also viewed as a part of the consultative process which the IsDB Group periodically embarks upon to obtain feedback from its membership in order to improve the development effectiveness of its assistance.

The IsDB Group is aware of the concerns expressed by developing countries about the weakness of their voice in various international forums as well as improving their participation in the process of decision-making. In this regard, the IsDB Group responded by providing opportunities for consultation on issues related to the new economic, financial and trade order. For instance, the IsDB Group assist its member countries in general and the LDMCs in particular, in strengthening their negotiation skills and institutional capacities in order to address challenging emanating from the WTO negotiations.

With these words, I wish the 71st meeting of the Development Committee every success.

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

2005 has been labelled the ‘year of development’. It is a milestone year for taking stock of progress towards the Millennium Development Goals five years after the Millennium Summit and with ten years remaining for their achievement. As the Global Monitoring Report notes, there has been progress with the compact underlying the MDGs and the Monterrey Consensus. This statement focuses on the response of the developed countries represented in the OECD Development Assistance Committee. It covers:
• More aid: trends in ODA and its composition,
• More effective aid: follow-up to the Paris Declaration,
• Issues of fragile states, security and development.

More aid

ODA has increased in real terms in each of the last seven years to reach record levels in both real and nominal terms in 2003 and again in 2004. In real terms it increased by 4.3% in 2003 and by a further 4.6% in 2004 to US$ 78.6 billion (equivalent to US$ 72.2 billion at 2003 prices and exchange rates). This represented 0.25% of DAC members’ combined national income. This is the same as in 2003, up from the low of 0.22% at the turn of the century, but below its long term average of 0.33% maintained from 1970 to 1992.

Several factors accounted for the US$ 3.1 billion rise in real terms in 2004. Among these were:

• Contributions to international organisations increased by US$ 3.7 billion,
• Aid to Afghanistan and Iraq was up at least US$ 1.5 billion, to over US$ 5 billion in total,
• Technical co-operation grants rose by US$ 1.2 billion, maintaining their share of total ODA,
• Gross debt relief grants fell by US$ 2.1 billion, from a peak of $8.6 billion in 2003, and
• Net lending fell by US$ 1.3 billion, mainly due to an acceleration in loan repayments.

This growth in ODA is set to continue, but the pace will need to accelerate dramatically in 2005 and 2006. If the commitments made at Monterrey in 2002 are to be met, ODA needs to reach 0.30% of GNI in 2006, equivalent to an increase of US$ 16 billion in real terms over the two years, five times the US$ 3 billion rise in 2004. Two exceptional items will indeed deliver a very large increase in headline ODA; first debt relief to Iraq and secondly the unprecedented response to the Indian Ocean tsunami. Although most donors have indicated that much or all of their contributions to post-Tsunami aid at least will be additional to their regular programmes, neither of these major items was anticipated at Monterrey. The DAC will monitor the share of these two exceptional items when presenting ODA data in the coming years.

In the light of year to year fluctuations of the components of ODA, it is of interest to take a longer-term look at how key ODA aggregates have evolved over the past few years. The following table shows the annual increases in net disbursements of ODA, taking 2000 as the base year.
Changes in components of net ODA between 2000 and 2004
($ billion at 2003 prices and exchange rates)

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>Net Increase 2000-04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emergency Aid</td>
<td>-0.3</td>
<td>0.4</td>
<td>1.5</td>
<td>0.0</td>
<td>1.7</td>
</tr>
<tr>
<td>Debt Relief Grants</td>
<td>0.6</td>
<td>3.1</td>
<td>2.2</td>
<td>-2.1</td>
<td>3.7</td>
</tr>
<tr>
<td>Technical Co-operation</td>
<td>1.3</td>
<td>1.4</td>
<td>1.3</td>
<td>1.2</td>
<td>5.2</td>
</tr>
<tr>
<td>Other Bilateral</td>
<td>-0.8</td>
<td>-0.1</td>
<td>-1.1</td>
<td>0.4</td>
<td>-1.7</td>
</tr>
<tr>
<td>Multilateral</td>
<td>0.4</td>
<td>-0.7</td>
<td>-1.0</td>
<td>3.7</td>
<td>2.4</td>
</tr>
<tr>
<td>Total Net Rise</td>
<td>1.1</td>
<td>4.2</td>
<td>2.9</td>
<td>3.1</td>
<td>11.3</td>
</tr>
</tbody>
</table>

This demonstrates that a very large share of the total ODA increase in the past four years is accounted for by technical cooperation, debt relief and emergency aid. All of these have of course significant value, but emergency aid is not designed to assist long term development and debt relief does not generally provide fresh money to debtor countries. Technical co-operation, in turn, provides a variety of inputs towards development results but its impact in closing financial gaps is hard to gauge.

Looking forward, half of the DAC membership have either achieved the 0.7% target or have announced plans to do so at various dates up to 2014. We project that delivery of these stated commitments would produce an ODA total in 2010 of some US$ 108 billion at 2003 prices and exchange rates. The proportion of DAC members with medium term ODA expansion plans for 2010 and beyond will rise further if discussions within the European Union reach a positive conclusion or if other donors announce new commitments. But the amounts so far under discussion are well short of the call in the Global Monitoring Report to ‘double development aid in the next five years’, which would equate to the order of US$ 150 billion by 2010. (For example, the recent European Commission proposal for all EU DAC countries to attain a minimum of 0.51% of their GNI by 2010 represents increasing their ODA by half over five years, an extra US$23 billion in 2003 dollars. This is proposed as an interim target towards a pledge of 0.7% by 2015, which would equate to doubling aid from EU DAC members over ten years.).

The following figure shows that aid remains the principal source of external finance for the poorest countries, well ahead of their net earnings from trade and receipts from other sources. The picture for middle income countries is different, with trade being the major source of external revenue, followed by FDI and private sector flows. Given the current focus on remittances, the figure also shows that these too primarily benefit middle income country households. This serves to support the GMR’s call that ‘Official development assistance (ODA) must at least double in the next five years to support the MDGs, particularly in low income countries and Sub-Saharan Africa.

The poorest countries rely on aid……………middle income countries benefit more from trade
More Effective Aid

*Paris Declaration on Aid Effectiveness*

The second High Level Forum on Aid Effectiveness held last month in Paris marked a major step in our joint effort to improve the delivery and impact of aid and thus to help partner countries achieve their development objectives. It is remarkable that over one hundred donor and developing countries and multilateral agencies signed up to the Paris Declaration. In doing so, they subscribed to some fifty specific commitments to do aid better and, for the first time, they agreed to measure progress with a set of indicators and targets, as requested by the Development Committee at its last meeting. This moved the aid effectiveness agenda beyond the general consensus reached at Rome in 2003 to what is now a practical blueprint for donors and partners to implement in a spirit of mutual accountability.

The meeting agreed twelve indicators. It also agreed that targets for eleven of these (the exception being untying aid) would be set in time for the September 2005 UN General Assembly. Preliminary targets were agreed in Paris for five of the indicators, subject to review in the same timescale. Work is in hand to develop the necessary baselines.

