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

Chairman, Alberto Carrasquilla
Minister of Finance, Colombia

Washington, D.C.
April 23, 2006

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NOTE ON THE SEVENTY-THIRD MEETING
OF THE DEVELOPMENT COMMITTEE

The Joint Ministerial Committee of the Boards of Governors of the World Bank and the International Monetary Fund on the Transfer of Real Resources to Developing Countries – the Development Committee – held its seventy-third meeting on April 23, 2006, 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. Members circulated their written 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. Also included are notes by the Bank President and the Fund Managing Director distributed ahead of the meeting. The meeting started at 9:00 am and ended at 1:00 pm. It was chaired by Mr. Alberto Carrasquilla, Minister of Finance of Colombia.

The Agenda (Annex A) was adopted at the beginning of the meeting, followed by discussion of two topics: the first, Clean Energy and Development: Towards an Investment Framework was supported by a paper prepared by staff of the World Bank. The second topic Global Monitoring Report 2006: Strengthening Mutual Accountability - Aid, Trade and Governance included a joint paper prepared by the staff of the World Bank and the International Monetary Fund. The full report was made available as a background paper.

In addition to the above discussion topics, the agenda included the following progress reports that Ministers commented on in their written statements: (i) Fiscal Policy for Growth and Development: An Interim Report; (ii) Trade Progress Report - The DOHA Development Agenda and Aid for Trade: Hong Kong and Beyond; and (iii) Heavily Indebted Poor Countries (HIPC) Initiative: List of Ring-Fenced Countries Potentially Eligible Under the Initiative.

The Communiqué (Annex B) was approved during the meeting and records the salient points and outcome of the Ministerial discussion.
Note of the President of the World Bank, Mr. Paul Wolfowitz, to the Development Committee

Introduction

I am looking forward to our discussions and to your advice and guidance at my second meeting of the Development Committee. When we met in September 2005 we were able to take stock of the commitments made during what was labeled by some “the year of development” and by others “the year of Africa”. Since then I have had the opportunity to see first hand the hopes fostered by those commitments and the challenges there will be in turning commitments into actions in Africa, but also in Asia, in Latin America and in Central and Eastern Europe. More than ever our focus must be on implementation and securing results.

Monitoring Progress

As is normal at the Committee’s Spring meeting, we will base most of our discussion on the annual “global monitoring report” (GMR) prepared jointly by staffs of the World Bank and IMF. This year’s report “Strengthening Mutual Accountability – Aid, Trade and Governance” focuses on the mutual accountability of developing countries, donor countries and the international institutions for implementing the Monterrey agenda. Last year, attention was focused on how to scale up resources available to support development and how to ensure they are used effectively. In this year’s report, the focus is on governance.

The report examines performance in the past year and sets out some priorities for strengthening mutual accountability. Its key messages are summarized in the overview and I will not repeat them here. But I would like to emphasize three points.

First, while we should welcome renewed growth in many poor countries and the progress that has been made in reducing income poverty, we remain seriously off track if we are to meet the MDGs in many of the poorest countries.

Second, we need now to deliver on the commitments that have been made for more and better quality aid. We have to find ways to lock in and monitor how donors are meeting their commitments for aid and debt relief, and ensure debt relief does not substitute for new aid. We also need to monitor and accelerate implementation of the commitments made in Paris last year to improve aid effectiveness, and increase its results orientation. As we go forward the international community must in particular tackle three issues highlighted in the GMR: we must find ways to make aid flows less volatile and more predictable, to make them better aligned with country strategies and systems, and to improve coordination between country needs and the availability of new sources for delivering assistance, particularly in the health sector.

Third, we must continue to stress the importance of good governance and our mutual responsibility for achieving it. Governance is critical to improving and sustaining development outcomes. Responsibility for this lies both with developing countries and with donors and IFIs through international law enforcement and support for global anti-corruption treaties, as well as strengthening national anti-corruption efforts. Better monitoring of actionable governance indicators is needed to track progress, generate greater accountability, and build demand for good governance.

I recognize there are some complex issues to address, and a balance needs to be struck between insisting on high standards while recognizing progress where it occurs. I intend that the World Bank Group continue to make a major contribution to all aspects of this effort, not least by requiring the highest
standards of ourselves, but also by working with partner countries to strengthen institutions that produce better governance.

**Clean Energy and Development: Towards an Investment Framework**

The first item we will discuss is a progress report on Clean Energy and Sustainable Development. The decisions countries make today on energy policies and technology will have long term consequences for the sustainability of growth and for the health of our environment. The World Bank Group is working with the international community to see how all of us can tackle these issues more effectively, at a larger scale and with innovative solutions. At the Gleneagles Summit last July, the leaders of the G-8 asked the World Bank Group to take a leadership role, “in creating a new framework for clean energy and development, including investment and financing”. In September the Committee endorsed this request.

There are a few points I would like to emphasize from our report.

Our challenge is to provide energy that is essential for economic growth and fighting poverty, while at the same time reducing the environmental impact. Two-thirds of the increase in world primary energy demand over the next 25 years will come from developing countries where 1.6 billion people, mostly living in Africa and South Asia, still have no access to electricity.

Meeting the energy demand in developing and transition countries during this period will require investments of around $300 billion dollars a year. It is important that these investments be directed toward more efficient and lower carbon sources of energy. Some gains can be made at little or no extra cost – but there are likely to be additional costs as well in moving to a lower carbon scenario, possibly of the order of tens of billion of dollars a year.

What we are looking for is a “double dividend” —to meet the energy needs that are essential to fuel growth and to fight poverty on the one hand while preserving the environment - globally and locally - on the other. In the long run these are not conflicting goals. The economic impacts of climate change and the costs of adapting to climate variability impact poor countries disproportionately.

During the past year, we have been holding consultations with the reinsurance industry, with investment banks, with cutting-edge technology companies and with the governments of some of the big new energy consumers like Brazil, India, China, Mexico and South Africa. By the time of the Annual Meetings in September, we will make proposals to accelerate investment in clean energy so that developing countries can meet energy demand for growth and for poverty alleviation in an environmentally sustainable way. The next step will have a longer time horizon and is aimed at generating new knowledge on technology options and on the impact and economics of climate change, as well as programs of action for selected countries. A key element of our planning is to complete a detailed proposal for a new Clean Energy Financing Vehicle for the World Bank Group that would blend grants and loans. We will continue to work closely with the International Energy Agency, other IFIs, UN agencies, global partnerships and trust funds, developed and developing countries, and the private sector and Civil Society Organizations in taking this work forward.

**Strategic Priorities for the Bank and Progress on Other Mandates**

I want to take this opportunity to report to the Committee on some of the strategic priorities I see for the Bank over the period ahead, including progress on a number of issues the Committee has discussed in the past and/or indicated a wish to return to at a future meeting. On some of these there are separate background papers. The Bank’s overall strategic framework – the aim of poverty reduction and
the focus on the contributions the Bank can make to countries structural and social policies and programs – remains valid. Right now the overriding priority is to strengthen implementation, achieving results. This means we have to decide on trade-offs and set clear priorities in what we do.

Africa is a priority. The Bank has been asked to play a leading role in ensuring that resources for the region are used efficiently and effectively, and we intend to do so, through our Africa Action Plan. The focus on Africa should not come at the expense of our commitment to other countries, and we must remain engaged in middle-income countries, our IBRD clients, many of whom still face development challenges and poverty reduction needs. We must maintain and grow our knowledge base in areas fundamental to development, including education, health, infrastructure, energy and agriculture. Fighting poor governance and corruption which are so damaging to development, is another priority, and is an obligation for all of us.

Alongside these priorities, there are growing demands for the Bank to engage in global issues. We will discuss one of these - clean energy and development - at our meeting, but there are many others ranging from combating communicable diseases – where the Bank is currently playing a strong role in helping countries affected by the Avian Flu epidemic - to contributing to global efforts to strengthen financial stability and counter money laundering and financing for terrorism. If we are to play an effective role as global manager on such issues we must find ways to integrate this work better with our country based business model.

Underpinning each of these priorities are efforts to improve the ways we measure the effectiveness of our work and its impact on development results. We intend to stay the course on zero budget growth within a three year framework, so it is essential to shift resources to where they will have most impact. Trade offs will not be easy. I am looking across the Bank group for ways to increase synergies and cost-effectiveness, and have acted to consolidate some support functions. We will continue to analyze other possibilities.

**Good Governance and the Fight against Corruption**

Corruption distorts the functioning of markets, weakens governance systems and impedes effective development. Fighting corruption is a long-term commitment which requires a long-term strategy to progressively and systematically attack the problem. We are expanding the World Bank Group’s work on governance and anti-corruption at the country level, in Bank projects, and through partnerships with various stakeholders.

At the country level, governance and anti-corruption measures will be strengthened in all Bank instruments, including loans, grants, research and technical assistance. Bank investments in areas such as judicial reform, civil service reform, and decentralization of public service delivery will be increased, and progress will be measured through our assessments of public sector management and expenditure performance as well as monitoring and evaluation of results in the ground.

We are also implementing a new system for minimizing the risk of corruption in World Bank-funded projects. To protect Bank projects and strengthen public procurement systems, anti-corruption teams will be deployed in country offices to work with local government institutions, such as audit units and anti-corruption commissions. Anticorruption strategies are being developed for Bank projects and will be published on the Internet to enable stakeholders to see what steps are being taken to ensure resources are not diverted.

Enforcement alone will not cure corruption. How much progress we make depends on the desire of both governments and civil society to create the right setting for sustainable development. The Bank
will expand partnerships with various groups that have a stake in improving governance. The Bank will work with rich countries to seek ways to prevent stolen cash from being moved to foreign bank accounts and to hold private firms accountable for exporting corruption to emerging economies. I have been working with my colleagues from multilateral development banks (MDBs) on a common approach to fighting corruption and on a common strategy for “blacklisting” firms that engage in corruption in MDBs and Bank projects. The Bank will also partner with the private sector, and we will continue to draw lessons from tools like the “Doing Business” report issued annually by the International Finance Corporation and other indicators.

Africa Action Plan

At our last meeting the Committee discussed and welcomed the Bank Group’s Africa Action Plan. We are making progress with the plan’s 25 initiatives designed to support African countries as they implement national strategies to accelerate growth and reduce poverty. The Africa Catalytic Growth Fund was established last month, with a grant from the Government of the United Kingdom, and will allow the Bank Group to increase our support in three areas: (i) tackling the remaining constraints to growth in well performing economies; (ii) supporting economies in an earlier stage of transformation where strong leadership can accelerate economic reforms and lay the basis for sustained growth; and (iii) supporting regional programs. The Action Plan forms the core of our commitment to supporting improved development outcomes in Africa. We will report more fully on progress at the annual meetings.

Debt Relief and Debt Sustainability

A key feature of our support for low-income countries in Africa and elsewhere is the continued implementation of international initiatives for debt relief and cancellation, and our joint work, with the IMF, to help countries achieve and maintain debt sustainability. As the Committee asked at its last meeting, we have reached agreement on a final list of countries eligible for the HIPC initiative. The Committee had also welcomed the new Multilateral Debt Relief Initiative (MDRI) and asked the Bank to “proceed with the steps to ensure all necessary arrangements for implementation”. I am delighted to report that we have now completed all steps needed for IDA to implement this initiative, subject to ratification by Governors and provision of formal financing commitments by IDA donors, as set out more fully in the background paper we have circulated for the Committee. In this context, I would like to invite the donors of IDA to expedite their necessary budgetary approvals for the MDRI. Lastly, let me mention that we have conducted with the Fund an initial review of the debt sustainability framework for low income countries. We have also started to develop, in consultation with the IMF and other partners, policies to prevent “free riders” taking advantage of the efforts of the international community in giving debt relief - that is the possibility of non-concessional lenders taking advantage of IDA’s grants and debt forgiveness thereby increasing the risk of MDRI beneficiary countries sliding back into debt distress.

The Doha Development Agenda and Aid for Trade

We have also circulated as background a report on progress in the Doha Development Agenda and on proposals on Aid for Trade. As the report makes clear, the Bank will be working very closely with the WTO and others over the months ahead on aid for trade. Progress on this issue will provide a useful complement to the needed ambitious outcome for the trade negotiations. But I emphasize that aid for trade is a complement not a substitute to these negotiations and that the World Bank will not be able to endorse a poor outcome that does not help developing countries. Both the aid for trade work and the trade negotiations are now on very tight schedules. We all know how important it is for global growth and development for these timetables to be met, and I hope that Finance and Development Ministers will remain closely engaged in the process to ensure that they are.
Fiscal Policy for Growth and Development

As requested at your last meeting, we have provided an interim report on the design of fiscal policy to balance concerns for macroeconomic stability with the need to create “fiscal space” for expenditures necessary for growth and achievement of the MDGs. The interim report suggests that the design of fiscal policy should explicitly take account of growth as well as stabilization objectives; that composition and efficiency of expenditures is key to achievement of growth and MDG objectives; that initial fiscal conditions differ across countries and that this needs to be factored into country specific fiscal policy design; and that where institutions are weak countries should give priority in particular to improving institutions entrusted with budget management and revenue mobilization. Future work, with a final report synthesizing the results of the country studies expected in early 2007, will focus on how we can operationalize such lessons in our advice to countries including in the context of Public Expenditure Reviews, so that the Bank can contribute more effectively to the design of growth oriented fiscal policies.

Bank Group Support for Middle Income Country Clients

As noted above, the Bank Group must remain engaged with our IBRD clients and become more effective in supporting their development. IBRD clients are key to the achievement of the global poverty reduction goals and essential in the provision of global public goods. As you know, we are defining a revitalized Middle Income Country (MIC) management action plan. I am convinced we need to go further and faster, and to find ways to strengthen our partnerships with MICs, to improve the services we provide and integrate them better across the Bank Group. We have over the last months been consulting with shareholders (MICs themselves and their development partners), with regional development banks and others. Two years ago the Committee indicated a wish to review progress in the Bank’s efforts to enhance its support for MICs at a future meeting. I suggest, if the Committee agrees, we might aim to do this at our meeting in September in Singapore.

Bank-Fund Cooperation

As you know, Rodrigo de Rato and I have decided that it would be useful and timely to commission an external review of the many facets of Bank-Fund cooperation, and have asked an External Review Committee to report before the end of this year. We are delighted that Mr. Callaghan, Ms. Indrawati, Mr. Koch-Weser, Mr. Malan, Mr. McDonough and Ms. Okonjo-Iweala have agreed to work with us and with you in reviewing how the Bank and the Fund can be more efficient and can provide better and coordinated services to you, our clients.

Conclusion

We have made progress on a number of fronts and there are some positive signs. The challenges, as I see them, are to turn promises of increased aid into real flows, to ensure that these are not designed for the convenience of the donor but rather for the highest benefit of the recipient; also to ensure coherence not only in the harmonization of aid policies, but also in areas of trade, migration policy, and access to new technologies and new drugs to the benefit of the poor; and to work together to see that gains are not short-lived, but rather sustainable, fiscally, environmentally, in terms of broad social consensus and lasting institutions. I am committed to those goals and hope for your support.
Statement by the Managing Director of the International Monetary Fund, Mr. Rodrigo de Rato, to the Development Committee

Introduction

Since the Annual Meetings, the Fund has made significant progress in strengthening its support for low-income countries and thus contributing to the international community’s efforts towards the Millennium Development Goals (MDGs). Most importantly, the Fund has started implementing the Multilateral Debt Relief Initiative (MDRI) and has established the Policy Support Instrument and the Exogenous Shocks Facility, both of which increase the flexibility of the Fund’s engagement with low-income countries.

As this year’s Global Monitoring Report (GMR) notes, there are some encouraging signs of headway towards achieving the MDGs. In particular, the proportion of people living in poverty is declining globally and there have been major new commitments for increased aid and debt relief to low-income countries. However, while the developing world as a whole is projected to meet the MDG on reducing poverty, sub-Saharan Africa is not. Moreover, many countries are off-track to meet the human development MDGs. Stepped-up efforts must include an improvement in the business climate in many poor countries, including through better access to infrastructure. The report notes the risk that new aid commitments may not materialize. Moreover, advances in multilateral trade reform remain elusive and trade negotiations need to be accelerated. The need to improve governance emerges as a central theme in the GMR. The report calls on international financial institutions (IFIs) and donors to support the emerging global framework of global checks and balances by strengthening their own anticorruption systems, encouraging developing countries to participate, and assisting in ways that improve transparency and country systems.

Over the past six months, the Fund has worked on a medium-term strategic review (MTS) of its operations to guide its role as the steward of the international monetary system. The work on the MTS has moved forward and the Board of Executive Directors recently discussed my report on this subject. This report aims to bring more precision to the ideas set out in the strategy paper published last September for helping our members take advantage of globalization and manage its risks. It covers a wide range of subjects, including Fund surveillance and our approach to emerging-market and low-income countries, on which I shall say more below. In this statement, after summarizing the Fund’s assessment of the world economic outlook, I shall explain the Fund’s efforts to review, refine and strengthen its activities to help developing country members accelerate growth and the implications of the MTS.

Global Environment and Policy Response

Overall Outlook and Policy Response

Global growth has continued to exceed expectations, aided by benign financial market conditions and continued accommodative macroeconomic policies. Despite higher oil prices and natural disasters, activity in the second half of 2005 was stronger than projected, particularly among emerging market


2 The Managing Director’s Report on Implementing the Fund’s Medium-Term Strategy (SM/06/112, March 17, 2006).
countries, and global GDP growth is now estimated at 4.8 percent and expected to remain at this level in 2006. Global inflationary pressures remain modest, although in the current environment of strong global growth and diminishing excess capacity, they could increase. Global financial market conditions also remain very favorable, and are characterized by unusually low risk premia and volatility.

This outlook is subject to significant vulnerabilities in the short- to medium-term.

- High and volatile oil prices are of serious concern. To date, the impact of higher oil prices on the global economy has been more moderate than generally expected. However, the full effects of the recent shock may not yet have been felt, and, with little capacity for expanding production in the short term, the oil market remains vulnerable to supply disruptions.

- Financial market conditions are likely to tighten. Current benign conditions are partly due to strengthening fundamentals, but also reflect more temporary factors, including very easy monetary conditions. Over the next two years, global short-term interest rates will rise further, and long-run interest rates are likely to rise, while volatility and risk premia may pick up. The greatest risks are associated with the impact of higher interest rates on the housing market.

- Although the U.S. current account deficit is being financed with little difficulty, and exchange rate movements are relatively benign, ultimately, the U.S. deficit must fall substantially with a corresponding decline in the surpluses of other countries, particularly of East Asian countries and oil exporters. Although a low-probability event, an abrupt and disorderly adjustment could be accompanied by substantial exchange rate overshooting, a large increase in interest rates, and a sharp slowdown in growth worldwide.

- In the event of a severe avian influenza pandemic, the human costs and suffering would be devastating, the economic costs would be large, and the global financial system could be disrupted.