*Actions going forward*

The report submitted to the Paris Forum\(^{41}\) showed that despite progress there is not yet sufficient momentum in applying good practice deeply and systematically. Senior development officials in partner countries and in donor agencies are aware that this work is not easy. Achieving ownership, harmonisation, alignment and managing for results will continue to require intensive work that typically is costly and unfunded in the short run, yielding benefits only in the medium to long term. Let me highlight two areas where top-level attention and sustained efforts would make a difference:

- *In partner countries*, improved transparency and good governance remain essential. Systems for financial management, procurement, auditing and monitoring must be reformed and upgraded so that they will meet common acceptable standards. Only then, will donors – and more importantly the countries themselves – be able to rely on these systems to use development funds appropriately.

- *Among donor institutions*, few have put in place effective procedures, resources, training and incentives to encourage needed changes in staff behaviour. There is a need to provide more operational flexibility and delegated authority at the country level and to narrow the communication gap between the headquarters policy managers, agency operations, and field staff.

Making substantive progress after the Paris Forum will depend very much on whether efforts are appropriately funded and whether incentives work for the effectiveness agenda and not against it. A number of areas have also emerged that will deserve attention in the future: the special needs of fragile states where harmonisation and alignment are proving to be even more critical than in “normal” contexts; the integration of global initiatives in country programmes; the need to look more closely at aid allocations, and donor complementarity; and further practical guidance on managing for development results.

Promotion and dissemination

An immediate step is to ensure the broad dissemination of the Paris Declaration in donor agencies and partner countries, including through regional and sub-regional events. We also hope that the Declaration will be used by Consultative Groups. Substantial work on developing good practice, undertaken jointly under the DAC international partnership, has been completed in the areas of public financial management and procurement. Two volumes have been added this year to the landmark publication Harmonising Donor Practices for Effective Aid Delivery (2003): Volume 2 on Budget Support, Sector Wide Approaches and Capacity Development in Public Financial Management; and Volume 3 on Strengthening Procurement Capacities in Developing Countries. Given the centrality of country-level implementation, this work should also be actively disseminated so that lessons learned are shared. The same applies to the DAC Survey on Harmonisation and Alignment undertaken in 14 partner countries which has served not only to test indicators for monitoring progress but also as a process for engaging local aid groups on ways to improve aid effectiveness on the ground.

Monitoring and the role of the international partnership hosted by the DAC

Monitoring the commitments made in the Paris Declaration will be central to encourage implementation as well as to assess progress. Paragraph 11 of the Declaration calls specifically on the partnership of donors and partner countries hosted by the DAC – in essence the Working Party on Aid Effectiveness – to propose arrangements for the medium term monitoring. This will be a priority task for this group which includes the traditional DAC Members, the Bretton Woods Institutions, the Regional Development Banks, UNDP and members of the UNDG, regional mechanisms such as SPA and 14 partner countries. Discussions are on-going regarding the expansion of this international partnership to include more partner countries in line with their growing participation in the Paris Forum. This framework will need to be flexible to deal with a much larger and varied group of countries while being attentive to facilitate pro-active and sustained involvement of all partners. It will continue to co-ordinate and facilitate needed analysis, dissemination, and monitoring activities, not competing but drawing strength from those being undertaken elsewhere at the local, regional and global levels.

Concerning monitoring the tying status of aid, the latest annual progress report on implementing the 2001 DAC Recommendation on Untying confirms that compliance has been good, that the amount of untied aid both under the terms of the Recommendation and outside it is rising, and that the share of aid going to Least Developed Countries is also increasing. Following discussion at the DAC High Level Meeting on 3 March, I plan informal consultations to identify promising approaches to broaden the scope of untying and increase value for money in aid funded procurement.

Tackling Issues of Fragile States, Security and Development

Fragile states

The imperative to ensure the achievement of the Millennium Development Goals (MDGs), and the impact of weak and fragile states on global security, make it clear that development agencies must find effective ways to remain engaged, even in countries where institutions and policies are the weakest, and where poverty reduction partnerships are most difficult to establish. It is estimated that one third of people living in absolute poverty live in fragile states. When considering spillover effects of crisis or conflict, these numbers are even much higher.

42 The 14 partner countries are: Bangladesh, Bolivia, Cambodia, Ethiopia, Fiji, Kyrgyz Republic, Morocco, Mozambique, Nicaragua, Niger, Senegal, Tanzania, Vietnam and Zambia
The DAC is facilitating coordination among bilateral and multilateral donors in order to improve aid effectiveness in fragile states.

Aid needs to be allocated to achieve the best development results, reflecting both poverty and performance. But research conducted for the DAC suggests firstly that aggregate aid to this group is about 40% lower than would be consistent with a poverty and performance based allocation model. Secondly, findings indicate that aid has been twice as volatile in fragile states as in other low income countries, apparently due to abrupt changes in donor priorities. Finally, these findings suggest that aid is more valuable at some points of a crisis and recovery situation than others, and that the share of different types of aid (technical assistance and other forms) should vary over time.

The international community is now beginning to understand the problems that can arise if a country is left ‘unaided’ or marginalised from diplomatic and developmental ties. Yet one of the main constraints to improve the situation is that at the moment there is no international system of reporting which highlights when ODA to fragile states is declining, or is fluctuating, or when ODA has stopped altogether. To help fill this gap, the Senior Level Forum on Development Effectiveness in Fragile States, which met in January, invited the DAC Secretariat to put forward a proposal for the regular monitoring of aid flows to fragile states, with a view to facilitating a discussion at the next DAC Senior Level Meeting (SLM) in December 2005 on “aid orphans” and the volatility of flows of aid to fragile states.

Security and Development

Insecurity and conflict are a barrier to political, economic and social development. If states are to create the conditions in which they can escape from a downward spiral wherein insecurity, criminalisation and under-development are mutually reinforcing, socio-economic and security dimensions must be tackled simultaneously. The High-level Panel on Threats, Challenges and Change, for example, in its December 2004 report *A More secure world: Our Shared Responsibility* emphasizes that long term security is not possible without progress on development issues.

The theoretical links between development and security must be translated into greater co-operation and coherence between security, political and development communities in the field. The draft *Principles of Good International Engagement in Fragile States* currently being worked on in the DAC reflects this need. At the same time, development agencies must be clear about their own objectives, disciplines and accountability, and focused on the overriding goal of poverty reduction. Respecting the competences and constraints of each party is essential to any co-operative arrangement across government. The best safeguard against possible abuse of the mandate of the agencies concerned is maximum transparency about objectives, allocations and operations.

The continued prevalence of violent conflict remains a significant obstacle to the realisation of the Millennium Development Goals. The international community must, therefore, work not only to react effectively to the outbreak of violence, but also to help prevent it. This will depend, in part, on more extensive analysis of conflict and its causes, as well as the factors that fuel it. The establishment of mechanisms for early warning and for responding quickly and flexibly in complex conflict situations is equally important.

The DAC has taken up the human security focus on building capable, open and responsive states that ensure the livelihoods and safety of their people and that can manage tensions in a non-violent manner. Recent guidelines on *Security System Reform and Governance: Policy and Good Practice* have underlined the need for more effective investment in well-functioning “security systems”, including the
court system, the police and the military as well as institutions and mechanisms for oversight and accountability.

Statement by Mr. Suleiman J. Al-Herbish Director-General of the OPEC Fund

The second topic for consideration by this 71st Development Committee Meeting – **Financing the Development Agenda** – signals the perennial challenge the international community faces in mobilizing the US$100 billion estimated to be required each year to finance the **Millennium Development Goals (MDGs)**.