The global expansion continues to offer a favorable environment in which to address these medium-term vulnerabilities by:

- Making more rapid progress in addressing global current account imbalances, including through measures to reduce the budget deficit and spur private savings in the United States; structural and other reforms to boost domestic demand in surplus countries; and greater exchange rate flexibility in China and some other countries to allow necessary appreciations to take place;

- Ensuring sustainable medium-term fiscal positions, not least among many major industrial countries. Despite some progress in Europe and Japan, pension and health systems across the globe remain unsustainable, and failure to accelerate progress will—over the longer term—pose risks to macroeconomic stability;

- Establishing the preconditions for all countries to take advantage of globalization and support global growth in the future, including by resisting protectionist pressures and ensuring an outcome to the Doha Round that goes far towards liberalizing world trade; and

- Addressing the risk of an avian influenza outbreak by moving ahead with necessary public health precautions, and providing the necessary assistance to developing countries to do so.
In this context, the Fund is helping members prepare for, and minimize, the risk of economic and financial dislocation that might result from a pandemic.

Regional Outlooks and Policy Response

In the United States, the economy slowed sharply in the fourth quarter of 2005, but appears to be rebounding. However, the large current account deficit could lead to a swing in investor sentiment creating downward pressure on the dollar and a sharp increase in interest rates. Furthermore, a weaker housing market and higher energy prices could trigger a more abrupt withdrawal of consumer demand than anticipated. A bolder fiscal adjustment effort is needed to put the budget in a stronger position to respond to unexpected future developments and absorb upcoming pressures from population aging, as well as contribute to the resolution of global current account imbalances. In the Euro Area, overall growth is expected to increase in 2006. In general, plans for more ambitious fiscal consolidation of about 0.5 percent of GDP per year on average will have to be implemented to attain balance by the end of the decade in line with the Stability and Growth Pact and to address upcoming demographic challenges. In Japan, the expansion remains solidly on track and the growth momentum seems likely to continue. Policy priorities should include restoring fiscal sustainability and moving forward with the structural reform agenda to raise productivity. Monetary policy should remain highly accommodative until positive inflation is better established.

In emerging markets, economic performance remains strong.

- In Emerging Asia, growth eased slightly in 2005 given, among other factors, higher oil prices and weakness in the information technology sector, but the momentum will continue in 2006. In the context of addressing global imbalances, countries with current account surpluses should seek to achieve an appropriate balance between growth in domestic and external demand. Reforms to domestic financial systems and other measures to improve the investment climate will need to be at the center of efforts to boost domestic demand, and further exchange rate appreciation will also be necessary.

- In Latin America, growth remained robust in 2005 and the expansion is projected to continue at a solid pace. However, a softening in global demand for the region’s primary and manufacturing exports could weaken the contribution to growth from the external sector in many countries, while a deterioration in the global financial environment would also pose risks given the still high level of public debt in the region. Maintaining the downward trajectory of debt is a key challenge for policymakers.

- In Emerging Europe, following strong performance in 2004, growth in 2005 was uneven, and is projected to remain close to its present level in 2006. Nevertheless, concerns remain about possible overheating in some countries.

In the Middle East, oil-exporting countries continued to enjoy robust growth. With oil production near capacity, strong but moderating growth is expected in 2006. The current oil cycle has been accompanied by a significant rise in money and credit growth, which has contributed to surging property and equity prices, with the latter also benefiting from increased profitability of financial institutions and petrochemical companies. A key challenge to the region is to increase productive investment in both the oil and non-oil sectors to raise potential growth and provide employment for the growing working-age population.

In the Commonwealth of Independent States, real GDP growth was lower in 2005, mainly reflecting a particularly sharp slowdown in Ukraine, and is projected to slow further in 2006. Investment
has remained weak in the area, but consumption has expanded strongly, thus raising concerns about growth going forward. A combination of tighter monetary policy and exchange rate appreciation would keep inflation in check. To encourage investment, a more hospitable business climate needs to be created. Structural reforms to boost productivity in the service sectors are needed to improve competitiveness in the face of upward pressures on exchange rates.

In sub-Saharan Africa, economic growth remained strong at 5.3 percent in 2005, though slightly below the recent high level of 5.6 percent in 2004. The outlook remains favorable, underpinned by high commodity prices, improved macroeconomic policies, and structural reforms in some countries. Sustaining and further strengthening the recent economic performance is critical to making a lasting impact on poverty reduction. In this regard, continued implementation of key fiscal and financial sector reforms is essential for sustaining the recent growth accelerations. Further improvements in economic institutions will help secure stable growth over the long term.

The Fund’s Efforts to Improve Surveillance

As my report on the MTS recognizes, surveillance, which is central to the Fund’s role in preventing crises, must be made more effective and continue to evolve to keep up with the changing needs of the global environment. To achieve these goals, the Fund is taking or considering a number of key steps.

- New multilateral consultations would allow the Fund to take up issues collectively with systemically important members, and even non-member entities, and foster agreements on actions by all the parties to a problem. Staff would prepare a report on the exact modalities for such consultations after discussions with the key parties.

- Our analysis and coverage of exchange rate issues need further strengthening. The in-depth analyses based on a multilateral framework that we currently undertake only for industrial countries will be extended to emerging markets. We will also review the 1977 Decision on surveillance over exchange rate policies, to make it more relevant to a world of capital mobility and floating exchange rates regimes.

- The Fund is placing financial sector issues at the center of its work. Better integration of financial sector and macroeconomic analysis will be achieved through an enhanced analytical framework currently being developed, organizational changes, and further improvements to the World Economic Outlook and the Global Financial Stability Report.

- The focus of bilateral surveillance needs to be sharpened to avoid covering too much, too thinly. Multi-year planning of priorities and streamlined procedures for selected cases will help focus on the most important and urgent challenges.

- We are also enhancing regional surveillance, to draw on shared experience and highlight common risks. In addition, Article IV consultations need to pay more attention to the implications and spillovers of a country’s policies for its partners.

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3 Sub-Saharan Africa Regional Economic Outlook (SM/06/100, March 10, 2006).
Role of the Fund in Emerging Market Countries

Against a backdrop of favorable financial conditions, many emerging market countries have strengthened policies and lowered vulnerabilities. Some have also reduced their borrowing from the Fund, while others, particularly in Asia, have built high levels of liquidity through reserve accumulation and regional agreements. These new conditions in emerging market economies provide a unique opportunity to address remaining vulnerabilities in order to enhance medium-term growth potential. The current circumstances, and the growth of large-scale private sector capital flows, also necessitate a reexamination of the Fund’s policy advice, the focus of its technical assistance, and modalities for lending. My follow-up strategy report contains some specific proposals in these areas.

There is continuing interest among emerging market countries and others in exploring ways that Fund financing might be used to provide a seal of approval and contingent lending support for members with strong policies. Over the next six months, staff will concentrate on proposals for a crisis prevention instrument. Staff will also explore how the Fund could play a role in supporting regional reserve pooling arrangements.

The Fund is continuing to promote the orderly resolution of financial crises. In particular, we have been analyzing cross-country experience with debt restructuring and the policy issues raised by specific cases, and monitoring the adoption of collective action clauses (CACs) in international sovereign bonds. The Fund is following the progress of the monitoring process for the Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets.

Role of the Fund in Low-Income Member Countries

In accordance with the MTS, work is underway to make Fund engagement in low-income countries more focused and flexible. One of the challenges ahead will be to marshal the rise in aid flows that has been committed, including from debt relief, to achieve higher growth and the MDGs. This will require a deeper, but more focused, engagement by the Fund, including new understandings with the World Bank and other agencies on the division of labor. As its resources—both financial and human—are limited, the Fund’s policy advice, capacity building, and financial assistance should focus on macro-critical issues, including on institutions relevant to financial stability and economic growth. While sustained growth and poverty reduction would require more than good macroeconomic policies and institutions, the Fund cannot be engaged in too many areas without compromising its effectiveness—including in its core macroeconomic mandate. Thus, clear understandings with other development partners will be crucial.

Delivering Debt Relief

Much progress has been made in addressing debt sustainability. Following its adoption of the MDRI in December 2005, the Fund moved rapidly to approve and deliver debt relief of SDR 2.3 billion (about US$3.4 billion) for 19 low-income countries, including two non-HIPCs. In approving this debt

4 Among other issues, the demarcation of responsibilities between the Bank and the Fund will be considered in the forthcoming Review of Bank-Fund Collaboration to be conducted by an External Review Committee comprising six external members.

5 The Multilateral Debt Relief Initiative (G-8 Proposal) and Its Implication for the Fund—Further Considerations (SM/05/353, November 1, 2005); Multilateral Debt Relief Initiative and Exogenous Shocks Facility—Proposed Decision (EBS/05/158, November 16, 2005); Public Information Notice (PIN) 05/164, December 8, 2005; and PIN 05/168, December 27, 2005
relief, the Board considered qualification criteria in the areas of macroeconomic performance, implementation of poverty reduction policies, and the quality of public expenditure management systems. Other HIPCs are expected to qualify for debt relief under the MDRI from the Fund in 2006, upon reaching the completion point of the enhanced HIPC Initiative.6

There has also been progress in implementing the enhanced HIPC Initiative. In total, 18 countries have reached the completion point, and the Republic of Congo recently reached the decision point, bringing the total number of countries in the interim phase to 11.7 The IMF has committed SDR 1.9 billion as debt relief to the 29 countries that have reached their decision points. Of this amount, SDR 1.6 billion has been disbursed. To avoid perverse incentives, the Fund and World Bank Boards have “ring-fenced” participation by finalizing the list of countries that could potentially be eligible for HIPC assistance on the basis of end-2004 data on the income and debt burden indicators.8 With the forthcoming expiration of the sunset clause (end-2006), some of these countries may not be able to establish a policy track record in time to benefit from the Initiative. In this context, Fund and World Bank staff will consider options regarding the sunset clause for the Initiative in the coming months. Grant resources will need to be mobilized to finance HIPC and MDRI debt relief for the countries that are newly eligible and for the three protracted arrears cases (Liberia, Somalia, and Sudan).

It is important that the Fund’s financing capacity for promoting economic reforms and mitigating exogenous shocks in low-income countries is preserved after the full implementation of the enhanced HIPC and MDR Initiatives. In this context, the IMF welcomed the G-8’s commitments to provide an additional subsidy contribution of SDR 100 million (in end-2005 NPV terms), contribute to the resources necessary for debt cancellation for the three protracted arrears cases, and share the cost of debt relief for countries that may become eligible for the HIPC Initiative under the extended sunset clause.

Refining the Fund’s Policy Advice and Strengthening its Instruments

For some time now, the Fund has been considering how it could better serve its low-income members. The Poverty Reduction and Growth Facility (PRGF) will remain the main instrument for assisting these members. However, the Fund’s mission to support low-income members’ efforts to secure and maintain macroeconomic stability and achieve sustainable growth and reduce poverty requires the institution to adapt as members’ needs evolve. This adaptation is proceeding on two fronts: refining policy advice and strengthening instruments for engagement with low-income countries.

Reaching the MDGs is the overarching objective. The most important contribution that the Fund can make is to provide advice on the macroeconomic and financial policies that will support growth and reduce poverty. In particular:

- As noted in my recent report on the MTS, the Fund is well placed to give advice on the macroeconomic implications of scaled up aid flows, including debt relief, and on how to deal with them. For example, Fund staff have been advising countries on how to handle the increased complexity of managing monetary, fiscal, and exchange rate policies when aid is increased. They could assess if projected aid flows are consistent with maintaining

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7 Heavily Indebted Poor Countries Initiative—Statistical Update (SM/06/118, March 22, 2006).

8 HIPC Initiative—List of Ring-Fenced Countries Potentially Eligible under the Initiative (EBS/06/35, March 14, 2006).
macroeconomic stability and with the costs of achieving the MDGs as estimated by multilateral development banks. They could also inform donors and country authorities candidly when there is scope for more aid to be absorbed, or when more aid would jeopardize its effectiveness. Staff are also working on strengthening analytical tools to underpin this policy advice.

- The Fund is also in a position to advise low-income countries, particularly HIPCds, on how to achieve and maintain debt sustainability. Both the HIPC and the MDRI have already lowered external debt in a number of countries. The new borrowing capacity this has created must be used prudently to avoid a reaccumulation of excessive debt. In this context, the World Bank and IMF staffs are working towards strengthening the joint Debt Sustainability Framework in light of the experience with its implementation so far.9 Based on this framework, the staffs will assist low-income countries in developing coherent medium-term debt strategies. They will also continue the analysis of the new financing landscape and the increasingly important role of non-Paris Club creditors.

Steps have been taken to strengthen the instruments for IMF engagement with its low-income members. The new instruments, the Exogenous Shocks Facility (ESF) and the Policy Support Instrument (PSI), provide the Fund with greater flexibility in customizing its assistance to low-income countries.

- The ESF became effective in January 2006, and provides financial assistance if a low-income member country has a balance of payments need caused by a significant adverse shock beyond its control.10 The ESF covers a wide range of exogenous shocks experienced by low-income members, such as natural disasters, commodity price shocks, and conflicts in neighboring countries, and is more concessional than instruments under the Emergency Assistance Policy.

- The Fund established the PSI to accommodate low-income members that may not need, or want, Fund financial assistance, but seek Fund advice, monitoring and endorsement of their economic policies.11 PSIs are voluntary and demand driven, and so far, two countries have agreed arrangements. An on-track PSI would be a basis for rapid access to ESF financing in the event of a shock, even though such access would not be automatic.

- As highlighted in my report on the MTS, more needs to be done to use conditionality flexibly. Most IMF-supported programs require a standard of upper credit tranche conditionality. While this is generally appropriate, in some cases such as post-conflict situations, such a standard may be too high. The Fund’s Emergency Post-Conflict Assistance policy recognizes these constraints and emphasizes the need for technical assistance, but a facility with a still more flexible standard and a larger capacity-building component could be considered.

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10 Establishment of an Exogenous Shocks Facility Under the Poverty Reduction and Growth Facility Trust (SM/05/365, October 4, 2005) and Public Information Notice No. 05/163, December 8, 2005.

11 Implementation of the Policy Support Instrument (SM/05/343, November 2, 2005) and Public Information Notice 05/145, October 14, 2005.
IMF staff have explored the implications of the Fund’s concessional and emergency assistance as well as the debt relief under the MDRI and extended HIPC Initiative for future financing need. The conclusion was that there is a need for additional loan and subsidy resources. With regard to the ESF, the IMF has so far received total subsidy pledges of about SDR 214 million from eight countries—Canada, France, Japan, Norway, Oman, Russia, Saudi Arabia, and the U.K. However, this is still well short of the target of SDR 500 million (in end-2005 NPV terms) needed to ensure that the Fund is ready to provide timely concessional financing for its low-income members experiencing shocks.

**Improving Governance and Building Capacity**

There is a consensus that improvements in governance are critical to utilizing increased aid effectively and to making progress in achieving the MDGs. As the GMR notes, since improving governance and controlling corruption are cross-cutting issues, they will require concerted efforts from low-income countries and the international community. Donors should take responsibility for international corruption originating in home-based companies or facilitated by their financial institutions, while developing countries should design and implement good governance and anti-corruption programs. Because of their global reach and the important role they play in many countries, IFIs can provide advice and technical assistance to carry out these efforts and must pursue for themselves high standards of anti-corruption. Careful monitoring is absolutely vital to the success of all of these efforts and initiatives, and requires the cooperation of all—governments, private sector, civil society, donors, and IFIs.

The Fund contributes to improving governance and the quality of institutions in areas within its mandate. For example, the IMF, jointly with the World Bank, provides advice on improving public expenditure management systems including promoting fiscal transparency, which is critical for a more efficient use of public resources, including aid, and for ensuring that resources are directed to intended purposes. The Fund also helps build more transparent and effective institutions in the monetary and financial sectors. In addition, the Fund supports low-income countries in their efforts to implement vital structural reforms that would improve investment climates and competitiveness.

**Doha Negotiations and Aid for Trade**

The successful conclusion of the Doha Round remains one of the most vital contributions that could be made to bolstering global growth, including for low-income members, over the medium term. But deadlines continue to be missed, and the Round is at risk of failure. Political leadership is required to reduce market access barriers and trade-distorting subsidies. Both developed and developing countries must play a role in removing the remaining impediments to trade. The Fund stands ready to provide stronger support for trade-related assistance (“Aid for Trade”). Existing vehicles for the Fund’s provision of aid for trade include the Trade Integration Mechanism, analysis and policy dialogue on trade-related issues, technical assistance for customs administration, and our work, jointly with other agencies, in the Integrated Framework for Trade-Related Technical Assistance (IF). The Fund also endorses efforts underway to strengthen the IF’s governance, and an increase in donor financing for capacity building projects financed through an IF-supported trust fund. Aid for Trade must not substitute for ambitious liberalization under the Doha Round, and care should be taken to ensure that the principles of the Paris Declaration on Aid Effectiveness are observed.

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12 Review of Financing of the Fund’s Concessional Assistance and Debt Relief to Low-Income Member Countries (SM/06/119, March 22, 2006).

13 Trade Progress Report—Doha Development Agenda and Aid for Trade (SM/05/327, Rev. 1, September 16, 2005), and Public Information Notice No. 05/169, December 27, 2005.
**Quotas and Voice**

The IMF’s legitimacy and effectiveness depend crucially on its members’ sense of ownership and participation in the Fund as an institution. Imbalances in representation at the Fund must be corrected. The strategic review has given an impetus to tackling quotas and voice issues, and we are examining the options for making progress by the time of the Singapore Annual Meetings. The most effective way forward would likely involve a sequenced approach in which ad hoc quota increases take place for the most under-represented members in the near term. Ahead of the Annual Meetings, we aim to gather the broadest possible consensus on the elements of a strategy and on the technical work to be undertaken by staff.
Highlights of Ministerial Statements

Statement by Mr. Alberto Carrasquilla, Chairman of the Development Committee, Minister of Finance of Colombia

I am very much honored to chair the first Ministerial meeting, after the “Year of Development” when the important commitments were made to increase the quantity, quality and effective use of resources for development.

Ministers note significant progress in economic growth in 2005. They also note substantial risks for the short term outlook, including persistent large global imbalances, a systemic gap in energy and infrastructure investment, and the uneven performance across regions. Progress in many countries—especially in Africa and South Asia—will be too slow for them to reach the majority of the Millennium Development Goals (MDGs). Ministers welcome the third Global Monitoring Report (GMR), which reaffirms the principle of mutual accountability—a key element of the Monterrey Consensus—with an emphasis on aid, trade, and governance. They emphasize the report’s continued usefulness in assessing progress on actions to reach the MDGs and highlight the major bottlenecks to growth and poverty reduction. Ministers stress that achieving rapid, sustained, and shared growth will require further actions to improve the business climate, access to infrastructure, enhanced market access and trade opportunities as well as measures to address issues of equity, including gender equity.

Aid Volume and Aid Effectiveness

Ministers welcome the rising trend in the volume of official development assistance (ODA), not only from the OECD DAC members, but also from non-DAC countries, and stress that all donors should fully implement the commitments they have made for substantial increases in aid volumes. Several Ministers welcome progress made on Innovative Financing Schemes such as the International Finance Facility for immunization, Advance Market Commitments for vaccines, and an airline ticket solidarity levy.

Ministers call on donors to increase the quality, predictability, and flexibility of aid flows and implement the Paris Declaration on aid effectiveness and to focus on results. Ministers stress the need for the World Bank and other partners to intensify their coordination at the country level, particularly in strengthening health systems and improving access to good quality education, to reduce transaction costs and to help increase absorptive capacity. Some Ministers feel that the potential benefits of vertical programs, supporting health, education, or other MDG objectives and mobilizing private funds, deserve a fuller acknowledgement.

Results

Ministers note progress on implementing and strengthening the results-based agenda. They stress that the collection of accurate, timely and useful statistics is critical to gaining an accurate understanding of the progress achieved and challenges remaining. They emphasize the need to boost statistical capacity in developing countries, through capacity building and strengthening public expenditure management systems. They look forward to making the Bank more results-focused, dynamic, and flexible in responding to client needs while maintaining high institutional integrity.
Good Governance and Fighting Corruption

Ministers agree on the critical role of good governance in development, a mutual accountability shared by all parties to the Monterrey Consensus. They welcome efforts to devise better, more reliable approaches to monitoring and measuring governance. Ministers support efforts to develop more accurate ways of measuring governance, stressing that those indicators should be sufficiently disaggregated and should avoid reliance on subjective perceptions. Ministers stress the need for actionable governance indicators for both developed and developing countries.

Ministers stress that the Bank’s main focus should be on helping countries improve governance. Specifically, Ministers stress the Bank’s role in helping countries to improve public expenditure management and achieve basic fiduciary standards, which will improve donor coordination, accelerate reliance on country systems, and facilitate the transition to programmatic budget support. Ministers stress the importance of transparency as an efficient instrument of governance. They note advances in transparency in the extractive industries and call for them to be extended to other sectors.

Ministers note the increasing attention to the prevention of corruption and the promotion of good governance in country programs. They look forward to management’s developing and presenting a more systematic approach to address these challenges in order to avoid inconsistencies in decision making. They look forward to early consideration of a set of guidelines that will steer the Bank’s operations. In view of the Bank’s core mandate of fighting poverty, some Ministers caution against holding back development efforts until the fight against corruption has been won. They encourage the Bank to appropriately engage with countries perceived to have weak governance.

Multilateral Debt Relief Initiative

Ministers welcome the approval of the Governors resolution for the Multilateral Debt Relief Initiative (MDRI) and look forward to its full implementation. They urge donors to secure financing commitments in order to preserve the financial viability of IDA. They stress the importance of ensuring its development effectiveness by helping countries to increase domestic revenue mobilization, safeguard their macroeconomic stability, and reform public finance systems. They encourage more transparency and accountability in the use of freed resources for pro-poor spending. Ministers emphasize that countries that have received debt relief should avoid the accumulation of new, unsustainable debt. They stress the importance of debt sustainability as a key consideration in the future commitment of development resources. They welcome plans by the Bank and the IMF to monitor the accumulation of new debt through the more refined Debt Sustainability Framework. They caution against the risk of “free-riding” behavior and call on creditors and borrowers to exercise responsibility when contracting non-concessional debt, and for new mechanisms to share information with creditors in this regard. Ministers also note the new list of countries potentially eligible for the Enhanced HIPC Initiative.

Clean Energy and Development Investment Framework

Ministers commend the Bank for taking the lead on clean energy and development. They agree that promoting access to clean and reliable energy is central to the Bank’s mandate, since the under-supply of energy and the lack of efficient and reliable energy services are major impediments to economic growth, and poverty reduction. Improving the investment climate to attract private investment would be important.

Ministers agree that the concept of clean energy should be broadly defined to include not only renewable sources, but also conventional sources. Some Ministers find the report to be biased toward the
development of alternative, renewable sources of energy not yet commercially viable while neglecting the bigger picture of aiming for cleaner, more efficient traditional energy sources. They call for a more balanced approach to traditional and alternative energy sources.

Ministers welcome the valuable groundwork undertaken by the Bank to develop an Investment Framework. They call for further analysis of existing financial resources and gaps where new instruments are needed to accelerate investment in clean energy, energy efficiency, and adaptation to climate change. Ministers ask that consideration of such new financing instruments take account of existing financing mechanisms, and evaluate their potential to shift investment toward lower pollution and greenhouse-gas intensity, provide for efficiency and additionality, leverage international and domestic private financing, promote rural development, and manage environmental issues. Some of them call for a new facility for Bank lending to support these goals, and for the Bank to set an ambitious target and, together with regional development banks, to seek to secure increased public and private investment. They also note the key role of the GEF and call for a significant fourth replenishment of the GEF.

Some Ministers stress that promoting the production and use of clean energy to address climate change represents a global public good and requires the support of the international community and strengthened cooperation based on the principle of common but differentiated responsibilities.

Trade Progress Report - Aid for Trade

Ministers note the report on the status of implementing the WTO Doha Development Agenda. They note the continuing wide gaps between negotiating positions on core issues such as agricultural subsidies and reaffirm the urgency of action to secure a substantive conclusion to the negotiations.

Ministers acknowledge that greater market access alone is not sufficient and call on donors to provide additional assistance to countries to build their infrastructure and capacity to trade, ease the costs of adjustment, and maximize the potential benefits of trade liberalization. They support the work of the task forces on the Integrated Framework and Aid for Trade. They note the Bank’s positive role in providing trade-related technical assistance. They encourage the Bank to play a more active role in trade capacity building.

Fiscal Policy for Growth and Development

Ministers welcome the Bank’s evolving thinking on the need for fiscal policy to support growth and development while preserving macroeconomic stability. They strongly agree with the report’s emphasis on protecting fiscal space for infrastructure investment. They look forward to the proposed further analysis of the issue.

Middle Income Countries

Ministers note declining IBRD disbursements to middle-income countries (MICs), and emphasize the need for continued Bank involvement. They stress the need to further reduce the cost of doing business and to increase reliance on countries’ own systems. Ministers emphasize that meeting the growing infrastructure investment requirements of MICs warrants speedy action to address impediments to more responsive Bank engagement. Some Ministers call on the Bank to monitor progress in addressing these impediments and to report on them in future GMRs.
Other Issues

Some Ministers stress that women’s empowerment is a key factor for economic and social development and call for stepped-up efforts to foster gender equality. Some Ministers call for future meetings of the Committee to focus on a smaller group of practical strategic issues requiring ministerial guidance.
Statement by Mr. Ibrahim Al-Assaf, Minister of Finance, Saudi Arabia

I wish to start with a word of welcome to Mr. Alberto Carrasquilla, our new Chairman, and to Mr. Kiyoshi Kodera, our new Executive Secretary. I wish them well.

The first item on our agenda, Clean Energy and Development, is as important as it is complex. The complexity is indeed reflected in the paper, which is an ambitious undertaking that must be considered a work in progress with varying success in treating a range of issues from the local to the global. The paper raises issues of process as well as substance.

On process, there has indeed been, as we requested last September, a welcome dialogue with partner countries and institutions. But it has been a dialogue with a limited sub-set of stakeholders. There needs to be further consultation with smaller developing countries in all regions, with the oil-producing nations such as my own, and with the International Energy Forum Secretariat in Riyadh, which is specifically intended to further the dialogue between energy producers and consumers. Such additional consultations will help facilitate consensus as to those areas where the Bank and its partners can move ahead, those areas where more work is needed, and those areas where it is premature to consider proposals.

Let me now offer four specific comments with this end in view.

The first point I make is an obvious one: that adequate supplies of commercial energy are an essential driver of, and in turn reflect, the entire development process. The shortfall in global development is thus evident from the continued lack of access to modern commercial energy of as many as 1.6 billion of the world’s poorest people who do not even have electricity. Even worse, over 2.4 billion people use traditional biomass fuels. These have severe adverse health effects through indoor air pollution, while the burden of daily foraging for fuel wood supplies literally falls disproportionately on the shoulders of women and girls. I call for a renewed effort by the entire World Bank Group, given its basic mission of poverty reduction, to help the poorer countries better address this key issue of access to modern energy. The ongoing Infrastructure Action Plan is a promising effort to remedy past neglect in this area. It should be strengthened. With renewed efforts in this area will come parallel improvements in local environmental conditions – indeed a “win-win” situation.

The second point I make is to urge an appropriate sense of realism in considering energy sources going forward. While scenarios for future energy use will understandably vary in detail, there seems to be a broad agreement that the main sources of primary energy at least to 2030 will remain a combination of coal, gas and oil accounting together for 75-85 percent of the total. This inescapably implies a high carbon economy, not a low carbon economy. Let me stress here that, while the developed countries have many options for transportation systems, those choices are very limited for the poorer countries. Also, the ability to cover their basic energy needs is critical for the productive capacity of the poor. Against that background, the efforts of the World Bank Group should be in my view to help countries’ focus on producing energy in a clean and technically efficient manner, whatever the source, using processes that have proved to be sustainable.

This brings me to my third point. I see a danger that the Bank Group, perhaps in response to outside pressures, is focusing more on alternative energy sources that are not commercially viable while neglecting the bigger picture of aiming for cleaner and more efficient traditional energy sources according
to their respective comparative advantages. Such an approach runs the risk of distorting energy markets and providing negative signals to those considering investments in oil supply both upstream and downstream. The World Bank Group should therefore adopt a properly balanced approach to traditional and alternative energy sources.

Fourth, the report has in my view entangled local energy and environmental issues with the separate issue of global climate change and who should do what to either mitigate or adapt to it. This topic involves a complex, largely unresolved, and often contentious set of issues. These are best addressed by those shareholders who are engaged in international discussions in fora other than the Development Committee. In such fora, the views of oil producers on being compensated for revenue losses resulting from climate mitigation measures by the industrialized countries are well known. Otherwise we run the danger of derailing our potentially more productive discussions of cleaner and more efficient energy supply, where broad consensus seems attainable.

In sum, I want to stress that, going forward, the Bank should further develop its analytical work in areas where there is indeed broad consensus, and defer presenting proposals on other aspects pending further analysis and dialogue.

Turning to the second agenda item, I greatly value the continued evolution of the *Global Monitoring Report 2006* (GMR) as a valuable tool for assessing the progress on the policy agenda, the priorities for action, and the accountabilities of the key partners in the global development effort. Here, I will be selective in my comments. Specifically, I will focus on issues closely related to the Millennium Development Goals (MDGs), the mutual accountability framework, the obligations of industrial countries regarding trade reform, the role of the International Financial Institutions (IFIs), and the special topic of Governance.

First, while progress has been achieved in delivering on the Monterrey promises, it is clear that we remain off-track in meeting the MDGs in almost all countries, with Sub-Saharan Africa having the most catching-up to do. Indeed, the unevenness of the poverty reduction gains and the slow progress toward especially the human development MDGs are sobering messages that require increased attention from all. The report is appropriately cautious in its optimism going forward. It is upbeat on the increased donor commitments, including through the Multilateral Debt Relief Initiative (MDRI) and promises to double Official Development Assistance (ODA) by 2010. The message is also strong, however, on the importance of monitoring the actual delivery, and ensuring the additionality and effectiveness, of aid.

Second, the renewed focus on mutual accountability is appropriate and I welcome the identification of actions that are key for speedy progress towards the MDGs. The stress is rightly on all participants in the Monterrey compact to meet their respective obligations. In that context, the developing countries would need to stay the course with reforms. Indeed, increasing access to basic infrastructure, strengthening governance, and creating a more favorable investment climate are critical for ensuring broad-based market-led growth. For their part, bilateral and multilateral donors need to work harder at removing rigidities on the use of aid. This would require better harmonization, targeting and alignment of the donors’ interventions with country-owned strategies. It is in such an environment that the newly promised aid and debt relief would be most useful.

Third, I find this year’s GMR less assertive and perhaps not evenhanded. Specifically, the focus on governance, though justified, could have been better balanced by a stronger message about the responsibility of developed countries for trade reform and to push for a more ambitious Doha Round. In that connection, just as we chose to focus on governance in this year’s GMR, I suggest that the theme next year should be trade.
The background paper on trade is certainly a useful complement to the GMR. However, given the critical role of trade, it would be useful for the future to cover the progress on multilateral trade negotiations regularly in the GMR. While a successful conclusion of the Doha Round is vital, the difficulties facing the multilateral system were evident in the outcome of the Ministerial Meeting last December. To meet the agreed timetable for 2006, a renewed international resolve is essential to address the divisive issues, especially on greater market access for farm products from the developing countries. To that end, the Bank should remain engaged not only to promote country-level reforms but also to press its advocacy role for multilateral action in international trade negotiations.

Fourth, I welcome the increased coverage and candor in this year’s GMR on efforts to improve the governance and development-effectiveness of the IFIs. Beyond current preoccupations about how best to manage for better development results, much remains to be done to improve performance at the country level, including by helping clients build the necessary statistical capacities to measure and monitor performance. This would require greater coordination of activities among the IFIs, including within the World Bank Group where potential synergies could be exploited. I also call on the IFIs for greater coordination with their non-DAC partners. In that connection, I draw attention to the report’s reference to the non-DAC donors and to Saudi Arabia as the largest donor in that group. Indeed, over the last quarter of past century, Saudi Arabia’s development assistance has accounted for close to 4 percent of GDP, the highest ODA to GDP ratio among all donors, including OECD countries, bearing in mind that Saudi Arabia is itself a developing country. Saudi Arabia’s development assistance has accounted for over 1.3 percent of GDP over the past five years. I am also encouraged by signs of greater coordination among aid-givers, as evident in the meeting of DAC and non-DAC donors that preceded the High Level Forum in Paris.

Still on the IFIs, as the GMR points out, disbursements of the Multilateral Development Banks (MDBs) to Middle Income Countries (MICs) have declined. In addition to the higher financial and non-financial costs of lending, the main cause for this decline seems to be the inability of the MDBs to provide innovative financing mechanisms to meet the evolving needs of MICs. Clearly, meeting the growing infrastructural investment requirements of MICs warrants speedy action to address impediments to a more responsive engagement. I suggest that progress in addressing such impediments be monitored and explicitly reported in future GMRs.

Fifth, I agree with the GMR’s timely attention to governance as an essential element of the mutual accountability framework, and note the attempt to provide a platform for including governance as an ongoing part of the MDG monitoring. As the report stresses, the governance issue is indeed complex and multi-dimensional. Accordingly, the proposed approach to monitoring is appropriately pragmatic and attentive to the diversity of countries. It is also essential that the proposed remedies are similarly country-specific. I therefore fully support greater effort to develop more specific and actionable indicators that are relatively easy to track.

Regarding global approaches to improved governance, including efforts for enhanced law enforcement, anti-corruption treaties, and greater international transparency, the focus should be on assisting individual countries with their own efforts to bring about improvements in this issue. The Bank could still play a key role through provision of technical assistance and targeted advice within its traditional mandate and expertise. It should be noted that, while improved governance is indeed important for success of the development effort, the central challenge is to find more effective ways of helping countries to channel the available aid in an environment of greater accountability and transparency. This requires donor vigilance on appropriate use of resources as well as steps by recipient countries to strengthen national accountability systems.
Finally, on the paper on *Fiscal Policy for Growth and Development-An Interim Report*, we have here a promising step toward providing clearer guidance to countries on designing pro-growth fiscal policies. The creation of fiscal space being dependent on circumstances of individual countries, the report has rightly proposed a related increase in the Bank’s country-level analytical work. Here, I encourage staff to look especially for any scope for reallocating resources to programs of higher relevance for meeting the MDGs. Also, I would stress the importance of further collaboration with the IMF and careful attention to the importance of minimizing any additional burdens on countries already subject to capacity constraints.

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

We welcome the broadly positive performance of developing country economies in the past year on growth and poverty reduction. Along with good policies this has been facilitated by a conducive global environment particularly in continued growth of the world economy, trade expansion, and larger commitments on development assistance and debt relief. Looking ahead, the prospects for progress in achieving the development goals remain promising, though substantial risks still remain. These include persistence of large global imbalances, uncertainties of future commodity prices, and the repercussions of highly uneven performance on growth and poverty reduction across regions. The many challenges that have to be faced provide a full agenda for policymakers and call for even more intensive cooperation and coordination.

Our agenda for this meeting includes an important set of some longstanding issues and also new topics. This year’s Global Monitoring Report provides the good analysis we have been accustomed to on progress that has been achieved in the past year on the Monterrey agenda and the tasks that lie ahead, as well as an elaborate and timely discussion of governance and corruption. This should provide a good basis for identifying our priorities for action in the period ahead. We also have the substantive issue of clean energy and development that requires guidance on how our institutions can go forward in meeting the complex challenges that have to be faced. We have the following remarks on the main topics on our table:

We are glad that this year’s GMR seeks to reaffirm and strengthen the principle of *mutual accountability*, which is the subtitle of the Report. This is a key element of the Monterrey Consensus and was intended as a basis for assessing the actions and policies of the three main development partners: developed and developing countries as well as the international financial institutions and how far they contribute to the achievement of the MDGs. We look forward to a consistent application of this principle to all the main tasks on the MDG agenda and identifying a clearer set of concrete actions that can be delivered in the foreseeable future, as well as providing a basis for closer monitoring and mutual accountability.

On the overarching goal of *reducing poverty*, we welcome the acceleration of progress in this area and the good prospects of further progress, enhanced by higher growth rates and improved policies in both low and middle income developing countries, as well as the favorable external environment. Future uncertainties and downside risks, however, still persist, especially on the performance of Sub-Saharan Africa which is expected to remain off-track on poverty reduction and social targets, although some countries have been performing well. We support continued donor focus on this region, as well as on the large number of fragile and post conflict states. We also support the enhanced attention the GMR suggests on improving the investment climate and the provision of infrastructure services as indispensable.

14 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
prerequisites for domestic growth and human development. We also welcome the attention that a background paper gives to the issue of fiscal space that can make possible more investment in infrastructure and other services.

The performance on meeting the seven human development goals, especially on health and education, remains far from adequate with all regions off-track on some goals and Sub-Saharan Africa and South Asia off-track on all of them. Despite some encouraging progress, helped by better policies and better program design as well as substantial increase in external support, the performance gap remains large and requires concerted action by both donors and recipients. Specifically, we endorse efforts to provide more flexible and predictable aid, and addressing the increasing transactions costs, as well as, on the part of recipient countries, reducing resource leakage and ensuring stronger accountability and better management of service delivery.

On meeting commitments on aid, debt relief, and trade progress has been uneven in developed country performance. Large and welcome aid commitments were made last year by the donor countries as well as specific monitorable actions to improve aid quality set by the Paris Declaration. Non-DAC countries also increased aid, including Arab aid of high per-capita level. The priority should now be on ensuring that aid commitments actually materialize and that an adequate monitoring process is put in place. Debt relief witnessed launching of the MDRI which has recently been finalized and we look forward to an implementation that would ensure additionality of donor commitments and full protection of IFIs’ financial capacity. Regrettably no commensurate progress has been achieved on the protracted Doha Development Agenda negotiations and much now depends on how far the problematic issues still pending, especially on agriculture, will be handled in 2006. The one aspect that holds promise for tangible results is on aid for trade that would enhance developing country capacity to improve trading potential, though this should not be a substitute for achieving the ambitious outcome that has been the main objective of the Doha Development Agenda.