Competition for resources is becoming increasingly fierce as pressures are mounting to achieve the ambitious poverty reduction and related MDGs by 2015. Ongoing efforts to reach the eight inter-depending goals have increased demand for development financing in both low and middle-income countries. The OPEC Fund doubled its lending targets in response, extending lending programs to middle-income countries while continuing to prioritize the needs of the low-income countries (LICS), which receive priority in the allotment of the Fund’s assistance.

Existing shortages of financing for development are compounded by man-made and natural disasters, such as the devastating Tsunami that hit South Asia in December 2004. The international community rightly offered assistance in an unprecedented global effort. The Fund and its sister organizations also responded quickly and generously to the crisis, together making available about US$1billion to help alleviate hardship for those affected, in addition to funds raised through voluntary actions at the national level. However, the international financial support for the Tsunami disaster inevitably entailed some diversion of resources - particularly from sub-Saharan Africa - that could otherwise have been made available to help finance the MDGs.

The need for extra financing for the MDGs is widely recognized. The United Nations High-level Panel on Financing for Development led by Ernesto Zedillo, former President of Mexico in June 2001 (Zedillo Panel) has estimated the total additional amount required at US$50 billion annually. It is also generally agreed that financing for the MDGs would need to be raised first and foremost at the domestic level, supplemented by external sources of financing. In the March 2002 **Monterrey Consensus** adopted in support of the MDGs, world leaders promised, amongst others, to help mobilize domestic resources, attract foreign direct investment (FDI) and other private flows, raise official development assistance (ODA), promote international trade, and speed up external debt relief. Despite some encouraging post-Monterrey donor initiatives, however, the MDGs continue to be critically underfinanced:

- **FDI** flows to developing countries, totaling some US$135 billion in 2003, are the dominant and most stable source of external financing for development. However, they remain concentrated in a few countries with favorable investment climates and relatively large, rapidly growing, and stable economies. Private capital flows other than FDI (e.g. bank loans, portfolio investment) can also be an important source of financing for development, but are notoriously volatile. There are dangers to premature capital account liberalization and financial integration, as painfully demonstrated by the 1997-98 Asian financial crisis;

- **ODA** remains critical as a source of external financing, particularly for the LIDs, which lack domestic resources, and the capacity to attract private direct investment. However, budgets for development co-operation have not risen in ways commensurate with the identified needs in developing countries. Although ODA rose by US$6 billion in 2003, to US$58 billion, half of the increase came from debt relief - which according to critics has not been sufficiently forthcoming - rather than new aid to developing countries. Projected increases in ODA - from 0.25% of the
combined national income of industrialized nations in 2003 to 0.29% by 2006 - remain a far cry from the target level of 0.7% adopted by the UN General Assembly on October 24, 1970;

- **International Trade** is a key engine for growth and poverty reduction. However, multilateral trade negotiations have not been sufficiently forthcoming in allowing poor countries to trade themselves out of poverty and underdevelopment. Although negotiations resumed in 2004 with the adoption of the *Doha Development Agenda (DDA) Framework Agreement*, progress has remained limited, both on liberalization of “sensitive” agricultural products, and on enhancing non-agricultural market access. Hopefully, the Framework Agreement will pave the way for realizing the DDA by enhancing market access as to enable developing countries to reap the full benefits from trade.

Several options are being explored to mobilize financing for development from alternative sources. Ways and means are sought to enhance the developmental effects of *workers’ remittances*, which reached some US$93 billion in 2003, the two largest sources being the United States and Saudi Arabia. Remittance payments by migrant workers emerged as a stable and growing source of development finance, outpacing ODA, and coming second only to FDI as an external source of financing for development. Other proposals to create innovative mechanisms of financing have included the creation of *special drawing rights* for development purposes, the *International Finance Facility*, establishing a *global lottery*, levying various types of *global taxes* (the Tobin Tax, taxes on currency transactions, aviation fuel, e-mail, sales, etc.), and the exploration of new mechanisms for financing *global public goods*.

An early and innovative approach to establish a stable, predictable source of financing for development was the decision taken by OPEC Fund member countries in 1976 to designate part of their national oil revenues for development co-operation. Although most OPEC Fund countries are low-middle income countries, they together have made available a cumulative total of more than US$81 billion in development financing from their oil revenues through the OPEC Fund and other bilateral and multilateral channels as a token of global social responsibility. By voluntarily allocating part of their national revenues from oil – a finite resource on which they remain heavily dependent – OPEC Fund member countries have set an early example of innovative measures that could be taken to help mobilize financing for development.

The OPEC Fund was mandated by its founding fathers to reinforce financial co-operation between OPEC member countries and other developing countries, and to promote South-South solidarity and collaboration, in line with the *Solemn Declaration* adopted at the end of the First OPEC Summit of Heads of State and Government, Algiers, Algeria, 1975. Developing countries could derive considerable benefit from exploring regional arrangements for attracting financing for the MDGs, for reducing the risks and vulnerability associated with participation in the global financial system, and for increasing access to external funds by adopting region-specific strategies for increased trade and export diversification, and global trade and financial integration.

Limited resources for development have highlighted the need for available financing to be used efficiently. This has raised issues of priority setting and results measurement, as well as the need for greater effectiveness through alignment, harmonization and better ownership of development co-operation. The OPEC Fund is actively taking part in ongoing global efforts towards better harmonization of aid, as evidenced by its participation in the *High Level Forums on Harmonization*, Paris, France, February-March 2005, and Rome, Italy, February 2003.

In short, a combination of strategies will be required to mobilize financing for development. Among the many options at hand, the most straightforward remains an increase in ODA. According to a
UN study undertaken by Professor Anthony Atkinson, the additional US$50 billion needed to achieve the MDGs would be realized if donors were to raise their ODA to 0.5% of GNP\textsuperscript{43}. Raising the level of ODA would be in line with the findings of the March 2005 Report of the Africa Commission initiated by British Prime Minister Tony Blair which recommends, amongst others, a doubling of aid to Africa to $50 billion, and enhanced debt relief and trade liberalization.

An increase of ODA in turn requires greater public support and civic awareness about the need and importance of development co-operation in both donor and recipient countries. It is necessary to strengthen a sense of global citizenship and responsibility in order to mobilize additional financing, which can be made available if need be, as evidenced by the strong response provided by the international community to the Tsunami disaster. Recognizing the need and importance of heightening public awareness and support for development co-operation, the OPEC Fund recently launched a Public Information Campaign, which is in full swing.

In an increasingly inter-dependent world where some 800 million people in the developing world still go to bed hungry every night, and the spread of HIV/AIDS continues unabated, there is no time or money to loose. Each minute, and each drop of financing counts in our common search for ammunition in the war against poverty in all its forms, which remains the greatest single threat to security and sustainable development. A renewed sense of urgency is required for policy makers worldwide to live up to the commitments they made in Monterrey. This, together with innovative sources of financing for development, could allow the gap between rich and poor to narrow over time, and foster sustainable growth and prosperity for all.

Statement by Mr. José Antonio Ocampo, Under-Secretary-General for Economic and Social Affairs of the United Nations

In his Report to the General Assembly in preparation for the 2005 review of implementation of the Millennium Declaration the Secretary General noted that the global partnership between industrialized and developing countries expressed in the Monterrey Consensus reached at the International Conference of Financing for Development in Monterrey, Mexico provides the groundwork for success in achieving the commitments of the Millennium Declaration, and in particular the eighth Millennium Development Goal.

In the historic Consensus that was produced at Monterrey each developing country accepted primary responsibility for its own development —strengthening governance, combating corruption and putting in place the policies and investments to drive economic growth and maximize domestic resources available to fund national development strategies. Developed countries, on their part, undertook that developing countries which adopted transparent, credible and properly crafted development strategies would receive the full support they need, in the form of increased development assistance, a more development-oriented trade system and wider and deeper debt relief. The major institutional stakeholders joined that Consensus and agreed to improve the coherence, coordination and cooperation in the formulation of their activities and in the implementation of international development policies.

However, in the words of the Secretary General “All of this has been promised but not delivered.” This assessment is borne out by the fact that most reports on the progress made over the last five years towards meeting the MDGs, such as the Millennium Project Report and the Global Monitoring Report

suggest that the goal of reducing poverty by half will be met, but largely due to the rapid growth in incomes in the most populous developing countries. But this will still leave a substantial share of the world’s poor below the target levels, many of them in Sub-Saharan Africa. What is most disturbing about progress in this region relative to others is not that the decline in the share of the population living in poverty will not meet the Millennium target, but that the actual number of persons with incomes below $1 per day is expected to increase by almost 10 per cent. This disturbing possibility should not distract attention from the existence of substantial numbers living below target levels in middle income developing countries. And even in the countries that have already surpassed the income targets, the goals pertaining to overall human development in health and education, as well as those related to environmental sustainability, are far from being achieved.

Nonetheless these same reports suggest that if bold decisions are taken now, more rapid progress is possible. The meeting of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries represents an occasion for such bold decisions in preparation for the High Level Review of the Millennium Declaration in September.

Official development assistance

The initial estimates of the Zedillo Report on Financing for Development that a doubling of aid from 2001 levels would be required to achieve the MDGs have been given support by further studies on both the financing needs and the ability of developing countries to absorb increased aid. In particular, the Global Monitoring Report notes that Sub-Saharan African countries are those where progress has been slowest and where a doubling of aid proposed in the Zedillo Report is most pressing.

It is thus encouraging to note that official aid flows have once again started to increase since the Monterrey Conference. Denmark, Luxembourg, Netherlands, Norway and Sweden already meet or exceed the 0.7 per cent target of their national incomes dedicated to official assistance, while a number of other European countries, including Belgium, Finland, France and Ireland, have set precise target dates for meeting the target, and Spain and the United Kingdom have indicated their intention to do so by 2012 and 2013 respectively. In 2003 flows of ODA as a share of developed country GNI reached 0.25 per cent, up from 0.23 in 2002. Preliminary figures for 2004 indicate that ODA remained at 0.25 per cent or developed country GNI. The Secretary-General has recently urged developed countries that have not already done so to establish fixed timetables that would involve significant increases no later than 2006 and doubling the current ratio to reach 0.5 per cent by 2009 in order to achieve the 0.7 per cent target of gross national income for official development assistance by 2015.

However, the annual rates of increase in aid flows corrected for inflation and exchange rate changes of around 4.5 per cent recorded in 2003 and 2004 tend to mask disturbing trends in the composition of aid. An increasing proportion of DAC reported official assistance is comprised of emergency relief, debt relief and technical assistance, rather than additional financial resources available for support of expenditures to achieve the MDGs. Thus, when corrected for emergency assistance and debt relief, the positive rate of increase in real development assistance to all developing countries in 2003 becomes negative and the preliminary figures for 2004 are barely positive. However, optimism can be drawn from the fact that those countries most in need of increased assistance the figures are encouraging. After declining in 2001 and 2002, in 2003 aid to Least Developed Countries, adjusted for these factors, increased by over 25 per cent; for HIPC's the figure was over 15 per cent.

The difficulty in interpreting the support for MDGs from aggregate aid figures indicates the difficulty in monitoring progress in achieving the financing requirements for the MDGs. But, there are even greater difficulties in monitoring country progress in achieving MDGs. The UN has been at the center of efforts to promote international comparability of statistics through the standardization of
statistical methods, classifications and definitions used by national statistical agencies as well as providing assistance to Member States to improve the capacity of their national statistical services through advisory services and training of statistical personnel. Thus a major contribution to achieving the implementation of the MDGs will be through improving recipient country statistics. This will also help provide clear evidence of the positive impact of donor aid.

It is evident that the MDGs do not exhaust the full import of the Millennium Declaration, nor do they exhaust the measures that will be necessary to achieve the development potential of all countries. The MDGs exist to provide objective measures of the minimum conditions that need to be met to allow a sustained growth process. Without the basic minimum incomes needed for subsistence and health and education, it is impossible to focus on activities that will increase incomes and wealth and provide a sustained development process. Thus, many have argued in favor of large increases in current aid levels through a process of front loading. More, and more effective, aid today could lead to a reduction in future aid requirements. It is for this reason that the Secretary General has called on the international community to act in 2005 to launch an International Finance Facility, originally proposed by the United Kingdom, and in the longer term, to consider the development of other innovative sources of finance for development to supplement the Facility.

The Doha Development Round

It is often noted that the increased resources that could be made available to developing countries by more open trade dwarf those of official sources. According to available preliminary estimates, the liberalization of trade in agriculture, manufactures and services of interest to developing countries could generate directly and indirectly additional gains of over $300 billion. Even a modest liberalization in temporary movement of workers from developing countries to developed countries under Mode 4 of the GATS Agreement would have a strong effect. It is for this reason that the Secretary General has also urged WTO members to complete the Doha round of multilateral trade negotiations in a way that fulfils its development promise no later than 2006. To cut through the difficulties involved in multilateral negotiations in the WTO the Secretary General has called on Member States to provide duty-free and quota-free market access for all exports from the least developed countries as a good faith indication of their commitment to a timely, development oriented conclusion to the current negotiations.

However, the ability to access these gains will depend on actions in developing countries to build supply capacities and trade-supporting infrastructure that will also require financing and careful sequencing over a sustained period of time. These gains can thus not be seen as a substitute for the call for a rapid increase in official assistance.

Also, while most of the attention have been given to the benefits to developing countries from more open trade in agricultural products where developed countries have the highest subsidies, developing countries can also benefit from the third round of negotiations under the Global System of Trade Preferences for Developing Countries announced at the UNCTAD XI Conference in Sao Paulo in June 2004.

Another area of importance in financing the MDGs is the stability of earnings from trade. This can be achieved by means of improving the stability of commodity export prices and by diversification of exports. Most developing countries have managed increases in the share of manufacturing exports in their total exports. However, in Africa the increase has been minimal and, as a result, the continent’s share of world merchandise exports fell by over half to only 2.5 per cent in 2000 in value terms. Not only do most African countries depend on two or three primary commodities for the bulk of their external earnings, Africa has fallen behind other developing regions of the world in exports of non-fuel primary commodities. Since many African countries depend on import and export taxes, fiscal earnings as well as
their ability to finance social expenditures are highly vulnerable to changes in the value of commodity export earnings. Direct and indirect measures to reduce dependence on commodity exports and to reduce the impact of commodity price instability are thus crucial if Africa is to meet the Millennium Development Goals.