The GMR analysis of the International Financial Institutions, the third major development partner, is quite substantive, candid and identifying the right issues. One is the new area of focus towards management for development results which requires substantial reorientation of both IFIs and client countries towards achieving monitorable developmental results. We share the view that this is a long-term process and requires substantial assistance to developing country national capacity to plan and deliver on results, including their statistical capacity to monitor. The second issue is the decline last year of IFIs’ lending to low income countries and the continued decline for middle income countries that turned into negative flow in real terms. This raises a host of issues that still need to be addressed and we endorse doing more on the long-standing need to reduce the cost of doing business with these institutions and more reliance on countries’ own systems for aid delivery and management. We also note the increasing attention to the prevention of corruption in these institutions’ financed projects and promoting good governance on country programs and we urge that more systematic approaches and clear strategies be developed to address these challenges.

This brings us to the special theme of the Report on governance which we find quite timely in view of the increasing global attention and the weight of governance assessment is having on donor aid allocation policies. We share the view that, notwithstanding the need to improve governance and that it should be an essential part of the global accountability framework, it remains, however, a complex area with controversies on its linkage to development and lack of consensus on how to measure governance and how to deal with its shortcomings. Much of the Report’s discussion of the issue is devoted to existing and possible methodologies for measuring governance and it reveals cases of heavy reliance on subjective assessment, miscalculation and considerable margins of error in the broad approaches now being used, thus requiring special caution to avoid over-reliance on these measures as determinants of aid to recipients. We endorse efforts to devise better and more reliable approaches, though we urge that the
main focus should be on how to help countries improve their governance, recognizing the diversity of conditions on the ground. We also note the distinction between governance and corruption which are often seen as synonymous. According to the analysis of the Report, corruption is attributed to failures in governance such as political, bureaucratic or checks and balances failures. The clear implication of this is that dealing with corruption should therefore focus on the root failures and on helping countries strengthen their institutional capabilities and checks and balances’ systems.

Finally, the analysis and suggestions for an investment framework for clean energy that has been prepared in response to our request covers a wide scope of environmental, technological and financial aspects related to energy needs and climate change and should provide a first step to clarify the issues and options and the appropriate role that our developments institutions can take within their mandates and competencies. The first challenge is to meet the enormous energy demand of developing countries through access to adequate, affordable and clean energy where options include policy reforms and incentives, more intensive use of technologies and viable investments. There is a great deal that can be done, though difficult decisions have to be made on such issues as subsidies and hydro power. Also, estimates of financial requirements to meet these needs, an average of $300 billion a year, are well beyond developing country availability barring exceptional efforts. The second challenge of mitigating climate change through reduction of emissions of greenhouse gases can equally be addressed by appropriate policies and technologies on a global scale. We strongly endorse the contention that since industrialized countries are responsible for most of the greenhouse gases developing countries are not expected to bear the additional costs of low-carbon economy. There is, however, an urgent need to assist developing countries efforts in adapting to the inevitable consequences of climate change and variability that has been affecting hundreds of millions, especially in poorer countries.

Looking forward, we note the proposed two track approach for next steps, especially the planned analytical work in the coming months on a number of financial mechanisms to help address some of these challenges, the Clean Energy Financing Vehicle, the power rehabilitation facility and the other funds. We stress the need to focus on realistic options, thoroughly assess the potential of existing mechanisms and pay adequate attention to a clear delineation of the Bank’s appropriate role on these financial facilities as well as for any further activities proposed for the coming two years. We also welcome the intention to conduct wider consultation and look forward to have a comprehensive discussion of all issues during our forthcoming Annual Meetings.

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

2005 was a year of promises. Many countries made a commitment to substantial increases in aid, and to improve its effectiveness. The international community agreed to large scale debt cancellation. We agreed that we need to tackle the challenges to development posed by climate change. We acknowledged the urgent need for a new trade settlement that delivers benefits for all.

2006 must be the year we deliver on these commitments. Excellent progress has been made on debt, and we look forward to the Bank soon joining the IMF in implementing the Multilateral Debt Relief Initiative. Similar action is required to deliver on our other promises.

The picture we have before us remains stark. The progress of many countries towards the Millennium Development Goals – most strikingly those in Africa and parts of Asia – is much too slow. Millions of people are left hungry, illiterate and in poor health, facing uncertain futures. On current trends, far too many of them will see their children grow up to lead similar lives, struggling in poverty and deprivation.
We have promised to do our part to change this, so this year must not be another in which we carry on much as we did before. This approach would deliver some progress in some places, but it would be limited and would not realise our shared ambition of achieving the Millennium Development Goals. We therefore look to the Bank now to focus on implementation and delivery.

We must provide the increased aid – some $50 billion a year by 2010 – that we have pledged, and as we agreed in 2005, to provide this as predictable, long-term finance so that countries can implement their development plans, including hiring teachers, purchasing drugs, providing water and developing infrastructure. To help do this, we need innovative financing mechanisms. We urge donor countries to support the International Finance Facility to enable us to frontload aid, given the urgent need for more financing. As a first step, the International Financing Facility for Immunisation is being launched to provide $4 billion to prevent 5 million childhood deaths. We also believe that Advance Market Commitments (AMCs) for Vaccines can be a powerful complementary mechanism to accelerate the development, and ensure the availability of, new vaccines against diseases that kill millions of people every year. We plan to launch a pilot AMC in 2006.

Developing countries must also act on their side of the partnership. We look to developing countries to prioritise the fight against poverty, respect the rights of the poor and vulnerable and strengthen and improve governance. Achieving the MDGs is challenging, but not impossible, and we need to redouble our efforts – and work together – to keep these promises to the world’s poor.

Clean Energy and Development: Towards an Investment Framework

Climate change directly threatens the development prospects of many countries by decreasing water availability in some regions, whilst increasing floods in others, decreasing agricultural productivity and increasing the incidence of disease. These effects of climate change are already being felt in many developing countries and will seriously impact our global efforts to reduce poverty and meet the Millennium Development Goals.

Responsibility for mitigating climate change requires concerted, urgent and decisive action on the part of richer countries, with a shift to cleaner, more efficient energy production to avoid exacerbating the problem. Developing countries need access to affordable, reliable and clean energy to grow their economies and to lift people out of poverty. The international community must act now to support countries to do this in a sustainable way and so achieve a ‘double dividend’ of poverty reduction and environmental protection. Helping member countries meet these challenges should be a key objective of the World Bank and other multilateral development banks over the coming years. There is growing interest among developing countries, particularly for assistance in dealing with cross-border pollution and management of energy and water resource issues. We must be ready to respond.

We therefore welcome the valuable work undertaken already in the World Bank to develop an Investment Framework to accelerate investment in clean energy, energy efficiency and adaptation to climate change. This now needs to be developed further into an ambitious global Investment Framework based on sound analysis of existing financial resources and identification of gaps where new instruments are needed. Shareholders have set high expectations: high level commitment across the World Bank group and sufficient staff resources will be needed. A priority for the World Bank is to work on this across the multilateral development banks, with the private sector and civil society, in order to create a global joint Investment Framework to be presented at the 2006 Annual Meetings. For this to be realised genuine collaboration across the international system will be vital. We are calling on all parties to continue to play their part.
At the heart of the Investment Framework should be a facility for World Bank lending to support greater investment in clean and sustainable energy, greater energy efficiency and adaptation to climate change. The World Bank should set itself an ambitious and stretching target for this, and the Regional Development Banks should set correspondingly stretching targets; together securing total public and private investment of $20 billion in the next four years to 2010 in clean and sustainable energy, energy efficiency and adaptation.

Future generations will judge us against the action we take to meet the challenge of climate change. And rightly so. We cannot afford to fail, or act in an uncoordinated and piecemeal way. Helping the international community to respond to this is an important challenge for the Bank, and would demonstrate its ability to deliver global public goods.

Global Monitoring Report: Strengthening Mutual Accountability – Aid, Trade and Governance

We welcome the report, which sets out clearly the progress that has been made on tackling poverty, and the challenges that remain. Almost all developing countries are off-track to meet at least some of the MDGs, and progress is particularly slow in Africa. More aid is essential, and it must be delivered more effectively.

We call on the Bank, other bilateral and multilateral agencies to take action, and ensure that we live up to the commitments we made in Paris on aid effectiveness last year.

A country-based approach is needed to ensure aid is deployed effectively in support of national poverty reduction priorities and in support of national systems. We support the Resources and Results Meetings, first proposed in the Africa Action Plan. We see them as a good mechanism both to determine the areas where additional resources are best spent and to identify specific actions that donors and multilaterals can take to improve their performance and coordination at the country level. Significant shifts are needed to make our aid more predictable, more joined-up, more in line with national plans and more accountable to the citizens of the countries we are assisting. We call on the Bank and UNDP to develop and discuss the concept with interested parties, including the Fund, bilateral development agencies and national governments, and then move quickly to implementation. Time is pressing, and we ask the Bank and other agencies to bring a joint paper to the next DAC/World Bank meeting on 22 June. We urge that this paper include a commitment to hold regular Resources and Results meetings in all countries that wish to have them.

Further work is needed on aid allocations. Developing countries need to know what each donor is planning to enable them to use the aid more effectively. We see an urgent need for donors to give more emphasis to assisting the poorest countries, including fragile states. We cannot turn our backs on poor people who live in poorly governed countries. The challenges are greater, but that is why we need to engage, and devote our resources, including our best staff, to helping tackle poverty there. The Bank has an important role to play. We believe that the aid allocation systems used by development agencies and international institutions would be an important theme for next year’s Global Monitoring Report.

Education

The international community has committed itself to providing primary schooling to all children. That promise of education is a promise to every child, no matter where they live. The UK recognises that this requires a new type of commitment to long-term predictable financing. Earlier this month in Mozambique we announced a new UK commitment to education: $15 billion over the next 10 years to support developing countries’ own ambitious 10 year plans to get every child into school. We urge other donors and development institutions to make similar commitments to increased and long-term resources
for education, so that developing countries can fully finance their education plans over the long-term. The financing gap in the Fast Track Initiative needs to be filled urgently, and it must include more countries if we are to reach the MDG on universal access. For our part, the UK has announced a further $170 million over the next two years, as a down payment to help fill the gap. We call on the Bank to provide an update on education funding, the sustainability and quality of government spending, suitable ways of scaling-up donor financing, the impact of user fees, and public expenditure management.

Health

We note, with concern, the problems identified in the Global Monitoring Report in relation to the health sector. The Bank has an important role to play in strengthening health systems and addressing financing issues which currently constrain successful scaling-up of health and HIV/AIDS interventions. We look forward to the Bank presenting its new health strategy which must cover these issues.

Conditionality

Many of us have been grappling to find the right conditionality to apply to our assistance. In our view, there needs to be a new approach between donors and developing countries that strengthens mutual accountability and makes our assistance more predictable. The UK will base its decisions on assistance on shared commitments to poverty reduction, respect for human rights and international obligations, and strengthening accountability, including fighting corruption. Last year, the Bank reviewed its own approach to conditionality, resulting in five good practice principles being endorsed at the Annual Meetings. These emphasise country ownership, as well as limiting conditions to those that are critical for the success of the programmes. We place great importance on Bank management ensuring that conditions are not used to impose particular economic policies on countries. We look forward to the report back on how Bank management has ensured that the good practice principles have been consistently applied across countries.

Governance

We welcome the focus of this year’s report on governance. It is critical for development and achieving the MDGs, and an essential element of the compact between developing countries, developed countries and international institutions. Only countries themselves – led by their own people and governments – can make the decisive changes that are needed. State building cannot be imposed, and models cannot simply be transferred from one country to another; they must evolve over time as part of political debate.

However, donors can help the process of creating more effective states – states that are responsive to the wishes and needs of the people, where actions can be scrutinised and decision makers held to account; states that can provide security, carry out policy and provide services. And it is vital that we assist.

The proposed framework for monitoring provides a practical and useful starting point, and we would like to see the Bank develop it further to include aspects such as the extent to which the state responds to the wishes of the people, particularly the poor.

We strongly support the message in the report that corruption is an outcome of poor governance, and caused by a number of failures of national and global systems. We all agree that it should not be tolerated. But our work on tackling corruption needs to get better at addressing the failures, and connect better with the people who have the power and motivation to do something about it.

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Corruption deprives poor people of education, health care, proper infrastructure and water, and makes people across the globe cynical about development and aid. The international community – governments, international institutions and the public and private sector – must work collaboratively and take a firm line on the need to tackle and prevent corruption. This has to move beyond the current practice, highlighted by the report, of “ad hoc reactions to instances of corruption”. It must not equate to doing nothing in poor countries where corruption is an issue. Instead, we must find more effective ways of engaging.

We therefore call on the Bank to develop a framework for assisting developing countries with their long-term efforts to improve governance, and tackle corruption where it needs addressing. The approach must be, and must be seen to be, consistent and fair across all of the Bank’s partner countries. The framework will need to include how we can ensure that aid is used for the purpose for which it is intended. This will include having strong, independent units to detect and investigate fraud, which are appropriately separate from those who design programmes of assistance. It also needs to set out how to strengthen national financial and accountability systems more effectively, and how to address the corruption that comes from beyond national borders, including strengthening global initiatives, such as the Extractive Industries Transparency Initiative (EITI) and looking for ways to extend EITI principles to other sectors. We ask the Bank to consult widely in taking forward this work, in recognition that addressing governance failures will require action from all parts of the international community, not only from developing countries. It is essential that the framework commands broad support.

Debt

We welcome the excellent progress that the international community has made in cancelling the debts of the poorest countries over the last year. The Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) have enormous potential to free countries from their debt burdens and allow them to invest in services and infrastructure and to make progress towards the MDGs. For too long, countries have been forced to choose between servicing debt and tackling poverty. We remain completely committed to the full implementation and financing of the HIPC Initiative. We welcome the work that the Bank and the Fund have done in identifying further countries that are potentially eligible for the HIPC Initiative as a result of the extension of the sunset clause. We look forward to seeing those countries who wish to do so making progress through the initiative. In order to ensure that all potentially eligible countries are able to benefit from debt relief we support removal of the sunset clause deadline. Their debt problems will need concerted action across all creditors, and if they commit themselves to poverty reduction, we cannot allow their opportunity to disappear at the end of this year. The UK will play its full part, using our bilateral programmes to assist countries to make progress, and providing continued financing to the HIPC Trust Fund. We also join others in encouraging creditors outside of HIPC to play their part and offer their share of debt relief to qualifying countries.

We strongly welcome the progress that the IMF has made in implementing the Multilateral Debt Relief Initiative. In January, 19 countries received irrevocable debt cancellation from the IMF. We look forward to the World Bank and African Development Bank implementing the Initiative very soon. We remain fully committed to ensuring that the financing capacity of the international financial institutions is preserved. For our part the UK will provide Instruments of Commitment to cover the full duration of the cancelled loans. We urge other donors to provide strong commitments to the World Bank to maintain the financing capacity of IDA, and ensure that the resources provided through debt relief are truly additional.

The UK attaches great importance to extending multilateral debt relief to all of the poorest countries, and we will therefore continue to pay our share of the debt service owed to the World Bank and
African Development Bank by other low-income countries that meet criteria for ensuring that the debt service savings are used for poverty reduction.

Debt relief is a partnership, whose full value is realised only if the savings are spent well. Debt cancellation provides long-term, predictable financing that can be used, for example, to cover the recurrent costs in providing basic services to poor people or to maintain and develop infrastructure. In some countries, we have seen debt relief being used to build schools and employ nurses. Most recently, Zambia has committed to using the savings from debt relief to abolish health user fees in rural areas.

We also share a common interest in ensuring that countries that have benefited from debt relief do not immediately reaccumulate debt levels that could become unsustainable. The forward-looking debt sustainability framework is a powerful tool to address debt sustainability in low-income countries. The primary responsibility for borrowing lies with the borrowing country itself and we urge the Bank and the Fund to continue to support countries in developing their debt management capacity. At the same time it is critical that creditors lend responsibly. Creditors, including export credit agencies, should take account of the fragile financial condition of these countries in order to exercise the restraint in lending that is necessary. We urge the Bank and the Fund to be pro-active in facilitating and supporting stronger creditor coordination.

Fiscal Policy for Growth and Development

Economic growth is a necessary, but not sufficient, condition for poverty reduction. While macroeconomic stability is indispensable for growth, this must be balanced with the need for public investment in services and infrastructure. We need to ensure that countries are not unnecessarily constrained in their spending and so delay progress on poverty reduction.

The private sector has a critical role to play, and we welcome the emphasis on how governments can encourage private sector growth. We welcome the work the Bank has done on developing a framework to assist countries in making decisions about their spending, and we call on them to work closely with the Fund in taking this work forward in their dialogue with countries. We look forward to the Bank’s full report in early 2007.

The Doha Development Agenda and Aid for Trade

Trade is an engine of economic growth and poverty reduction. It is vital that developing countries are able to make the most of the opportunities that trade provides. Greater market access is essential, and there is no substitute for a successful outcome to the Doha Development Round. To deliver for the poor, it will need to include substantial reductions in trade-distorting agricultural domestic support and the elimination of all forms of agricultural export subsidies as well as significant increases in access for developing countries, and effective special and differential treatment across all agreements. We believe that developing countries should have the flexibility to decide, plan and sequence trade reforms within their own plans for development and poverty reduction.

But greater market access alone will not be sufficient. We call on the donors to provide additional assistance to countries to enable them to build their infrastructure and capacity to trade, ease the costs of adjustment, and to maximise the potential benefits of the Doha Round. Effective delivery mechanisms for Aid for Trade need to be put in place in 2006. So we welcome the work of the Task Forces on the Integrated Framework and Aid for Trade. The UK will increase its trade-related assistance to £100 million a year by 2010. We look to the Bank and the Fund’s proposals for what more they can do to support countries to reap the benefits of trade at the Annual Meetings.
Private sector growth is essential for tackling poverty, and it is clear that in many countries higher rates of growth are needed to achieve the MDGs. Nowhere is that more true than in Africa. To date, Africa has made great progress in improving the business environment, but more action is needed to take full advantage of the opening up of global trade markets and to promote domestic private sector growth. The Investment Climate Facility is an innovative partnership between NEPAD, the business community, donors and the IFIs. It will help make Africa a better place to do business. It will help countries adopt more business-friendly policies, and more appropriate laws and regulations, and strengthen the institutions that administer them. The UK will contribute $30 million to the Facility and we urge the World Bank and others also to provide funding. We are pleased that three private companies are contributing, and we hope that others will follow their lead.

**Bank-Fund Collaboration**

We note the creation of the External Review Committee to review various aspects of Bank-Fund collaboration, and we look forward to considering its findings and recommendations at our next meeting. For the Bank and Fund to give countries the support they need it is essential that, between them, they ensure comprehensive coverage of all issues critical to the MDGs. We hope the Committee will reflect this in its work.

**Conclusion**

We all need to agree to change the ways we act by prioritising the fulfillment of our commitments to eradicate poverty. With renewed determination and energy, we can together achieve our goals, and make poverty history.

**Statement by Mr. Paul Antoine Bohoun Bouabré, Minister of Planning and Development, Republic of Côte d'Ivoire**

On behalf of the 24 countries of my constituency, I would like to begin by extending warm congratulations to Mr. Alberto Carrasquilla, Minister of Finance and Public Credit of Colombia, on his appointment as Chairman of our Committee. I am also pleased to extend congratulations to Mr. Kiyoshi Kodera, the newly-appointed Executive Secretary of our Committee. I wish them both success in their new positions.

My statement will focus on items 1 and 2 appearing on the agenda for discussion.

**Clean Energy and Development: Towards an Investment Framework**

The Clean Energy and Development Report, which was prepared at the express request of the September 2005 Development Committee, addresses three main interlocking topics, namely: (i) clean energy for development; (ii) climate change; and (iii) financing options.

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15 On behalf of 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 e Principe, Senegal, Togo, and Somalia (informally)
With regard to the first topic, we must first recognize that energy is an essential component of the development process. In order to enhance the productivity, competitiveness, and growth of their economies, developing countries must have access to energy supply services that are modern, clean, reliable, and affordable. To this end, massive investment must be made in energy infrastructure. Investment of such a magnitude is well beyond the capacity of public resources, the only source currently available. The resulting shortfall could be supplemented by capital from the private sector, whose involvement calls for reform of the policies and regulatory frameworks of the energy sector aimed at improved efficiency of energy generation sources and more rational use of this resource.

With regard to the second topic, the international community must reach a consensus on the principle that increased greenhouse gas emissions, resulting from the unrestricted use of energy, produces negative effects on health, the environment, and economic growth. Consequently, the international community must take steps to adapt to the effects of climate change. These steps are costly and call for a substantial financial outlay. In this regard, we endorse the suggestion made in the report that these financing costs should be waived for countries around the world that are repeatedly hit by drought and famine. Of the three sources of financing suggested in the report, carbon trade seems to us to be the most likely to generate the funds necessary to reduce the greenhouse gas emissions. For this reason, we support this concept and the need to develop this market. In this context, we would very much like the uncertainly surrounding efforts to reduce greenhouse gases beyond 2012, the deadline set by the Kyoto Protocol, to be lifted. Lastly, we also call on the international community to facilitate the transfer of adaptation technologies that have already been tested, particularly in the areas of agricultural resource management and water.

Insofar as the last topic is concerned, our countries are making an appeal for additional aid as well as flexibility from the standpoint of access to and use of this aid. Overall, we support the two-pronged approach suggested in the report. Subsequent phases should involve institutions and governments of beneficiary countries, particularly in Africa, where energy concerns and climate change can be better addressed within a framework of regional integration processes.

**Strengthening mutual accountability – aid, trade, and governance**

I am pleased that a sizeable section of the Global Monitoring Report 2006 is devoted to the topic of governance. At this juncture, it should be underscored that our countries, together with their development partners, are in agreement with the principles of good governance. The progress noted in recent years, within the framework of NEPAD and bilateral dialogue between our countries and partners, attest to this resolve. By way of example, a review of public expenditure and budgetary allocations targeting achievement of the Millennium Development Goals (MDGs) is now a part of the regular process for monitoring implementation of the poverty reduction strategy adopted in many of our countries. Furthermore, a growing number of mineral exporting countries are voluntarily following such initiatives as the Extractive Industries Transparency Initiative (EITI) and the Kimberly Process, the purpose of which is to improve the management of natural resources.

We welcome the initiative taken by the Bretton Woods Institutions to implement a framework that permits various actors – leaders, oversight and checks and balances institutions, public administration, economic agents, and the citizenry – to interact within an integrated national system in order to ensure better monitoring of governance. We also welcome the efforts of the Bretton Woods institutions aimed at identifying better indicators to measure progress in this area.

It should be noted that no indicator by itself can conclusively establish a cause and effect relationship between progress in the area of governance and sustainable growth. Moreover, the results
obtained depend in large measure on initial conditions and the special circumstances prevailing in the country in question at the time of the evaluation. We are therefore convinced that good governance is a key component of economic development. While supporting the research efforts of the Bretton Woods institutions aimed at implementing an appropriate framework for analysis and assessment and for the relevant indicators for measuring progress, we recommend that the countries receive significant financial assistance, with a view to implementing national anti-corruption policies and strategies. However, governance considerations should not pose an obstacle to the transfer of resources to our countries.

We appreciate the quality and objectivity of the analysis contained in the monitoring report on progress toward achievement of the Millennium Development Goals. Although economic growth in Sub-Saharan Africa has exceeded 5 percent on average over the last three years, performance from one country to another has been uneven, and this region of the world is considerably lagging other regions insofar as the MDGs are concerned. To reverse this trend, African countries are determined to adopt the appropriate policies and to deepen macroeconomic, structural, and governance reforms. In particular, they are seeking to strength the gains made, through the implementation of poverty reduction strategies. In this regard, our countries are striving to improve the investment climate, with the hope of directing private capital (foreign and local) toward financing the transport, energy, telecommunications infrastructure and the social sectors.

In our view, honoring the commitments made by our development partners with respect to an increase in aid is an essential component of their contribution to the mutual accountability obligation. Admittedly, noteworthy progress has been made in this area and new commitments have been made regarding debt relief for heavily indebted poor countries (HIPC). In this context, almost 50 billion dollars has been pledged for developing countries, half of which could be allocated to Sub-Saharan Africa. However, our countries are concerned over the uncertainty that continues to cloud fulfillment of these commitments within the timeframes established. Should these concerns persist, the chances of achievement by Sub-Saharan Africa of the Millennium Development Goals by 2015 will be jeopardized. For this reason, we are launching an urgent appeal for the disbursement schedule to be respected so that financing can reach beneficiaries in a timely manner. The partners should also try to make aid disbursement procedures as flexible as possible and strengthen harmonization and alignment of aid, bearing in mind the MDGs.

Lastly, our countries view trade as an engine of development. They therefore support the principle of more rapid liberalization of international trade with a view to increasing their competitiveness through the elimination of tariff barriers and the building of capacity. In this regard, our countries echo the call by developing countries as a whole for greater commitment by developed countries to a rapid, satisfactory, and productive conclusion to the multilateral trade negotiations in the context of the Doha round. We also call for a quickening of the pace of implementation of the Aid for Trade initiative, given that liberalization that is unaccompanied by capacity-building and financing of the costs associated with the transition process runs the risk of failure, something that should be avoided at all costs.

To conclude, I would like to make a comment regarding the Heavily Indebted Poor Countries (HIPC) Initiative, the sunset clause for which is currently December 31, 2006. In this regard, I would like to underscore that our countries view this initiative as one of the key mechanisms for permitting development partners to assist low-income countries to control the crises with which they are faced. To the extent that financial imbalances persist, we think that this Initiative should be extended beyond December 2006. Failing this, ample flexibility should be accorded to the participating institutions to continue to provide appropriate assistance, beyond December 31, 2006, to countries where the need may exist. In this regard, we agree with the proposal to update the list of potential beneficiaries. Lastly, we have no objection to the voluntary withdrawal by a potential beneficiary of participation in the Initiative.
Statement by Mr. Thierry Breton, Minister of the Economy, Finance and Industry

As in 2004 and 2005, the Global Monitoring Report stresses the need for continuous commitment: we will not achieve the Millennium Development Goals (MDG) at the current pace. All the same, this report does not inspire either cynicism or pessimism so much as the wish to do better. These goals guide our work and strengthen our resolve to act.

Their effectiveness became clear during the past year. The multilateral debt of the Heavily Indebted Poor Countries was cancelled. The European Union (EU) took ambitious official development assistance (ODA) commitments. In 2010, we will collectively earmark 0.56% of our resources to poor countries. If all OECD countries meet the commitments taken in 2005, ODA should increase by 63% between 2004 and 2010. The first results were observed in 2005. According to the figures of the OECD's DAC, official development assistance in 2005 was up by 31.4% to a record $106 billion from 2004.

Commitments need to make way for concrete results. This requires humility and follow-up rather than imagination but results are all that matters. This Development Committee needs to be placed under the banner of implementation.

I am thinking first of all of implementation of the multilateral debt cancellation process. Heavily Indebted Poor Countries which passed the completion point stopped servicing their debt to the IMF on January 1st. They are expected to stop paying the IDA on July 1st. They will also benefit from the same mechanism in the African Development Fund.

Nevertheless, we have only accomplished the easiest part. Writing-off assets from the balance sheet only raises legal problems. But compensating IDA and the ADF for lost resources raises financial issues. One could consider that the poor countries have already reaped all the benefits of the debt cancellation and that compensation would merely aim at preserving the balance sheet of international financial institutions.

This is shortsighted. The final goal of the compensation paid by donors for forgone reflo ws is not to keep the World Bank and the African Development Bank on a sound financial footing. This is merely an intermediate objective. We must ensure the additionality of the initiative if we want IDA and the ADF to remain active in poor countries. Even if we only compensate for cancelled debt without increasing replenishments’ levels, IDA may have to withdraw from, for instance, Bolivia, Guinea, Gambia and Togo by 2012. IDA would have stopped funding Somalia and the Central African Republic three years before.

Thus, poor countries will not fully benefit from debt cancellation unless we compensate forgone reflo ws. In December 2005, the French Parliament approved the appropriations needed to repay the French share of the cancelled debt over the first ten years. I have written to the Presidents of the World Bank and the African Development Bank to state our intention to compensate their institutions for their lost revenues falling due after the first ten years. We have demonstrated our commitment, financially, to debt cancellation. Now we are calling on other donors to do the same.

Multilateral debt cancellation does not eliminate the threat of debt crises once and for all. Multilateral debt cancellations create new borrowing opportunities to finance the development of poor countries and to achieve the Millennium Development Goals (MDG). This is a welcome situation since the G8 initiative was designed in order to help raising additional development resources. The risks

16 OECD figures
stemming from these new circumstances need to be assessed, since new borrowing margins can result in the accumulation of excessive debt if past errors on the part of both creditors and borrowers are repeated.

Preventing a new debt crisis will require collective discipline from both the lenders and the borrowers. Long term sustainability of debt continues to be undermined by the non-cooperative behavior of certain creditors, who take advantage of the new borrowing capacities of poor countries to make new non-concessional loans. If such behavior were to become common practice, the benefits of past debt relief policies would be seriously jeopardized. In the end, this would spur general skepticism on the legitimacy of such policies among the public.

This is why France supports reflections by multilateral institutions to adapt their operational instruments in poor countries in order to prevent and as necessary punish free-riding. In our capacity as bilateral lenders, it is essential to improve coordination of our policies in order to give clear priority to providing concessional resources on the basis of the debt sustainability framework developed by the IMF and the World Bank. The OECD and the Paris Club are the natural fora for this debate, which could be extended to the G20.

The second aspect of implementation is international trade. The Doha round is a development round, even if negotiations are not yet finalized. We believe that it needs to be ambitious, balanced, and especially to benefit the poorest and weakest countries.

Much has already been done to promote development in the negotiations. The Hong-Kong Ministerial Conference allowed the Least Developed Countries to gain access without quotas or tariffs to the developed markets for 97% of their products. I am calling upon the major emerging countries to rally behind this initiative. Cotton export subsidies will be eliminated this year and we already know that cotton production aid will be reduced more rapidly and more ambitiously than support for other products.

Lastly, some of us are committed to “aid for trade” and enhancement of the Integrated Framework for Trade-Related Assistance to the Least Developed Countries. Even if such assistance cannot be a substitute for an ambitious agreement, it is essential to ensure this round keeps its promises. Some of the poorest countries will confront erosion of trade preferences, rising food import prices and waning customs revenues. All of us must pay close attention to their needs and their messages.

Much remains to be done to implement our commitments under this round. I am looking forward to concluding the final terms of a trade agreement, which I hope to occur before the end of the year. We also need to implement our “aid for trade” commitments and the special and differentiated treatment mechanisms within the WTO framework. They benefit all developing countries.

The progress report of the World Bank and the IMF on fiscal space expresses the same concern on implementation. In 2005 we agreed to scale-up our aid. These external resources will have an impact on the economy of poor countries. They will make it possible to finance new services to poor people and new infrastructures. They may also drive up the real exchange rate, fuel inflation, and so on.

This is why we are looking forward to the final report in the expectation that it includes operational recommendations allowing recipient countries to make the best use of our aid. This calls for a new macroeconomic concept, innovative aid management conditions and technical assistance to optimize spending.

Obviously, I am assuming that the assistance flows promised in 2005 will materialize. The Global Monitoring Report is also based on this assumption and reviews the ways and means to secure additional
resources. In my opinion, scrupulous follow-up of our financial commitments, as provided by the DAC, is the best way to achieve this objective.

Moreover, it is possible and necessary to make aid more predictable. From experience we know that investment appropriations and official development assistance are the first to be cut during periods of fiscal consolidation. Their volatility is hardly compatible with the financing of the social programs needed by the poorest. This is why we believe that an international solidarity levy will have considerable value added in the aid community. Such a levy would protect revenues and so offer genuine financial visibility.

The Conference on Innovative Development Financing Mechanisms held on March 1st in Paris at the invitation of the President of the French Republic showed that this idea is beginning to take shape. Fourteen countries expressed the intention to establish such a levy. Forty-one countries joined the pilot group set up to review the technical aspects of the mechanism. On July 1st, France will start collecting an international air-ticket contribution. We are expecting revenue of several hundred million euros, which will be entirely earmarked for official development assistance. France also contributes to one-quarter of the International Finance Facility for Immunization (IFFIm), foreseen to become operational in 2006. According to the WHO, this ten-year program of $4 billion would prevent the death of more than 5 million children up to 2015.

In my opinion, this project owes its success primarily to the fact that it satisfies the need for stable and predictable resources. The same phenomenon explains the success of vertical funds.

I understand the theoretical criticisms leveled against such funds in the Global Monitoring Report, but the aid sector is not landscaped like a classical French garden. While the emergence of vertical funds triggers additional management and transaction costs, they cater to the health financing needs of poor countries. They were created because they are able to raise more funds than traditional donors, notably thanks to the modern and inclusive governance methods they offer. In 2004, contributions to the Global Fund soared by 64%, compared with a 7% increase for ODA in the health sector.

The countless trust funds hosted by each multilateral institutions seem to raise more harmonization and governance problems than these few vertical funds. In my opinion, the Global Monitoring Report overestimates their impact on harmonization. Aid harmonization is not synonymous with a monopoly on the supply of aid. On the contrary, competition between lenders can be a source of creativity. Harmonization must rather take place at the recipient country level. Donors need to include their activities in poverty reduction strategy papers (PRSP). Like all other funds, vertical funds need to abide by this discipline. The diversity of official development assistance is a strong reality which is only marginally aggravated by vertical funds. The benefits resulting from additional financing raised by these new institutions far outweigh the inconveniences.

In the light of this situation, the World Bank has to be more specific on the needs that are to be addressed by the financial mechanisms proposed in the Clean Energy and Development Report. This analysis must obviously take into account existing instruments, especially the Global Environment Facility (GEF), an instrument designed to rationalize global environment and whose mandate largely covers the areas of application of the proposed financial facilities.

The GEF’s fourth replenishment round is facing obstacles. France hopes to remove them rapidly and expects an ambitious replenishment. We can draw lessons to remind us that we need to exercise great caution in creating new instruments as they could overlap with an existing mechanism which receives our full support and could be weaken or encounter the same difficulties during financial negotiations.
France’s questions on the proposed options do not lessen the relevance of the World Bank's suggestions to mitigate and adapt the consequences of climate change. I particularly share the two underlying considerations of the Bank's diagnosis. First, it concludes that it is necessary to develop new technologies, even if not yet commercially and financially viable. Secondly, it stresses the need for a stable and stimulating legal and institutional framework at both national and international level which ensures sustainable long-term investment. Within the framework of its primary mandate to reduce poverty, and as part of its dialogue with the borrowing countries, the World Bank could promote an institutional framework favorable to investment in clean energy.

The World Bank's analysis must first of all reflect the fact that climate change is not just a energy issue but also a development matter. Energy-related issues are particularly important for the poorest. Not only do they cover the question of adaptation - which the Bank has taken the laudable initiative to examine - but also the critical issue of access to energy. The concentration of risks in emerging countries calls for separate treatment of their special situation without losing sight of the development aspects of energy and environmental issues for the poorest countries, particularly in Africa. Access to energy and the introduction of clean energy in the global strategy against poverty are vital issues.

To maximize the benefits of the foregoing initiatives, developing countries need capable and honest governments. The discussion of governance in the second half of the Global Monitoring Report seems relevant, especially because of the report's highly balanced approach to this issue. The report stresses the difficulty of measuring governance, particularly through aggregate indicators. More specific indicators, such as the PEFA, constitute the best groundwork to develop a governance policy.

The general concept of governance is difficult to define in clear terms. There is therefore no absolute and undisputable benchmark. This is why every decision based on measurement of governance must reflect a trend rather than an absolute value. It is difficult to compare the institutional quality of countries. Each country has its own internal regulation modalities, its own governance model. All the same, it is legitimate to measure the governance trend of a given country year after year with the same tool. Such trend-based analyses produce methodologically sounder decisions.

Moreover, as stressed in the Global Monitoring Report, there is no unique path to good governance. Every country can move towards greater transparency and stronger rule of law based on its own institutions, history and culture.

Addressing corruption is a critical issue and the shared responsibility of developed and developing countries. In the spirit of the principle of mutual accountability and building on the sense of partnership developed since Monterrey, we should join our efforts to promote good governance and, in this context, fight against corruption. To this end, the international community has already defined operational instruments. Let me mention, among other instruments, the United Nations Convention against corruption usually referred as the Merida convention. This Convention, inspired by high level national standards, is a landmark which sets principles and operational tools to address corruption. France, along with the United Kingdom, was the first G7 country to ratify the Merida convention. We are calling upon all countries which have not yet ratified this convention to do so as soon as possible and we invite them to ensure its concrete implementation.

Fighting against corruption cannot rely on ad hoc measures. Within the World Bank, addressing corruption requires setting up a strategy. It should be designed on the basis of the work that has been done over the past decade in the Bank. A broad and open dialogue within an agreed framework should be the key rule of the elaboration process. I would expect the result of our work to be transparent and widely publicized.
Our strategy must be anchored to the principles of consistency, proportionality, and equity of treatment across countries. Moreover, we should not address the issue of corruption in isolation from the main goals of the World Bank namely poverty reduction.

As far as the implementation of the strategy is concerned, all problems will not be solved in one day. This is why I believe that the World Bank should be fully and continuously engaged in its partner countries. Halting a project is possible but should be the last resort. Zero tolerance does not mean zero action. Of course, the World Bank needs to adapt its operation modalities to the institutional context in which it operates, and to help countries to face their difficulties.

2005 was the year of multilateral debt cancellation, of the Paris Declaration on Aid Effectiveness, of the Millennium +5 Summit, and of the launch of the IFFIm and the international solidarity levy. Considerable progress was made. Resources for development in the years ahead will significantly increase.

France believes that the World Bank's support for this collective effort is of decisive importance. The Bank is at the core of the multilateral system and therefore has a particular responsibility for coordination and cooperation with all bilateral and multilateral partners. We want it to continue exercising this responsibility.

Now is the time for implementation, for realism. There are projects to be completed, measures to be implemented. There is no more time to invent new aid paradigms. Let’s implement our commitments, let’s harmonize our programs, then we would be closer to reaching our Millennium Development Goals.