Liberalization of Mode 4 movements of labor services would add to the rapid growth workers’ remittances over the past decades. In the absence of any formal measures of liberalization, the recent increases in remittances supports estimates of their potential size and has created the expectation that they may represent an untapped potential for development. According to estimates by the World Bank, remittances increased from $72 billion in 2001 to $93 billion in 2003. However, remittances are private flows and available evidence suggests that the prime use of remittances is to finance private consumption expenditures. Further, they are concentrated in a relatively small number of countries such as India, Mexico, the Philippines and Turkey. Receipts for sub-Saharan Africa receipts were only of the order of $1 billion, so that the impact of these flows for the poorest countries ability to meet the MDGs is likely to be modest. Nonetheless, even if most remittances fund private consumption, they may still make a valuable contribution towards satisfying basic needs and relieving poverty. Recent work has tended to stress the developmental dimension of remittance flows, highlighting its role in developing human capital through education and, to a lesser extent, physical investment in farms or housing.

National development strategies

The Millennium Declaration and the recent Report of the Secretary General both stress the important of enhancing people’s capacities. The Secretary General has proposed that by 2006 the poorest countries adopt and implement a national development strategy bold enough to meet the Millennium Development Goals targets for 2015. Strategies should be built on practical scaling up of public investments, capacity-building, domestic resource mobilization and, where needed, official development assistance. Countries that already have poverty reduction strategy papers —nationally owned and developed three-year spending frameworks agreed with the World Bank and other international development partners— should align them with a 10-year framework of policies and investments consistent with achievement of the Millennium Development Goals. In middle-income countries and others where the goals are already within reach, Governments should adopt a “Millennium Development Goals-plus” strategy, with more ambitious targets.

In this context it is important to remember that rapid economic growth and high and sustained levels of employment facilitate poverty reduction and are critical to attainment of poverty eradication objectives. A national development strategy, in which the main country objectives –such as attaining potential economic growth with high levels of employment and explicit policies to address sectoral imbalances in the composition of domestic production and exports—are explicit, is an important tool to mobilize domestic actors as well as to enhance international economic cooperation and mobilize private resources from abroad. The formulation of a national development strategy assists in setting priorities and the appropriate sequencing of Government actions.

It is partly the task of the Government to create conditions for those impulses to widen and produce sustained economic expansion. An important aspect of government national development strategies is to assist sustained productivity increases (e.g. through quality infrastructure, education and training, and technological research and development) in areas that have proved promising. These policies are key to generating high quality employment. In successful countries, export promotion as part of the national development strategy has also played a key role in rapid development. When, despite an improved macroeconomic environment and progress towards more open policies, growth impulses remain weak or lethargic, the national development strategy and productive sector policies assume particular importance.
The Monterrey Consensus also stresses that domestic efforts can only succeed if supported by an enabling international environment for growth and development. Developed countries and multilateral financial institutions can act to ensure the coherence and consistency of the international monetary, financial and trading systems through strong coordination of macroeconomic policies among the leading industrial countries so as to achieve greater global stability and reduced exchange rate volatility. It is also important for international financial institutions, including the International Monetary Fund, to have a suitable array of financial facilities and resources to respond in a timely and appropriate way to help prevent financial crisis. Regarding medium to long-term financial flows, the Monterrey Consensus recognized that multilateral and regional development banks play a vital role in financing for development and should contribute to providing an adequate supply of finance to countries that are challenged by poverty, follow sound economic policies and may lack access to capital markets. They should also mitigate the impact of the excessive volatility of financial markets.

As the Secretary General has mentioned, agreement on the goals to be achieved was reached at the Millennium Summit and the methods to achieve them was reached in Monterrey, but there are significant lags in implementation. He has made formal proposals to advance this process at the Millennium Declaration review in September. He welcomes additional and alternative proposals, but most of all he will welcome bold decisions to adopt a series of proposals that will allow the international community to meet its Millennium commitments.

Statement by Mr. Lee Jong-Wook, Director-General, World Health Organization

Only ten years are left to achieve the Millennium Development Goals. These goals have underlined the importance of improving health, and particularly the health of mothers and children, as an integral part of poverty reduction. Mothers, babies and children represent the well-being of society and its potential for the future. Their health needs cannot be left unmet without harming the whole of society. Yet this year, almost 11 million children under five years of age will die, 4 million of them within 28 days of birth. In the same one-year period, almost half a million women will die in pregnancy or childbirth or soon after.

How can it be that this situation continues when the causes of these deaths are largely avoidable? Although an increasing number of countries have succeeded in improving the health and well-being of mothers, newborn babies and children in recent years, the countries that started off with the highest burdens of mortality and ill-health are the ones that made least progress during the 1990s. In some countries the situation has actually got worse, and worrying reversals in newborn, child and maternal mortality have taken place. Progress has slowed down and is increasingly uneven, leaving large disparities between countries as well as between the poor and the rich within countries. Slow progress, stagnation and reversals are related to poverty, to humanitarian crises, and particularly in sub-Saharan Africa, to the effects of HIV/AIDS. These operate, at least in part, by increasing or maintaining exclusion from care. Unless efforts are stepped up radically, there is little hope of eliminating avoidable maternal and child mortality in all countries.

The technical knowledge exists to respond to many, if not most, of the health problems and hazards that affect the health and survival of mothers, the newborn and children. The strategies for putting these technical solutions into practice for all, in the right places, in the right ways and at the right time, are also becoming increasingly clear. Maternal and child health services are the bedrock of health systems, especially for the poor, in most countries, and the demand for these services is high. Much more can be done to realize their potential. It includes emphasizing effective interventions and using them as a platform for other health programmes such as HIV/AIDS and the prevention and treatment of sexually
transmitted infections, tuberculosis and malaria initiatives, and family planning. Making the right
technical and strategic choices is a critical step in correcting the course of our efforts to reach the
Millennium Development Goals.

Even if the right technical choices are made, however, maternal, newborn and child health
programmes will only be effective if they work together, and with households and communities, to
establish a continuum of care, from pregnancy through childbirth into childhood, instead of the often
fragmented services available at present. It makes no sense to provide care for a child while ignoring the
mother's health, or to assist a mother giving birth but not the newborn child. Providing families with
access to such a continuum of care requires invigorated health systems that maintain maternal, newborn
and child care at the core of their development strategies. This need is driving programmes and
stakeholders with different histories, interests and constituencies to join forces. The common project that
can unite their different agendas is universal access to care. This puts the health of mothers, the newborn
and children within the broader political project of responding to society's demand for the protection of
the health of its citizens and for access to care - a demand that is increasingly recognized as legitimate.
The magnitude of the effort needed to scale up services towards universal access, however, should not be
underestimated.

To ensure that all families have access to care, governments must accelerate the expansion and
strengthening of health systems. A critical challenge is to put in place the required workforce. In many
countries, this workforce has been destabilized and undermined by economic hardship and financial
crises. There is an urgent need to prevent further escalation of the crisis - which has to include measures
to prevent the distortions that may result from well-intentioned but disruptive global initiatives. There is
also a need for planning the expansion of the workforce, and at the same time, for urgent, immediate
corrective measures to bring productivity and dedication back to the level the population expects and to
which most health workers aspire. Sustainable approaches have to be devised to offer competitive
remuneration and incentive packages that can attract, motivate and retain competent and productive health
workers. In many of the countries where progress towards the MDGs is disappointing, substantial
increases in the remuneration of health personnel are urgently needed. Such measures would have
political and macroeconomic implications and require a considerable effort, involving not only
governments but international solidarity as well.

Universal access, however, is more than deploying an effective workforce to supply services. For
health services to be taken up, financial barriers to access have to be removed, and users have to be given
predictable protection against the cost of seeking care, and particularly against the catastrophic payments
that push households into poverty. Such catastrophic payments occur wherever user charges are
significant, households have limited ability to pay, and pooling and prepayment are not generalized. To
attain the financial protection that has to go with universal access, countries throughout the world have to
move away from user charges, and generalize prepayment and pooling schemes. Financial protection can
be organized on the basis of tax-generated funds, through social insurance, or through a mix of schemes.
The objective must be health systems that can respond to critical health needs, eliminate financial barriers
to care, and protect people from the poverty that is both a cause and an effect of ill-health.

Full coverage with a set of essential interventions would enable countries to attain and exceed the
MDGs. This will not be possible without a substantial increase of expenditure on child health. In the 75
countries that account for most of child mortality, reaching full coverage would cost an additional US$ 2.2 billion in 2006, increasing, as coverage expands, to US$ 7.8 billion in 2015: a total of US$ 52.4 billion over 10 years, of which US$ 25 billion represents additional costs for human resources. This US$ 52.4 billion corresponds to an increase as of now of 6% of current median public expenditure on health in these countries, rising to 18% by 2015. This is equivalent to an extra outlay of US$ 0.47 per inhabitant of those countries per year initially, increasing to US$ 1.48 in 2015.
For maternal and newborn care, universal access is further away. In the same 75 countries, realistic estimates predict that coverage will increase from 43% at present (with a limited package of care) to around 73% (with a full package of care) in 2015. This would cost an additional US$ 1 billion in 2006, increasing, as coverage expands, to US$ 6 billion in 2015: a total of US$ 39 billion over ten years, in addition to present expenditure on maternal and newborn health. This is equivalent to an extra outlay of US$ 0.22 per inhabitant per year initially, increasing to US$ 1.18 in 2015.

In most countries, financial sustainability for maternal, newborn and child health can best be achieved in the short and middle term by looking at all sources of funding: external and domestic, public and private. Channelling increased funding towards generalized insurance schemes offers the best prospects for sustainable financing of core services and the health systems on which they depend. This strategy could protect the funding of the workforce both in public sector and health sector reform policies and in the forums where macroeconomic and poverty reduction policies are decided. It offers the possibility of tackling the problem of the remuneration and working conditions of health workers in a way that gives them credible long-term prospects. Traditional budgeting and the stop-gap measures of project funding do not usually offer such prospects.

While the financing effort seems to be within reasonable reach in some countries, in many it will go beyond what can be borne by governments alone. Both countries and the international community will need to show a sustained political commitment to mobilizing and redirecting the considerable resources that are required, and to building the institutional capacity to manage them. At the same time, placing maternal, newborn and child health at the core of the drive for universal access provides a platform for building sustainable health systems where existing structures are weak or fragile. Regardless of what can be achieved by 2015, moving towards universal access has the potential to transform the lives of millions for decades to come.

The Millennium Development Goals place the health of mothers and children at the centre of the struggle against poverty and inequality, as a matter of human rights. The next ten years can be a time of accelerating the move towards universal coverage, with access for all and financial protection. Only by moving in this direction can we make sure that every mother, newborn baby and child in need of care can obtain it, and no-one is driven into poverty by the cost of that care. In this way we can work not only towards the Millennium Development Goals but far beyond them.
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Washington, DC, April 17, 2005

DEVELOPMENT COMMITTEE COMMUNIQUÉ

1. As we approach the fifth anniversary of the U.N. Millennium Declaration, we met to review progress towards the MDGs, based on an assessment in the second annual Global Monitoring Report. We reaffirmed our strong support for the strategies and decisions agreed in Doha, Monterrey and Johannesburg which set out a framework for fighting poverty and achieving the internationally agreed goals. We welcome the continued active involvement of the Bank and the Fund in the preparations for and the proceedings at the UNGA Special Session on Financing for Development, as well as the UN High-Level Millennium Review in New York in September.

2. We welcomed the progress achieved, on actions both by developing and developed countries. These actions have contributed to the strongest global economic growth in over three decades. However, overall progress has been uneven and slower than envisaged. Without tangible action to accelerate efforts, the vision of the Millennium Declaration will not be realized. At stake are prospects not only for hundreds of millions of people to escape poverty, disease, illiteracy, and gender inequality but also for long-term global security and peace, which are intimately linked to development.

3. All regions face significant challenges, but we welcomed the Report’s focus on sub-Saharan Africa as the region farthest from achieving the MDGs. We also welcomed the recent Report of the Commission for Africa. We are encouraged that real growth in sub-Saharan Africa increased in 2004 to an eight-year high of 5 percent and inflation has fallen to an historical low. The challenge is to accelerate and sustain growth and development through sound policy frameworks. We welcomed the IFC’s Strategic Initiative for Africa, including the recently approved Private Enterprise Partnership Facility. We call upon the Bank to undertake further analytical and institutional work,

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1 As endorsed by Heads of State and Government in the U.N. General Assembly on September 8, 2000.
together with partners, to develop an ambitious action plan for Africa for consideration by our next meeting.

4. Many developing countries are taking actions to strengthen policies and institutions which not only provide benefits but also valuable experience for others. We endorsed the emphasis on country-led and owned development strategies and urged that MDGs be operationalized in poverty reduction strategies, linked to medium term budgetary frameworks. Macroeconomic stability remains critical, as is the need to strengthen public sector financial management, promote good governance including combating corruption and promoting the rule of law, improve business climate and regulation and develop local financial markets, so as to enable private sector led economic growth. Environmental sustainability remains critical and should also be addressed in domestic policies and programs, as well as through international action. We recognize the importance of all countries integrating climate concerns into their policy planning.

5. A major scaling up of education (in particular through the Education For All Fast Track Initiative), health and basic infrastructure services, including water and sanitation, is fundamental to meeting key development goals. We noted with concern the failure to meet the target date for achieving gender parity in primary and secondary education. We called upon bilateral donors and multilateral agencies to provide timely, predictable and sustained financing to support these efforts. We reconfirmed the importance of efforts to help developing countries build capacity and address absorptive capacity constraints.

6. We have in the past highlighted the critical importance of scaling up infrastructure investment in developing countries as a means of promoting economic growth and achieving the MDGs, and have endorsed the Infrastructure Action Plan of the World Bank. With a view to removing such impediments as may exist in enabling the Bank to scale up the infrastructure work, we look forward to reviewing implementation of the Action Plan at our next meeting, including the results of the ongoing work of the IMF and Bank on how to increase fiscal space for growth.

7. To complement these actions, developed countries must meet their commitments to help accelerate progress. We underlined the vital importance of an ambitious outcome for the Doha Development Agenda and the successful completion of the negotiations in 2006. Improving trade opportunities and market access for agriculture, industrial products and services will be critical. We stressed the need for “aid for trade” and we call on the Bank and Fund to work with others to develop proposals to help developing countries adjust to and take advantage of the round, for consideration by our next meeting. We also recognized the benefits to developing countries from reducing developing country trade barriers and of strengthening South-South trade.

8. Financing the development agenda remains a significant challenge, requiring sustained action on domestic resource mobilization, private investment and trade. We welcomed the Bank’s work program to improve analysis and statistics on remittances, labor mobility and migration, and to address impediments to remittance flows. We emphasized that a significant increase in aid will also be needed for accelerated progress towards the
MDGs. We welcomed the successful conclusion of the IDA 14 replenishment as an important step in mobilizing additional resources and called on donors to finalize their commitments. We noted the further work on the impact of exogenous shocks on low-income countries and small vulnerable states and we look forward to further proposals in the context of the IDA14 mid-term review on what options are available to operationalize these proposals.