Statement by Mr. A. K. Jha, Secretary, Economic Affairs, India

The World Economic Outlook of the IMF has projected that global growth prospects have significantly improved and that the 2006 world GDP growth will be of the same order as the previous year. This is heartening to note, particularly because growth is becoming more diversified with evidence of recovery in Japan and in the Euro area. However, there are some downside risks to global growth, emanating from higher oil prices, persistent global current account imbalances, protectionist tendencies, signs of a tightening phase of the liquidity cycle, and the threat from Avian Flu. There is also asymmetry in risks distribution, with more risks in the developed economies than in the emerging economies.

Higher oil prices are impacting all, but developing countries are more vulnerable. In many emerging markets, especially in Asia, this has manifested itself in higher current account deficits and balance of payments pressures, increased public debt and rising interest rates and inflation, adversely affecting public investment and poverty reduction. A sustained escalation of global energy prices would have a serious impact on the welfare for a large number of oil-importing developing countries, which may suffer from negative resource flows. To illustrate, in 2005, while the net ODA was US$ 106 billion, the outflow from the developing countries on account of higher oil prices was an additional US$130 billion. If this trend continues, oil importing developing countries may face an uphill task in attaining the Millennium Development Goals (MDGs).

17 Representing the constituency of Bangladesh, Bhutan, India and Sri Lanka.
Global Monitoring Report (GMR) – MDG and Aid

We have noted the progress in achieving the poverty MDG reported in the GMR and believe that the expectation of continued strong growth is a cause for further optimism. However, even here the progress is uneven, while it is likely to be faster in East Asia & Pacific and South Asia, there are clear indications of slippages in Sub-Saharan Africa. The other matter of concern is the slow progress in achieving the seven MDGs relating to human development.

This highlights the urgent need for the Multilateral Development Banks (MDBs) to work closely with the developing countries. As the GMR points out based on the principle of mutual accountability, the developing countries, IFIs and donors, all need to partner effectively and predictably, if we are to achieve the MDGs in the limited time available.

We agree that better policies in the social sector are essential for achieving the human development MDGs. This is the part of the international compact on MDGs that the developing countries have to deliver. However, the mutual accountability framework is also about scaling up and changing the way in which development business is done. Donors and the international financial institutions must increase aid flows, improve aid quality, and better align their support with country strategies and systems. Donors also need to open up their markets to the developing world. This is where developed countries have to deliver.

While we welcome the new aid commitments, the decline in lending through the concessional and non-concessional windows of the MDBs in 2005 is a source of concern. Based on our development experience, it has been our consistent preference that increasing amounts of development assistance be routed through the multilateral agencies. We believe this is the best way to achieve flexibility, harmonization, and selectivity in aid – the three elements identified by the GMR for enhancing the quality and composition of aid. While we also welcome the ongoing efforts of the various multilateral agencies toward greater alignment with country systems, we also hope that this effort would receive clear and unequivocal support from the top management of these agencies. Ultimately, successful alignment with particular country systems is the best solution to sustainable development and scaling-up of investments.

Official Development Assistance (ODA) levels have to increase to support the efforts of developing countries in achieving their MDGs. GMR clearly indicates that annual increases in ODA will have to accelerate from an average of just under 6 per cent during 2001-04 to nearly 11 per cent over the next two years and 7 per cent through 2010 if we are to reach the target of at least 0.5 per cent by 2010 and 0.7 per cent of donor countries GNI by 2015. We also feel that the aspect of quality of aid needs urgent attention. How aid can be more flexible by moving beyond debt relief, technical cooperation, food aid, emergency aid and administrative costs; how aid can be harmonized across donors; and how aid can shift in favour of countries where the impact on MDGs is likely to be the highest. A stepping up of ODA, along with its re-engineering, is the developed countries’ part of the MDG compact. It is imperative that all parties deliver on their respective obligations.

The GMR has also emphasized the key role that basic infrastructure services – transport, electricity, water, sanitation and telephones – play in not only improving the investment climate and hence the growth performance, but also in sustained progress in human development outcomes. We cannot but agree more on this observation, but it is worrisome to note the decline in the proportion of people with access to infrastructure services in many countries, including in South Asia. The rapid progress in infrastructure facilities in absolute terms has not been able to keep pace with the growth in population. From our own experience in India, we know that this gap is usually much more for the poor and the rural population.
Multilateral Debt Relief Initiative (MDRI)

In the context of MDRI, in the last annual meeting, we had asked the Bank to prepare an interdependent package comprising especially a ‘dollar for dollar’ compensation for IDA that adds to existing commitments and maintains the financial integrity and capacity of IDA to serve the low-income countries in future. In this regard, while we welcome the report approved by the Executive Directors on financing the MDRI, we are concerned to note that a few vital issues, especially those pertaining to risks arising out of qualified nature of long term commitment by the donors and existing structural gap, still remain outstanding. We urge the donors, especially the G-8 members who initiated this proposal, to rise to their political commitment of full and firm financing of the MDRI cost so that this genuine need-based initiative frees up resources for growth in the eligible countries on a sustained basis without impairing the financial integrity and long term capacity of IDA.

HIPC

We broadly agree with the proposed list of 12 countries potentially eligible for Enhanced HIPC initiative. We also note the difficulties associated in determining Afghanistan’s eligibility and agree with the proposal to re-assess its case once the disputes are resolved. We believe that, unless accompanied with efforts to enhance solvency and liquidity to increase debt service capacity, HIPC alone cannot assure debt-sustainability regardless of the threshold. Therefore, it is equally important to address the issues of growth, enhanced export-performance, and revenue mobilization of these countries. A recently published evaluation shows that although enhanced HIPC reduced US$19 billion of debt in Completion Point (CP) HIPC countries and thereby halved their debt at CP, in 11 countries, external debt sustainability has deteriorated post-CP and again has exceeded HIPC-thresholds due to accumulation of new debts.

The enhanced HIPC Initiative also seems to have changed the composition of net transfers to all developing countries. Decision point HIPC countries now receive around 47 per cent of net transfers as compared to an average of 33 per cent in the last decade. We welcome the higher transfers to these countries, but would like to underscore that, with the addition of more countries, the composition of net transfers to decision point HIPC countries will go up further and unless supplemented by extra resources, it will divert resources away from other performing countries.

Governance and Anti-Corruption

While we welcome the focus on governance and anti-corruption in GMR 2006, we firmly believe that good governance and fighting corruption is a shared responsibility, and part of a continuous process requiring systemic checks and balances. As the GMR states, “It took many years for durable governance institutions to emerge in today’s industrial countries.” The issues of governance and corruption are vital, but they cannot replace the core of the development agenda which is the support needed by the vast multitudes of poor and downtrodden for poverty eradication, education, health and sanitation. These people with legitimate aspirations cannot be asked to wait until the fight against corruption has been won. Along with these real issues, we have to tackle all other issues including governance, quality of aid, debt relief, trade, and infrastructure. If the fight against corruption is made an end in itself, it will seriously erode the quest to achieve the MDGs.

We also have some concerns about the possible framework of governance with multiplicity of indicators as mentioned in the report. These concerns arise due to the problems in measuring governance as well as the weight given to governance (66 per cent in IDA 14) in IDA’s performance-based allocation formula. Further, we would support more work for developing objective, monitorable and actionable disaggregated governance indicators. Indicators that impart subjective judgment on governance at the aggregate level cannot be truly reflective of the ground realities and hence should not be used.
In the spirit of the sub-title of the GMR 2006 – “Strengthening Mutual Accountability,” we would urge that more work needs to be done to evolve governance indicators for developed countries. These should include the developed countries’ commitment to global development and the involvement of companies in industrial countries that perpetuate corruption in developing countries. As the GMR states, “It is worthwhile recalling that only a few years ago, foreign bribes were considered a legitimate business expenditure by many OECD countries.”

The framework in which the MDBs would operate in their quest to remove corruption and improve governance should be clearly defined. Ad hoc decisions and knee-jerk reactions to events and perceptions cannot be an institutional way of reacting to an endemic problem. The operational implications of the framework also need to be clarified especially in terms of the potential impact on the poor and the less developed regions of the world.

Fiscal Policy for Growth & Development

On the issue of fiscal compression in the current context of a high infrastructure deficit being faced by the developing countries, pursuit of the “golden rule” should allow net borrowing by the government for the purpose of financing net public investment, particularly in infrastructure, while requiring current spending to be financed out of current revenues. This will pave the way for additional borrowings by the developing countries to finance productive and cost-effective public investments, especially in infrastructure in a way that is concomitant with economic stability and debt sustainability.

Given the adverse impact of under investment in infrastructure on growth, we agree strongly with the Report’s emphasis on protecting fiscal space for infrastructure investment. This will also include focusing on ‘well-targeted public investments’, incorporating the long-term fiscal effects of expenditure decisions, including that on public debt, into policy considerations; and promoting non-government initiatives through innovative approaches. The Bank would need to play a major role in ensuring adequate investments in infrastructure by identifying suitable interventions in the entire spectrum of public-private solutions depending on local conditions and needs.

Clean Energy and Development

Climate change is an environmental issue of shared global concern. Different countries bear different levels of responsibility for increase in greenhouse gases. We are fully cognizant of the challenges posed by climate change and remain committed to the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol.

Clean energy attained through efficiency gains on both the supply and demand side would contribute to sustainable growth and development. We are glad to see that the report titled ‘Clean Energy and development: Towards an Investment Framework’ has looked into the two closely related issues of resources and technology transfer. Going forward, these issues would have to be addressed satisfactorily in a manner consistent with the global public good nature of climate change and the UNFCCC which provides the framework of ‘common but differentiated responsibilities’.

We understand that by the 2006 Annual Meetings, details of the new financing mechanisms and the operational implications for the Bank would be elaborated. The sequencing should be carefully thought through, so that introduction of new technologies is matched closely with availability of additional financing. This clean energy initiative should not result in imposition of ‘new rules of the game’ or any additional financial burden, just when a number of developing countries are poised to increase their rates of growth and lift their citizens out of poverty. We would also suggest a collaborative
R&D effort between institutions in developed and developing countries and Multilateral Financial Institutions could play a role in fostering it.

Trade

The development promise of the Doha Round is yet to be realized. After the Hong Kong Ministerial Conference ended with mixed results, we have yet another opportunity in 2006 to complete the negotiations at a high level of ambition. In this context, we would encourage the Bank to continue a role of global advocacy to lend its weight for a beneficial pro-poor outcome of the Doha Round this year. The GMR 2006 has estimated global welfare gains from full liberalization of merchandise trade at US$280 billion annually by 2015 (with US$86 billion accruing to developing countries).

While we support the Aid for Trade agenda as a means of enhancing the capacity in developing countries for realizing the gains of trade, Aid for Trade can only be a complementary approach to assist developing countries in the process of trade liberalization and not a substitute for the gains to be derived from genuine, commercially-meaningful market access for their products and services in developed countries. We believe that Aid for Trade must be disbursed through the existing mechanisms. It would also be most effective if it is integrated in the country development and poverty alleviation strategies rather than being delivered through a separate vertical fund created for this purpose.

Mr. Chairman, the cause of poverty, discrimination, and injustice in this world is because 80 per cent of the people who inhabit the earth have access to a mere 20 per cent of the global income. We had agreed on a global compact at Monterrey in 2002, and we are now reiterating similar feelings through the principle of mutual accountability. The challenge really is on how to scale up resource flows to the developing countries—and make certain that aid is used effectively toward reaching the MDGs. These two issues certainly cannot be separated. How we meet this challenge will determine the fate of humanity in the next decade.

Statement by Mr. Joseph Deiss, Federal Councillor, Federal Department of Economy, Switzerland

We are pleased to note that since the last meeting, important steps have been taken to accelerate progress towards the Millennium Development Goals (MDGs). However, persisting development challenges require developing countries, developed countries as well as International Financial Institutions to reinforce their respective commitments and strengthen their implementation efforts toward these Goals. The World Bank Group plays a unique and important role in achieving this agenda. Therefore, we call for rapid and transparent efforts toward completing its corporate transition.

Global Monitoring Report

The Global Monitoring Report’s (GMR) generally positive finding that growth is favorable and poverty reduction is accelerating is contrasted by the fact that many developing countries are off track in meeting the MDGs, particularly on the human development front. On the one hand, the developing countries need to amplify their efforts aimed at strengthening governance and implementing strong development strategies and renew their commitment to the MDGs. On the other hand, donor countries are called upon to live up to a substantial number of commitments. This involves in particular sustained

18 On behalf of Azerbaijan, Kyrgyz Republic, Poland, Serbia and Montenegro, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan
efforts in liberalizing trade and helping developing countries integrate into the global economy, providing enhanced volumes of official development assistance (ODA), and achieving further progress in rendering aid more effective. Our constituency takes this mutual accountability seriously, as the following examples illustrate. The country assistance strategy for the Kyrgyz Republic, which the country’s main development partners are preparing jointly, builds on the lessons learned about harmonization and the alignment agenda and should lead to more effective and efficient donor relations with the country. Switzerland is moving ahead with implementing trade-related reforms and intensifying its participation in budget and sector support and in joint assistance strategies, in line with the Paris Declaration on Aid Effectiveness.

Given the overall weak performance on the health-related MDGs, we welcome the mobilization of financial resources for specific health programs and goals from private and public sources. Yet, as the GMR rightly points out, there is a need to balance vertical programs against the realities of national health systems. Weak, under-financed, and under-staffed health systems can be overwhelmed by vertical initiatives, resulting in a change in national priorities, incentive systems, and coverage of other highly relevant health services. This calls for enhancing national health systems with a view to improving their absorptive capacity and overall quality. We urge the Bank to play a more active role in helping interested countries, particularly the poorest, to strengthen their health delivery systems. Moreover, global health initiatives should formally abide to the Paris Declaration by aligning themselves with national strategies. In this context, we fully concur with the GMR on the need for unified sector plans, such as the one adopted by the Kyrgyz Republic.

Governance

The report’s broad concept for including governance in MDG-monitoring is a useful and timely first step. As President Wolfowitz pointed out in his recent speech in Indonesia, there is a strong link between good governance and development; and corruption, a critical component of governance, is a particularly serious threat to development. Creating demand for government that works and builds strong and accountable institutions and systems is key in this regard. We believe that achieving better governance in different country settings requires differentiated and tailor-made measures, long-term efforts, as well as broad-based and coordinated approaches which permit sustained engagement in very difficult settings and at times of slippage in performance.

We welcome the intention to strengthen the Bank’s capacity to help countries improve governance and fight corruption. In this context, it is important to acknowledge that existing Bank rules and instruments already encompass the governance dimension, particularly in the IDA performance-based allocation system, which has served us well and needs to be abided by until formally changed. However, more can and should be done. Various options need to be evaluated and tested, such as the use of randomized audits as an effective and cost-efficient alternative as opposed or complementary to building up anti-corruption teams with a policing mandate.

Governance goes beyond corruption, as the GMR rightly underscores. We invite the Bank to frame a coherent governance strategy including corruption. This strategy must clearly show how and by which means the Bank will seek to improve governance and curb corruption. We fully support the GMR proposal of using the fourteen governance indicators. We would like to emphasize that the promotion of gender equality, the upgrading of public financial management systems, and the ratification, and particularly the implementation, of international conventions – such as the UN Convention on Corruption – are important and integral parts of any sustained effort to improve governance. Regarding the latter, we call for more effort within each national legal system towards restituting looted assets as a powerful tool to both deter and sanction corruptive behavior and to tap into an important source for funding for development. In framing and implementing its comprehensive governance strategy, the Bank should
closely collaborate with other institutions dealing with governance issues in order to avoid a wasteful duplication of effort.

*Clean Energy for Development*

We welcome that the challenges arising from the links between access to and use of energy, climate change, and development have been put on the Development Committee’s agenda. Indeed, these challenges will demand the full attention and sustained commitment of developing and developed countries alike in the years ahead. The Bank prepared an excellent report that presents a convincing analysis of a large range of issues and identifies a broad set of actions.

Action is urgently required. The undersupply of energy and the lack of efficient and reliable energy services hamper economic growth and human development. Hence, to make further in-roads to reducing poverty, we need to invest in energy that is clean and economical and to foster an environment conducive to private sector participation and efficient energy use. In this respect, the option of harnessing the potential of hydropower should be considered by the Bank and private stakeholders.

It is evident that the past and current development paths are far too carbon-intensive to be sustainable. Climate change is occurring, and, with growing greenhouse gas emissions, this process will accelerate. Most alarming from a development perspective is that climate change will have the most devastating effects on the poorest and most vulnerable countries and populations.

An important conclusion of the Bank’s report is that there is no single best solution. Indeed, there are existing technological options that provide quick and practical fixes and there are longer-term solutions that require technical leap-frogging and innovation. And so, incremental and multiple measures must be taken, based on common but differentiated responsibilities. There are a vast number of sectors, technologies, and dimensions that contribute to both the problems and the solutions, as the report points out. Most importantly, the economics of climate change need to be addressed - technology and behavioral changes must pay off. Furthermore, adaptation to climate-induced challenges must be translated into operational strategies, such as country strategies or the Africa Action Plan.

Even though various international institutions have been established to address these complex issues, we strongly concur that the Bank should play an important role in this area. But, the Bank still has to define its niche against the backdrop of its own comparative advantage and those of other international organizations and institutions. In our view, the Bank can make a unique contribution by differentiating its approach among country groups. For example, the most vulnerable low-income countries might prioritize assistance in the area of adaptation, while large middle-income countries should be assisted in developing clean energy sources to meet their growing energy needs while containing their greenhouse gas emissions. By following up on the Extractive Industries Review (EIR), the Bank should particularly promote viable pilot projects in the area of renewable energy.

The enormous investment needs in the energy sector have enticed the Bank to propose new financing vehicles. Nevertheless, we believe that it would be more useful for the Bank to first review the range of existing financing instruments and their adequacy and effectiveness before considering new vehicles. Moreover, the potential of the Global Environment Facility (GEF) should be better exploited. In this regard, all GEF shareholders have to bear the responsibility of working towards this end in the ongoing discussions on the GEF replenishment.
**Multilateral Debt Relief Initiative**

The recent Board approval of the Multilateral Debt Relief Initiative (MDRI) is a landmark decision for many of the poorest and most heavily-indebted countries. Now that we are moving into the implementation phase of the initiative, it is key to focus on ensuring its development effectiveness and preventing future accumulation of unsustainable debt. First, increased domestic revenue mobilization will need to complement debt relief, and macroeconomic stability must be safeguarded with a view to achieving sustainable long-term growth. Second, we urge governments, supported by the Bretton Woods Institutions, to make rapid and sustained progress in reforming their public finance systems in order to meet higher quality standards and assure efficient and effective use of scarce resources. We note that several countries have to tackle important weaknesses in this regard. Post debt relief monitoring plays a crucial role in ensuring transparency and accountability. We are pleased that the proposal to strengthen budget management systems, which Switzerland tabled last year, has been incorporated into the MDRI. Third, the risk of free-riding behavior needs to be mitigated. We call upon all creditors and borrowers to exercise responsibility when contracting non-concessional debt, consistent with the debt sustainability framework. Last but not least, while acknowledging the MDRI’s intention and potential, we are aware that the MDRI also represents considerable risks for IDA’s long-term financial viability, which have to be abated. Maintaining IDA’s long term financial strength should be a priority for all World Bank member states.