9. We also welcomed the agreement by the Bank and Fund on a joint forward-looking framework for assessing debt sustainability in low-income countries. We welcomed recent proposals for additional debt and debt service relief. We agreed that further debt relief beyond HIPC is needed in specific cases to secure long term debt sustainability and support progress towards the MDGs. We ask the Bank and Fund to examine these proposals for the Annual Meetings.

10. We confirmed our commitment to deliver on the pledges made at and after Monterrey to raise levels of ODA. We urged those donors that have not done so to make concrete efforts towards the target of 0.7 percent of GNI as ODA.

11. We welcomed further work on innovative sources of development financing. We noted that negotiations among interested parties on the proposed pilot IFF for Immunization are well advanced; and the analysis of technical feasibility of the IFF has created the conditions for the necessary political decisions on participation. We encourage interested donors to proceed with these proposals. Potential participants believe that global tax mechanisms to finance development may be feasible and desirable, while other members do not. We noted the analysis of the economic rationale, technical feasibility, and moderate coalition size needed for some of the global tax proposals. Building upon the existing political momentum in some countries, we invite the Bank and the Fund to deepen their analysis of the most promising nationally applied and internationally coordinated taxes for development for the Annual Meetings, as an input into the consideration of a pilot case for interested countries.

12. We also underlined the importance of further action by multilateral development partners, including support for the PRS process in low-income countries, aligning assistance better with medium-term country strategies, streamlining conditionality, building institutional capacity and strengthening the focus on development results. We called for further exploration of blending arrangements, for further action to enhance effectiveness and for continued progress in providing innovative and flexible financial products and high quality technical assistance and advisory services better matched to the evolving and diverse needs of middle-income countries; and to strengthen the Bank’s role in these countries, not least with regard to global public goods.

13. We welcomed the Paris Declaration on Aid Effectiveness which responded to our earlier call to make firm commitments on the quality of aid. We note the agreement on quantitative indicators. We urged the establishment of targets, as agreed, for each of the indicators for 2010. Concerted collective actions will be required now to translate these into concrete actions at the country level and we called on the Bank to show leadership.
by example, in implementing the Paris framework. We welcomed the increasing use of country systems, where appropriate, as a means to enhance harmonization and reduce the cost of doing business.

14. Enhancing voice and participation of developing and transition countries in the Bank and the Fund remains a continuing concern. Progress can only be made through broad consensus at the political level. We noted the further efforts by the Boards in this regard and will return to this issue at our next meeting in the light of progress.

15. We appreciate the efforts of the global community to counter the effects of the deadly tsunamis that wreaked havoc in the Indian Ocean region. The tragedy reminded us that the poorest people tend to be the most vulnerable to natural disasters. We called for a continued focus on the challenge of accelerating the reconstruction and recovery process in the region, restoring livelihoods and on designing projects for disaster preparedness and risk mitigation.

16. A strong and effective multilateral system is essential in the fight against global poverty. We expressed our deep appreciation for the talented leadership of Jim Wolfensohn as he approaches the end of his term at the Bank and wish him success in his new role as Special Envoy for Gaza Disengagement. We also congratulate Paul Wolfowitz on his selection as President and look forward to working with him.

17. The next meeting of the Committee will be held in Washington D.C. on September 24, 2005.
NOTICE OF MEETING

The 71st meeting of the Development Committee will be held on Sunday, April 17, 2005, commencing at 9:00 a.m. in the Preston Auditorium, The World Bank Main Complex, Washington, D.C.

PROVISIONAL AGENDA


Progress Reports:

II. Financing the Development Agenda

III. Voice and Participation of Developing and Transition Countries

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1 The President of the World Bank and the Managing Director of the Fund will each provide a statement, in advance of the meeting, focused on agenda topics and other items.

On this occasion there will be only 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
(Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund On the Transfer of Real Resources to Developing Countries)

DEVELOPMENT COMMITTEE MEETING

Sunday, April 17, 2005
Washington, DC, United States

CONSTITUENCY LIST
## DEVELOPMENT COMMITTEE
April 17, 2005
Washington, D.C.

Trevor Manuel, Chairman
James D. Wolfensohn, President, World Bank
Rodrigo de Rato, Managing Director, International Monetary Fund

Thomas A. Bernes, Executive Secretary

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<th>Members</th>
<th>Executive Directors</th>
<th>Countries</th>
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| Ibrahim Al-Assaf *(not attending)*
Minister of Finance
*Saudi Arabia* | Yahya Abdullah Alyahya
(Bank)
Sulaiman M. Al-Turki
(Fund) | *Saudi Arabia* | 1 |
| **Alternate Member**
Mr. Hamad Al-Sayari *(attending)*
Governor for the Saudi Arabian Monetary Agency | | | |
| Ahmed bin Mohammed Al Khalifa
Minister of Finance
*Bahrain* | Ismail Aljazzaf
(Bank)
A. Shakour Shaalan
(Fund) | Bahrain, Arab Republic of Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Republic of Yemen | 2 |
| Hilary Benn (Mr.) *(not attending)*
Secretary of State for International Development
*United Kingdom* | Tom Scholar
(Bank and Fund) | *United Kingdom* | 3 |
| Suma Chakrabarti *(attending)*
Permanent Secretary
Department for International Development | | | |
| Bohoun Bouabré *(not attending)*
Minister of Economy and Finance and Minister of State
*Côte d’Ivoire* | Paulo Gomes
(Bank)
Damian Ondo Mañe
(Fund) | Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Côte d’Ivoire, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Republic of Congo, Rwanda, São Tomé and Principe, Senegal, Somalia (informally), Togo | 4 |
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<th>Members</th>
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| Thierry Breton (*attending 2nd session*)  
Minister of Economy, Finance and Industry  
France  
*Alternate Member*  
Xavier Darcos (*attending 1st session*)  
Minister of Cooperation, Development and Francophone Affairs  
Ministry of Foreign Affairs  
France | Pierre Duquesne  
(Bank and Fund) | France | 5 |
| P. Chidambaram  
Minister of Finance  
India  
*Alternate Member*  
Rakesh Mohan  
Secretary  
Department of Economic Affairs | Chander Mohan  
Vasudev  
(Bank)  
B.P. Misra  
(Fund) | Bangladesh, Bhutan, India, Sri Lanka | 6 |
| Michael Cullen (*not attending*)  
Deputy Prime Minister and Minister of Finance  
New Zealand  
*Alternate Member*  
Trevor Mallard (*attending*)  
Minister of Education and Associate Minister of Finance  
New Zealand | John Austin  
(Bank)  
Jong Nam Oh  
(Fund) | Australia, Cambodia, Kiribati, Republic of Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Papua New Guinea, Republic of Palau, Samoa, Solomon Islands, Vanuatu | 7 |
| Joseph Deiss  
Federal Councillor  
Minister of Economic Affairs  
Federal Department of Economic Affairs  
Governor to the World Bank  
Switzerland  
*Alternate Member*  
Oscar Knapp  
Delegate for Trade Agreements  
Head, Directorate “Development and Transition”  
Switzerland | Pietro Veglio  
(Bank)  
Fritz Zurbrügg  
(Fund) | Azerbaijan, Serbia & Montenegro, Kyrgyz Republic, Poland, Switzerland, Tajikistan, Turkmenistan, Uzbekistan | 8 |
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<td>José Francisco Gil Diaz</td>
<td>Luis Marti (Bank)</td>
<td>Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain,</td>
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<td>Secretary of Finance and Public</td>
<td>Moisés Schwartz (Fund)</td>
<td>República Bolivariana de Venezuela</td>
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<td>Alonso Garcia Tames</td>
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<td>Under-Secretary of Finance and</td>
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<td>Ralph Goodale (<strong>not attending</strong>)</td>
<td>Marcel Massé (Bank)</td>
<td>Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica,</td>
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<td>Minister of Finance</td>
<td>Kevin G. Lynch (Fund)</td>
<td>Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St.</td>
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<td>Aileen Carroll (<strong>not attending</strong>)</td>
<td>Mr. Herwidayatmo (Bank)</td>
<td>Brunei Darussalam, Fiji, Indonesia, Lao People’s Democratic Republic,</td>
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<td>Minister</td>
<td>Hooi Eng Phang (Fund)</td>
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<td>Mr. Paul Boothe (<strong>attending</strong>)</td>
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<td>Somkid Jatusripitak (**not</td>
<td>Mr. ZOU Jianyi (Ms) (Bank)</td>
<td>Gemany, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden</td>
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<td>WANG Xiaoyi (Fund)</td>
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<td>Jin Renqing (<strong>not attending</strong>)</td>
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<td>Li Yong (<strong>attending</strong>)</td>
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<td>Antti Kalliomaki</td>
<td>Thorsteinn Ingolfsson (Bank)</td>
<td>Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden</td>
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<td>Aleksei Kudrin</td>
<td>Alexey G. Kvasov (Bank)</td>
<td>Russian Federation</td>
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<td>Minister of Finance</td>
<td>Aleksei V. Mozhin (Fund)</td>
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| Roberto Lavagna  
Minister for Economy and Production  
Argentina | Jaime Quijandria  
(Bank) 
Guillermo Le Fort  
(Fund) | Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay | 15 |
| Ngozi N. Okonjo-Iweala  
Minister of Finance  
Nigeria | Mathias Sinamenye  
(Bank) 
Peter J. Ngumbullu  
(Fund) | Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Seychelles, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe | 16 |
| Fathallah Oualalou  
Minister of Finance & Privatization  
Morocco | Sid Dib  
(Bank) 
Abbas Mirakhor  
(Fund) | Islamic State of Afghanistan (informally), Algeria, Ghana, Islamic Republic of Iran, Morocco, Pakistan, Tunisia | 17 |
| Antonio Palocci Filho  
Minister of Finance  
Brazil | Otaviano Canuto  
(Bank) 
Murilo Portugal  
(Fund) | Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Panama, Philippines, Suriname, Trinidad and Tobago | 18 |
| Didier Reynders  
Deputy Prime Minister and  
Minister of Finance  
Belgium | Gino Alzetta  
(Bank) 
Willy Kiekens  
(Fund) | Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, Turkey | 19 |
| Domenico Siniscalco  
Minister of the Economy & Finance  
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 | 20 |
| John W. Snow  
Secretary of the Treasury  
United States  
Alternate Member  
John Taylor  
Under Secretary of the Treasury | Robert Holland  
(Interim ED)  
(Bank) 
Nancy P. Jacklin  
(Fund) | United States | 21 |
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<td>Sadakazu Tanigaki <em>(9:00am -10:30am)</em></td>
<td>Yoshio Okubo</td>
<td>Japan</td>
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<td>Minister of Finance</td>
<td>(Bank)</td>
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<td>Japan</td>
<td>Shigeo Kashiwagi</td>
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<td>Hiroshi Watanabe <em>(10:30am-12:45pm)</em></td>
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<td>Vice Minister of Finance for International Affairs</td>
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<td>Heidemarie Wieczorek-Zeul</td>
<td>Eckhard Deutscher</td>
<td>Germany</td>
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<td>Federal Minister for Economic Cooperation and Development</td>
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<td>Germany</td>
<td>Karlheinz Bischofberger</td>
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<td>Gerrit Zalm <em>(10:00 am-12:45 pm)</em></td>
<td>Ad Melkert</td>
<td>Armenia, Bosnia and Herzegovina,</td>
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<tr>
<td>Minister of Finance</td>
<td>(Bank)</td>
<td>Bulgaria, Croatia, Cyprus, Georgia,</td>
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<td>Netherlands</td>
<td>Jeroen Kremers</td>
<td>Israel, former Yugoslav Republic of</td>
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<td>(Fund)</td>
<td>Macedonia, Moldova, Netherlands,</td>
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<td>Agnes van Ardenne <em>(not attending)</em></td>
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<td>Minister for Development Cooperation</td>
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<td>Mr. Ron Keller <em>(9:00 am-10:00 am)</em></td>
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<td>African Development Bank</td>
<td>Mr. Omar Kabbaj, President</td>
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<td>Arab Bank for Economic Development in Africa</td>
<td>Mr. Medhat S. Lotfy, Director General</td>
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<td>Arab Fund for Economic and Social Development</td>
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<td>Arab Monetary Fund</td>
<td>Dr. Jassim Al-Mannai, Dir General, Chairman of the Board</td>
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<td>Asian Development Bank</td>
<td>Mr. Joseph B. Eichenberger, Vice President (Operations 2)</td>
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<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>Absent</td>
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<tr>
<td>Council of Europe Development Bank</td>
<td>Mr. Apolonio Ruiz Ligero, Vice Governor</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. Louis Michel, Commissioner for Development and Humanitarian Aid</td>
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<td>European Investment Bank</td>
<td>Mr. Philippe de Fontaine Vive, Vice President</td>
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<tr>
<td>Food and Agriculture Organization</td>
<td>Mr. Charles Riemenschneider, Director of the FAO Liaison Office for North America</td>
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<td>Inter-American Development Bank</td>
<td>Mr. Dennis E. Flannery, Executive Vice-President</td>
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<td>International Fund for Agricultural Development</td>
<td>Ms. Cheryl Morden, Interim Director, North American Liaison Office</td>
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<td>International Labour Organisation</td>
<td>Mr. Juan Somavia, Director General</td>
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<td>Islamic Development Bank</td>
<td>Amadou Boubacar Cissé, Vice President, Operations</td>
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<td>Nordic Development Fund</td>
<td>Ms. Carin Wall, Sr. Vice President</td>
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<td>Nordic Investment Bank</td>
<td>Not attending this year will be represented by NDF</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, Development Cooperation Directorate</td>
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<tr>
<td>United Nations</td>
<td>Mr. Jose Antonio Ocampo, Under Secretary General for Economic Social Affairs</td>
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<tr>
<td>United Nations Conference on Trade and Development (UNCTAD)</td>
<td>Mr. Heiner Flasbeck, Officer in Charge, Division on Globalization &amp; Development Strategies</td>
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<td>United Nations Development Programme (UNDP)</td>
<td>Mr. Michael Marek, Director, UNDP Washington Office</td>
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<td>West African Development Bank</td>
<td>Mr. Yao Hounouvi, Special Counselor to the President</td>
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<td>World Health Organization</td>
<td>Mr. Xavier Leus, Director</td>
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<td>World Trade Organization</td>
<td>Mr. John Hancock, Counselor, Trade and Finance Division</td>
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