**Aid for Trade**

The WTO negotiations are in a critical phase which requires renewed efforts by all parties towards a balanced package with high development relevance. At the 6th Ministerial Meeting of the WTO in Hong Kong, Switzerland played an important role in facilitating the adoption of the “Duty Free Quota Free Market Access Initiative for LDC”. Trade Ministers also recognized the importance of enhancing Aid for Trade (AfT) as a mean to support the efforts of developing countries, particularly the poorest ones, to expand their trade and benefit from WTO Agreements. Switzerland welcomes the renewed interest in trade-related cooperation and supports the debate on the Aid for Trade initiative. However, Aid for Trade must not be a substitute for a successful outcome of the Doha Round in terms of development and should not be established as a compensation scheme for trade liberalization.

Switzerland recognizes the crucial role that trade-related cooperation can play as a complement to the Doha negotiations by helping developing countries seize the opportunities presented by the multilateral trading system. Consequently, since 2001, Switzerland has significantly increased its trade-related cooperation.

We also consider the Integrated Framework (IF) as a key initiative to promote the integration of trade into the national poverty reduction strategies as well as to improve coordination among donors. However, we agree that there is a need to improve the overall governance of the IF, establish a strong Secretariat and strengthen the institutional mechanisms at the national level. Those measures should help to ensure a better implementation of this initiative in the countries. We recognize the important role played by the Bank so far and would like to encourage continued strong involvement in this initiative.

**Institutional Challenges**

The GMR shows that the challenges posed by the MDG agenda are daunting for the international community and the World Bank. This requires the Bank to be in best institutional shape and to effectively utilize its unique position in the development arena and its reputation due to its highly qualified and dedicated staff. Accordingly, revisiting and adapting, where and as needed, the Bank’s organizational set up and strategic orientation would be well justified. President Wolfowitz has provided important elements
in this regard, for example through his efforts toward defining an anti-corruption strategy, which needs to be further fleshed out into a coherent approach.

We look forward to receiving a report on progress with Bank reforms at the next Development Committee meeting. We trust that Management will live up to this challenge.

Statement by Mr. James M. Flaherty, Minister of Finance for Canada

It is striking that one key theme discussed by Ministers this weekend is similar to what my own government has identified as an important domestic priority. In particular, I would highlight the Government of Canada’s commitment to strengthening its system of public governance to increase accountability. Accountability is a universal issue, transcending national boundaries. Given their mandates and relationship with their members, the Bretton Woods institutions have a strong role to play in promoting accountability and good governance.

Strengthening accountability is a shared responsibility. Donors and developing countries must work together to ensure that aid is used effectively to achieve concrete development results. Appropriate monitoring of policies is key to ensuring that we stay on track in fulfilling our commitment to achieve the Millennium Development Goals (MDGs). In recent years, we have seen a stronger collaboration between the Bank, the United Nations and the OECD in developing a broader global monitoring framework to track progress in meeting the individual MDGs. However, more can be done to improve this process.

Measuring Results

Measuring results is a key element in the development paradigm. The collection of accurate, timely, useful statistics is critical to gaining an accurate understanding of progress achieved and the challenges that remain. Timely and reliable statistics are a key input to a results agenda. As national capacity to gather and assess statistics is critical to our efforts to monitor progress towards the MDGs, we must continue to support the Bank’s Statistical Capacity Building Program.

As part of Canada’s approach to development, the Canadian International Development Agency and Statistics Canada are working more closely together to help developing countries strengthen statistical systems, institutional capacity and planning. The strength of individual countries’ statistical agencies should be regularly assessed and supported by increased technical assistance. Given its importance in monitoring progress towards the MDGs, we would like to see countries’ statistical capacity routinely appraised in the context of Country Assistance Strategies.

Reaching the MDGs – A Shared Responsibility

By any measure, we are still too far from reaching the Millennium Development Goals (MDGs) in too many parts of the world. We are encouraged that significant progress is being made in aggregate, due in part to the relatively favorable economic environment. However, we are concerned that progress has been uneven across countries and regions, with many being left behind, particularly in Sub-Saharan Africa. In the relatively short period remaining until 2015, it is clear that we need to strengthen our efforts to ensure that the promise of the MDGs translates into reality for the world’s poorest citizens.

19 On behalf of Antigua and Barbuda, Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines
Canada is strongly committed to working in partnership with developed and developing countries, in an environment of mutual accountability, to reach the MDGs by the 2015 target.

Reaching the MDGs will require greater efforts by developed countries to increase aid effectiveness, and to ensure that aid is delivered in ways that support strengthening developing countries’ governance structures. It will also require efforts on the part of developing countries to strengthen governance and accountability, to manage their economies more effectively, and to follow through on national poverty reduction strategies.

Ireland has also made strides in ensuring its aid dollars work better. Ireland has set a target of increasing its international assistance to 0.5 per cent of GNP by 2007 and to 0.7 per cent of GNP in 2012. It is well on track to meeting these targets, with assistance projected to reach 0.47 per cent of GNP in 2006. In Ireland, the increase in aid of over 24 per cent in 2006 is the largest additional amount of funding that has ever been provided in any one year. Ireland’s ODA budget has more than quadrupled over the last decade, rising from 0.30 per cent of GNP in 1996 to 0.47 per cent in 2006.

Canada and Ireland both supported the Multilateral Debt Relief Initiative (MDRI), which has been implemented at the IMF and is being implemented at the International Development Association and the African Development Fund. We are committed to maintaining the financing capacities of these institutions. Ireland will address this by paying its entire share of the MDRI in 2006. Canada has already paid its share of the IMF’s costs. It will be critical to ensure that this debt relief frees up fiscal space for important investments in areas such as health and education. In this context, we will want to ensure that the MDRI and the associated Debt Sustainability Framework do not lead to any adverse impacts on the flow of transfers to developing countries.

We need to ensure that this assistance is used effectively, and that any increase in aid resources translates into a commensurate increase in poverty reduction. Mutual accountability between donors and recipients is critical to promote the partnership spirit from the Monterrey Consensus. Developing countries must improve their performance to attract financial support, through both ODA and private sector investment, and to improve their domestic resource mobilization. For their part, donors need to do a much better job of supporting developing country ownership of poverty reduction strategies, aligning assistance to developing country priorities and coordinating assistance efforts with recipient countries and with each other. The 2005 Paris Declaration on Aid Effectiveness lays out a practical, action-orientated roadmap to improve the quality of aid and its impact on development. At the international level, it constitutes a mechanism through which donors and recipients of aid are held mutually accountable for meeting partnership commitments. At the country level, the Paris Declaration encourages donors and partners to jointly assess their mutual progress in implementing agreed commitments on aid effectiveness.

I would also reaffirm the importance of more concentrated efforts within the context of the WTO Doha Development Round to ensure that developing countries gain market access, which is key to achieving the economic growth required to meet the MDGs. Since the launch of the Round in 2001, serious challenges have arisen and important milestones have been missed. Clearly we need to make significant progress on these negotiations to realise the promise of the ‘Doha Development Round’ and reap its benefits. We need to work collectively to reach our goal of achieving substantive reductions in tariffs and agriculture subsidies by the end of the year. We expect the IMF and World Bank to strengthen their engagement under the “Aid for Trade” agenda as a necessary and complementary element to help countries benefit from further trade liberalization.
The Challenge of Governance

The composition of the Bank’s lending portfolio has been shifting over the last decade, with a greater focus on those countries with a proven commitment to use assistance effectively. We know that strong policy environments, institutions, and governance are essential for aid effectiveness. Countries with strong performance can absorb higher levels of aid and are likely to be more effective in converting aid into economic growth and poverty reduction.

Providing effective development support to countries with poor governance records remains a key challenge for the World Bank. The Bank has identified corruption as one of the single greatest obstacles to economic and social development. It undermines development by distorting the rule of law and weakening the institutional foundation on which economic growth depends. The harmful effects of corruption are especially severe on the poor, who are hardest hit by economic decline, most reliant on the provision of public services, and least capable of paying the extra costs associated with bribery, fraud, and the misappropriation of economic wealth.

As the Bank continues to tackle issues of poor governance we need to ensure greater clarity in the Bank’s approach and a consistent application of its policies to borrowing members where weak governance, including corruption, is judged to represent significant risk. To this end, we look forward to early consideration by the Executive Board of a set of guidelines that will steer the Bank’s operations in high-risk countries.

A Strategy for Middle Income Countries

I would also like to address middle-income countries (MICs), where we have seen progress in achieving the MDGs. An example, highlighted in the Global Monitoring Report, is in the area of education, where there have been significant improvements in primary education completion rates. However, there remain significant disparities within MICs and we cannot be complacent.

While the Bank’s role in low-income countries (LICs) is well understood, the institution’s role in middle-income countries is more complex. Many of these countries have access to alternative sources of financing that elude the LICs. Since a majority of the world’s poorest live in MICs, the Bank must remain involved, however, its engagement must be clearly based on its comparative advantage. The World Bank’s poverty reduction focus must be the touchstone of the Bank’s efforts in these countries.

We see several areas where the Bank’s strategy in MICs can be improved. The Bank has recognized that complex operational procedures are a burden for borrowing countries and it has made recent progress in reducing transaction costs, speeding up delivery of support, and reducing or eliminating conditionality of investment operations. More progress is required, however, in simplifying procurement and disbursements. Greater attention must be given to the Bank’s role in synthesizing and disseminating knowledge and advice to middle-income countries.

Another area where we urgently need progress is in financial sector reform. Strong financial sectors are the best defense against financial crises and the impact they have on the poorest. Strong financial sectors are also needed to channel financing to the poorest to enable them to help themselves. Despite years of Bank lending to these countries for financial sector reform, stronger financial sectors have not been developed in many MICs. In defining its strategy for financial sector development in MICs, the Bank should set performance targets, such as healthier banking sector balance sheets and increased lending to SMEs.
A results-driven approach to MICs means that over time we should see these countries become less dependent on aid dollars and able to attract more private sector financing, including through foreign direct investment (FDI). Currently, only five emerging market economies receive 60 per cent of all foreign direct investment inflows to developing countries. I would like to see the Bank’s work focus on increasing the number of recipients of significant FDI over the next decade.

Meeting the Needs of Small States

Efforts to advance the development agenda cannot overlook the particular challenges of small states, including those in the Caribbean. We know these states are highly vulnerable to damage from recurring hurricanes, particularly in their low lying coastal areas. Immediate attention is needed for small island states to help mitigate the risks of natural disasters. To this end, the World Bank’s efforts to study possible insurance schemes for public assets and the International Finance Corporation’s work to find new mechanisms to insure private dwellings are critical. We will continue to support the Bank’s development of this new approach to comprehensive catastrophe risk insurance in the Caribbean and other small states, and call upon other donor governments and the private sector to join these efforts.

A longer-term challenge is the transfer of existing and new technologies required for adaptation to new weather patterns, particularly in the key sectors relating to agriculture and associated water resource management. However, these countries also face other challenges. These include faster than anticipated erosion of trade preferences, which are severely impacting several small states, the challenges of complying with more rigorous financial services regulations, and the underlying problem of small domestic markets aggravated by geographical dispersion. The latter leads to high per unit costs, precludes economies of scale, raises transportation costs, and undercuts efforts to foster regional integration. The World Bank has an important role to play assisting small island states to meet these challenges.

Statement by Mr. Jose Ricardo Conde on behalf of Mr. Jorge Giordani, Minister of Planning and Development, Venezuela

Clean Energy and Development: Towards an Investment Framework

We welcome the inclusion of clean energy in the Development Committee’s discussions during the Spring Meetings of the World Bank/International Monetary Fund, given the importance of energy consumption as a vital tool for the development of civilizations and nations around the globe.

The progress achieved in the living conditions of the people of the world today stands at a crossroads, as a result of the environmental degradation caused, inter alia, by energy consumption patterns, the exploitation of natural resources, and changes associated with the progress achieved through the development model adopted by countries.

The result to date is a contingent debt owed to the environment because countries have implemented a growth model that has resulted in the capitalization of externalities with an adverse impact on the environment, biodiversity, climate, and the quality of life of human settlements in at-risk zones.

The impact of climate change on development is seen an impoverishing, regressive impact, linked to the “greenhouse effect,” with myriad consequences for the economic and social situation and

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20 On behalf of the Republics of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, the Kingdom of Spain and the Bolivarian Republic of Venezuela.
environmental sustainability in villages, communities, regions, and countries, especially in the poorest and least developed ones, which are particularly vulnerable and have limited ability to adapt to and mitigate natural risks. We call these groups “vulnerable to climate change.”

Therefore, when the World Bank considers the broad range of variables and causes of climate change and its effect on the balance of global development, we feel that it is absolutely essential to consider all the implications that must be very carefully addressed with an appropriate action plan for dealing with each cause of the problem, given their interrelationship and interdependence.

It should be noted that we are all parties to this plan and we are an integral part of its solution: energy producers and consumers, the public and private sectors interacting in the environment, and the critical groups as agents to be taken into account in the action plans, and we must join forces as established in the Framework Convention on Climate Change and the Kyoto Protocol.

In this regard, the offer to build on an investment framework for development and clean energy use to be presented by the Committee represents a step forward, and as such is most welcome. With this initiative the World Bank will blaze the trail in setting up a multilateral global financing network to address climate change, based on innovative mechanisms such as those put forth at the Gleneagles Summit.

In this vein, we share in the first place the vision of developing further an action plan that is consistent with implementation of an action framework, in order to optimize the equation that seeks poverty reduction and climate change mitigation, under a comprehensive vision that takes into account the particular and global characteristics of communities, regions, and nations, as well as the compatibility and feasibility of absorbing clean energy with growth and poverty reduction. The approach must encompass a matrix of economic, social, technical, and other variables related to global development in an interdependent manner, so they can be evaluated.

In the analysis and identification, it is necessary to quantify the cost of access to the use of alternative sources of energy that minimize the effects of climate change, to assess the value of application and substitution, and the overall impact on the poverty reduction and environmental sustainability strategy set forth in the Millennium Development Goals. This difference is due to the diversity of the economic and social situations of the countries, and the many existing combinations of alternative energy use in the market.

The process of adaptation and transfer of technology gives rise to the need to study the extent of the real capacity for assimilation and effective availability of economic and financial resources for carrying out a strategy, underpinned by a viable investment plan.

In the second place, it is essential to consider the need for stepped up efforts to achieve efficiency and optimum energy use in the main markets that produce greenhouse gases. Priority should therefore be given at this time to developing a decisive plan for development and technological research on the efficient use of conventional energy, which should be stepped up in terms of the various forms of energy consumption patterns of developed and developing countries.

Given the magnitude of the problem, its solution must involve the private sector entities with ties to the energy market at the production, refining, distribution, and marketing levels. It needs to be linked to achievement of a proposal at the level of planning and financing of more efficient energy production, given that we are all part of the problem.
In the third place, it is necessary to encourage the dissemination and marketing of the Kyoto Protocol’s flexible and innovative mechanisms, such as the World Bank’s Clean Development Mechanism (CDM), together with promotion by the International Financial Institutions (IFIs), in order to significantly increase carbon financing through the sale of emission reductions, and thus increase the availability of resources for clean energy investments in the developing countries.

Analysis of the development situation demonstrates the need for consideration, in the context of the conversion model for the use and production of conventional energy, of the impacts of the conversion of energy patterns, based on the activities of conventional energy-producing developing countries. Consequently, the development of financing instruments should establish additional investments for diversification and mitigation of the economic and social dependence prevalent in many developing nations.

Resources must be invested in diversification and technology transfer, in order to achieve more efficient energy production. In addition, it is essential to eliminate distortions that encourage the allocation of insufficient resources in order to stimulate the use of less clean energy sources.

With regard to the change in the world energy patterns and its implications for energy-producing developing countries, an effort must be made to mitigate the negative impacts of the conversion of global energy patterns and the adoption of fiscally and environmentally protectionist measures by developed countries that discourage clean energy.

In the fourth place, there should be support for South-South Cooperation initiatives in the framework of transfer and development of alternative energy technology that protects the developing countries’ environment and natural resources. This support should stimulate innovative schemes that foster regional growth, investment, and trade reciprocity among poor and developing nations, encouraging sustainable and efficient energy use that in turn promotes progress and poverty reduction.

In this vein, we support the idea of joint work with various institutions, organizations, and regional research centers related to the challenge of using clean and innovative energy and its environmental impact.

Finally, we consider it necessary for the proposal to include input from other international agencies with responsibility in the environmental area, such as the GEF, as well as institutional strengthening in support of policies based on the clean energy investment framework.

Global Monitoring Report 2006

We welcome the discussion on the GMR 2006, which emphasizes the importance of effective governance and the important role of institutions in achieving the Millennium Development Goals (MDGs), as well as global monitoring of the options that may be pursued to enhance the efficacy of international aid in attaining poverty reduction.

Efficient governance is important for developing the state’s capability to carry out its basic functions, especially that of allocating resources with equity and justice, while effectively providing public social services, physical infrastructure, and other public assets to promote equitable growth and the well-being of the population. To the extent that governance adheres to its basic principles, a country’s ability to absorb financial resources (including aid) will be reflected in attainment of a state of well-being and development for the poor.
These comments reveal our commitment to assist in additional efforts to narrow the gap between the achievements to date and the objectives set forth in the MDGs. To this end, it is necessary to strengthen the measurement capacity of social and economic performance indicators, as well as the developing countries’ centralized and decentralized financial management capacity. We believe that strengthening of the system should incorporate indicators on the subject of equity and incorporation of the poor in conditions of well-being, as discussed in the World Development Report 2006 “Development and Equity.”

In this regard, we support the efforts of the International Financial Institutions (IFIs) to improve areas involving the strengthening of systems for follow-up and monitoring of progress toward the MDGs, to harmonize rules, common procedures, and classifications in developing countries, because of their impact in monitoring the quality of management of public policies for growth and equity in the developing countries.

We concur with the GMR 2006 objectives regarding analysis and evaluation of the indicators to measure the quality of living conditions of the poor and coverage of investment in human capital, which are essential to give a clear and realistic view of the effectiveness of international development aid. We also feel that monitoring of governance is no simple task and could become highly politicized; hence the importance of proceeding carefully and acting with the concurrence of national authorities.

As for the approach on measurement of data, we would like the effort to be open to the use of quantitative and qualitative variables, given that the measures of governance of social policies use both fields. In this area, we agree with the approach of using measurements of some aspects of living conditions as objective indicators. The value added offered by these systems would be to monitor progress in effective governance in pursuit of the MDGs. Clearly, the GMR must not be an instrument for advancing political positions or drawing distinctions between models that could influence market perceptions or make front page news in the countries concerned.

We also agree with the GMR message on effective governance to strengthen the sharing of responsibilities in national and international society. Supervision and development of institutional capacity to promote more effective governance are essential elements for actually achieving good governance. Strengthening institutional capacity would make development financing more effective, especially in low-income countries that receive budgetary support from donors, and would provide a solution to the debate over volume of aid and capacity to absorb it. Public administration’s capacity in general, and public financing management in particular, are especially relevant to the new aid framework set forth in the Monterrey Consensus. Developing countries should not miss this opportunity to invest in the development of more effective governance structures, and donors should assist in that effort.

In this vein, developing countries could adopt their own guidelines on instruments to monitor governance in public and financial subsystems, based on greater transparency for evaluation of the public administration’s capability. A major contribution would be to monitor and strengthen systems for the provision of public services and procurement with respect to goods and services, as well as bidding procedures, in order to make them more efficient, to improve the public’s access to public services, and to achieve a more sound fiscal balance.

Adoption of instruments to strengthen transparency and monitoring of governance in developing countries is indispensable in order to upgrade financial management and the public budget system, which can generate significant cost savings in the budgets. This kind of improvement has a great impact on the efficacy and efficiency of budgetary execution, and can reduce corruption and increase the budgetary capacity to provide social investment and infrastructure. Furthermore, if it is successful, it encourages
donors and IFIs to increase development aid and contribute to the effort to enhance the statistical and administrative capacity of the developing countries.

*Fiscal Policy for Growth and Development: An Interim Report*

This report is an interesting document because it stresses the active role of fiscal policy in developing countries as a catalyst for growth with equity and poverty reduction, in order to attain the Millennium Development Goals (MDGs). It considers theoretical aspects of fiscal adjustments in the context of financial solvency, as well as the sustainability, over time, of public finances from the standpoint of macroeconomic stabilization.

**The role of fiscal policy and growth in poor and developing countries**

The literature recognizes the role of fiscal policy as an engine of growth, given the basic macroeconomic principle of stimulating aggregate demand and boosting the domestic product level in order to have an impact on poverty reduction.

There are, however, an increasing number of studies, especially on the industrial countries, that indicate that under some circumstances an expansionary fiscal policy cannot be used to lift an economy out of recession, particularly if the levels of public debt are already high. Adding to the budget deficit can decrease investment and private consumption, nullifying the effect on increased public spending or a tax reduction on aggregate demand.

Studies of the OECD countries indicate that reduction of the fiscal deficit can accelerate growth when public debt is high and unsustainable. Reduction of public indebtedness for deficit funding of expenditure tends to put downward pressure on interest rates, thus discouraging investment. However, lower interest rates raise the value of assets, creating wealth that stimulates consumption and private investment. And as the deficit shrinks, the private sector adjusts its estimates of the current and future tax burden downward, a factor that further stimulates investment and consumption.

However, this action and reaction in the application of the fiscal policy model in the case of the poor and developing countries is not so clear-cut. In fact, it may be very different, given the differences of externalities in the economic structure between developed and developing countries.

This is why it is important to conduct studies on poor developing countries with asymmetric economic structures and phases of development, with the common objective of stimulating growth, in order to promote fiscal and macroeconomic stability with sustained growth.

In this regard we support the World Bank’s initiative to evaluate, review, and compare experiences in the design and application of policies from an analytical and empirical viewpoint and to follow-up on the progress and achievements of the poor and developing countries, addressing the issues of greater equity and social inclusiveness of the most vulnerable population.

On implementation of policies that pursue achievement of optimum fiscal situation, the latter must be compatible with a dynamic balance between social and economic development in countries that have a marked degree of inequality.

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Fiscal policy guidelines for optimum fiscal situations with economic and social development

Having noted these principles, it is appropriate to list some fiscal policy guidelines for optimal fiscal situations:

1. Participate in organized financing of the budget in pursuit of fiscal sustainability.
2. Increase the effectiveness of automatic stabilizers of aggregate demand, providing greater anti-cyclic capacity in fiscal management.
3. Achieve more equitable distribution of national income among the population.
4. Serve as a catalyst for investment and savings decisions.
5. Combat poverty and inequality through improved capacity to respond to the community’s national and local needs.
6. Strengthen administrative and tax management capacity at the national and local levels.
7. Strengthen the ability to manage the public debt.
8. Establish a centralized system for evaluation of public expenditure in order to effectively monitor, coordinate, and evaluate its impact on provision of basic public services, in order to reduce poverty and improve living conditions.

Economic growth based on limited expansion of the domestic absorption capacity is due to the limited investment framework in physical infrastructure and human development that accompanied the expansion of output and economic development. Fiscal policy should therefore seek to redress the macroeconomic imbalances and inequalities resulting from the low contribution and participation of domestic factors of production in endogenous growth.

Sustainable growth promoting equity and social inclusion are objectives compatible with the expansion of aggregate demand in segments of the population that are excluded from the market. The World Development Report 2006, published by the World Bank, noted that policies that promote greater equity contribute to both poverty reduction and sustained growth.

An efficient fiscal policy effectively provides greater equity in terms of opportunities, while simultaneously affording more opportunities for growth, even in the domestic factors of production, thereby generating a multiplier effect on sustainable growth that results in greater macroeconomic stability and reduction of the fiscal deficit.

Considerations regarding an effective fiscal situation in developing countries should include a tax system that minimizes evasion and non-compliance, while recognizing the importance and contribution of sectors and/or activities that contribute to financing the budget. Mention should be made of the need to gradually incorporate economic subjects in the process to broaden and solidify the taxpayer base for sustaining future investment.

Budgetary execution at the decentralized level must promote efficient expenditure, channeling resources into investment in physical and human capital that promotes inclusive and deconcentrated growth from a national standpoint, based on guidelines in development plans on the need for sectoral
investment that fosters conditions for harmonious and sustainable growth at the national, state, and local levels.

Strengthening of public debt sustainability is achieved by short-term financial solvency through compliance with the state’s obligations based on efficient management of the net fiscal balance. Management should seek to optimize the financial flow by achieving a debt profile and financing cost that guarantees the generation of financial savings to be allocated to primary expenditure on investment.

Efficient management seeks to create favorable conditions to make viable a financial strategy that generates solvency in the state obligations, while having a positive effect on the execution of primary expenditure on sustainability of the state’s functions. The need to increase their own income is a critical factor for appearing more solvent to international creditors, in order to reduce the perception of country risk and therefore lower the cost of refinancing the public debt, creating more fiscal space for achieving improved financial conditions in the future.

Generation of a financial surplus should meet the requirements for reducing the principal of the foreign debt, thereby easing debt service burden on the projected flow. Amortization and investment funds are therefore crucial components of a public finance plan that pursues a strategy of fiscal expansion.

The role of the institutions and strengthening of the management capacity in accordance with efficient budgetary execution is a decisive task in poor and developing countries, given their limited capacity for institutional management at a decentralized level and the need to link supervision and control mechanisms to the communities that benefit from the budgetary execution.

Strengthening of institutional capacity must begin with the design, development, execution, follow-up, accountability, and the orientation of public policy to achieve fiscal equilibrium, based on more efficient use of public expenditure to achieve the objectives of economic and social balance, compatible with equity and sustainable growth of the local communities.

Similarly, it is essential to involve the various levels of government in the drafting and planning process, as well as in the monitoring and accountability of authorities, and the community in the development of local projects and plans in areas that can expand opportunities for human capital, and the quality and quantity of infrastructure needed to develop the productive fabric, and social well-being.

It is also essential to encourage fiscal discipline and involvement of the people at the decentralized level in order to achieve desired impacts on local growth and to strengthen the efficiency of the public sector.

Finally, we wish to express our support for the World Bank’s decisive action to take up this matter, given its importance for the execution of a viable and feasible development strategy in order to achieve fiscal sustainability, in keeping with the priorities of economic growth with equity and poverty reduction.
Statement by Mr. Tae-Shin Kwon, Vice Minister of Finance and Economy, Republic of Korea

We welcome Alberto Carrasquilla as the new Chair 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, and promise our support for improving the effectiveness of the Spring and Annual Meetings of the DC in the governance of the World Bank Group and the IMF.

We would like to see the Development Committee progress as means of providing effective ministerial guidance to management on core strategic topics of more effective operation, governance and reform of the Bretton Woods institutions – an issue to which we return at the conclusion of this statement.

Developing Country Growth continues robustly

Developing countries’ GNP growth continued remarkably strongly last year, at over 5% for the third consecutive year, once again significantly faster than developed countries’ growth. If through continued reforms the developing world can sustain the growth rates of the last three years for the next nine years, its economies would be some 60% larger in 2015 than today.

Nevertheless and sadly, it remains true on evidence in the 2006 Global Monitoring Report, as in previous reports, that many developing countries will not achieve the income or social Millennium Development Goals (MDGs) expressed at the country level. Again as in previous years, the shortfall looks likely to be particularly marked in Sub-Saharan Africa because of the weak starting points and relatively slow reform for many and regional conflicts hindering some. Sub-Saharan Africa has more of the world’s 35 fragile states than any other region, followed by East Asia and the Pacific.

At times, the Global Monitoring Report’s global and regional aggregation and its emphasis on Africa as a continent, means that the operational, practical lessons for the Bank’s engagement in the individual countries of the various continents and regions are somewhat submerged. In every region, the weakest national performances towards the MDGs are among the 35 fragile states. Fragile states account for one-third of the world's poor; one-half of children dying before 5; over one-third of maternal deaths; and over one-third of people with HIV AIDS.

But understandably, because of their generally weak governance and invariably low absorptive and administrative capacities, fragile states receive only one-quarter of total global aid.

If we are to accelerate progress towards the MDGs, we have to directly address the challenge of engaging more effectively in fragile states. Pleas for ever-more aid at the global level, or more effective aid, or more predictable aid, or even better harmonized aid - all undoubtedly necessary - will not take fragile states very far, when the core of their aid problem is that they cannot use traditional aid effectively. The closer we drift to 2015 without addressing this problem seriously, the less time we have to help initiate progress in those fragile states furthest from the MDGs. The Bank has the strategy to help those states; now it is time to implement it fully and with meaningful resourcing.

Setting aside the special difficulties facing fragile states, we are heartened by the spread in 2005 of strong growth to more developing countries, and signs that in many countries, that growth is pro-poor.

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22 On behalf of 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
and beneficial to progress towards the education and health MDGs, not just income growth. In 2005, Sub-Saharan Africa grew as fast as the average growth of the rest of the developing world minus India and China.

More remarkably, the spread of strong growth throughout the developing world continued in the face of very high oil prices, in contrast with past oil price shocks which took a heavy toll on the developing world’s economies.

We agree with the Global Monitoring Report’s explanation of this extraordinary performance: developing countries have strengthened macroeconomic policy settings and are now much more engaged in the global economy through intensive trade linkages, which have permitted those who are oil importers to benefit from their own export growth and (in many cases) from high non-oil commodity prices. In East Asia and the Pacific, the export revenues of oil importers as a share of their nominal GDP has almost tripled from 1980 to 2005, and has now reached an average of almost 45% of GDP (although of course many smaller states and fragile states in the region have not strengthened their positions).

We are concerned that the Bank is not yet delivering its best in financial sector development. We consider that the Bank should focus on consolidating and managing its experience and expertise in these areas and more generally, to focus on areas where it has the comparative advantage. One of the lessons of the 1990s is that it is important also to look at ‘growth diagnostics’ that enable productive sectors to achieve sustained economic growth.

Of course, this year as always, there are risks to the continuation of recent growth rates: high oil prices, current account imbalances, the possible recrudescence of inflation, or the possible mutation to humans of avian flu, to name but four.

However the lessons are clear: to sustain or accelerate recent progress towards the MDGs, we will need to ensure that the trade liberalization that has engendered such resilient performance is continued. In this regard we remain committed to an ambitious and comprehensive outcome in the WTO Doha Round, one that truly delivers on the promise of the Doha Development Agenda. A successful outcome should take into account the vulnerability of developing countries including measures to support countries’ ability to take advantage of trading opportunities. Investments to improve access to energy, mitigate climate change and adapt to possible global warming must be made without slowing developing countries’ economic growth and their progress towards the MDGs. Finally, the promised large increase in aid flows will have to be delivered more effectively and with careful regard to absorptive capacity and the risks of real exchange rate appreciation and loss of export competitiveness from large capital inflows.

Engagement in this Constituency by the World Bank Group

We welcome the International Finance Corporation’s first-ever equity investment in PNG, its placement of a resident representative in Port Moresby, and its decentralization of other operational resources into the region.

The World Bank Inspection Panel also completed an inquiry into the Bank’s implementation of its policies in a Forest Concession Management and Control Pilot Project in Cambodia.

Regrettably, there is little new or additional Bank activity to report elsewhere in the constituency. It seems that business as usual is largely the abiding theme, which is of concern. Many small states in this constituency receive significant bilateral grant aid, and for them, the Bank must continue to work to its strategic niche, explore financing appropriate to small states and fragile states, including blended finance for states with little further debt carrying capacity, decouple lending and TA operations, provide specific
and actionable advice on request, and help build capacity in partner administrations. Bank value-added will depend on better delivery of appropriately-tailored, timely technical assistance that is relevant to the countries’ highest priorities.

Development effectiveness, strengthening governance and combating corruption

Our constituency’s donor economies have pledged significant growth in aid and additional contributions to the Multilateral Debt Relief Initiative.

In order to lock in aid increases and debt relief pledged by the world’s democracies, we need continued transparency about aid efforts through reporting by the Development Assistance Committee beyond the ranks of the OECD membership to include the emergent donors. As importantly, we need improvements in aid effectiveness, clearly demonstrated through published evaluations. The generous public response to some natural disasters, and the increasing role of private foundations and global programs as new funding channels, suggest willingness to contribute where there are well-targeted proposals with prospects for achieving clear goals. We cannot assume that these contributions will continue, unless we can deliver credible results in return.

While positive in terms of raising funds, global programs present a challenge, most clearly apparent in the area of health: how do we ensure that country development priorities are respected and local delivery systems are not undermined? We would appreciate continuing Bank work on this challenge.

Avoiding another ‘lend and forgive’ cycle

The Multilateral Debt Relief Initiative provides some US$50 billion in resources, effectively as general budget support to the beneficiary economies. Using it wisely will require well-focused, country-owned policies to create sustainable economic growth and growing exports from a vibrant private sector. Sound management by developing countries also will be assisted by better Bank work to improve fiscal and debt management systems, which independent evaluation has shown to have deteriorated in quality in the Heavily Indebted Poor Countries over the course of the HIPC initiative. Deployment of the Fund-Bank Debt Sustainability Framework will also be vital, as will the Bank’s continuing work on fiscal space, and addressing the problem of ‘free-riding’ through achieving better transparency and cooperation among public and private lenders.

We welcome the progress report to this meeting on fiscal space and hope that completion will elaborate developing countries’ options to improve their fiscal space for high priority investments. Findings will need to be applied in a country-specific way to identify and remove their most binding constraints in revenue raising, expenditure prioritization and efficiency, and managing aid flows and borrowings.

In our members’ experience, we would advocate close practical attention to managing borrowing and indebtedness conservatively; history shows countries frequently have underestimated the perils of high indebtedness, and have wrongly favored borrowing over developing their own revenue-raising capacity and prioritizing their spending. We urge the Bank to guard against over-optimism when projecting forward rates of growth or debt carrying capacity as part of debt sustainability analysis exercises.
**Effective, targeted and coordinated aid**

Donors will properly have their own geographical and historical priorities for bilateral aid, and recipient economies’ strengths in governance and country systems should determine which forms of aid will be most effective. The multilateral development banks’ share of total aid effort rests ultimately on their demonstrated effectiveness in use of their large endowments of aid.

Our donor authorities continue to work closely with counterparts in the spirit of the *Paris Declaration on Aid Effectiveness* to achieve better simplification of aid process, better use of recipient country systems where appropriate, and better harmonization among donors.

**Strengthening the results focus in MDBs**

Improving the performance of the multilateral development banks requires more weight on learning from transparently evaluated outcomes of aid, and motivating staff through career incentives to work in the most difficult environments in fragile states, where progress towards the MDGs has been slowest.

The Bank’s strong policy framework for engaging with fragile states developed over the past few years has to date not been consistently implemented in actual country operations. Analytical and advisory work takes 16 months on average to complete, and in what are invariably subtle and difficult political situations, little attention has been paid to dissemination and implementation. A ‘lending and research culture’ means staff have little incentive to work on or in fragile states; 70% of fragile states have no resident, internationally-recruited staff, or only one.

In contrast, in our constituency’s bilateral aid agencies, staff work experience in fragile states commands high prestige and is a stepping stone to career advance. Research and publications are subordinate, and means to the end of effective aid delivery, not ends in themselves. The World Bank Group must build a similar work culture, rewarding achievement of development outcomes, not quantities of lending and publications.

**Monitoring governance through actionable indicators**

The concept of governance is broad and multi-dimensional, comprising all the ways the state acquires and exercises its authority to provide public goods and services, including regulatory services. The breadth of the concept prevents use any single indicator. Corruption is also difficult to measure, and measurements often report perceptions as much as the country reality.

While it is important not to put too much weight on any single measure, a suite of measures can provide useful information in monitoring governance and corruption. Measurements of both concepts should be used with judgment. We would caution against integrated rankings of countries according to corruption or governance measures. We also recommend that a more operational definition of governance and corruption be introduced to help increase measurement quality. We must get this right, as governance and corruption measurement influences so much of the Bank’s policy and operational work, feeding into the Country Policy and Institutional Assessment, performance-based aid allocations and debt sustainability analyses.

We tentatively agree with the *Global Monitoring Report*’s identification of fourteen of the most practical, actionable governance indicators. We see special promise in extension of the Public Expenditure and Financial Accountability program. We want to keep the Bank’s monitoring effort cost-effective, operational at the country level and results-focused. We do not want our support for
governance monitoring to be taken as support for another flagship publication (as past support for tracking progress towards the MDGs turned into the annual *Global Monitoring Reports*).

Even with further development of feasible indicators, decisions on how the Bank and other donors should engage with countries where governance or corruption is either improving or deteriorating rapidly will continue to require judgment, and will likely prove impossible to reduce to ‘standard operating procedures’. Nonetheless, we support the President’s initiative to review the Bank’s experience with a view to developing guidelines.

Engaging in countries with weak governance will have to be country-specific, as we agree that even weak general governance environments will often have elements of strength and reform champions who can be assisted. Pushing reform through adding to conditionality does not work. The Bank needs to have a strong understanding of the political economy and the drivers for change in order to know what interventions are mostly likely to succeed.

We would also advocate Bank engagement to find opportunities to improve the openness and accountability of government through improved public and international information (including use of its own Institutional Integrity processes where its own funds have been mis-spent). It should support institutions and processes that can help generate a demand for good governance, for example showing how much of budgeted spending is actually reaching local authorities for schools and hospitals, and instituting ombudsman to receive citizens’ complaints.

*Clean Energy for Development*

Affordable access to modern energy is closely linked to human development. At present, reliance by the poor on dirty biomass fuels causes some 2 million premature deaths a year and hinders basic needs for cooking, light and heating. Inadequate power supplies limit investment, business and transport. The main ‘renewable energy’ in the poorest countries today is back-breaking human labour. Poor countries have urgent needs for better energy access.

*Access, mitigation and adaptation challenges*

Mitigation of, and adaptation to, global warming have to be development-friendly. Access, mitigation and adaptation challenges have to be solved cooperatively, and with respect for countries’ individual circumstances and priorities.

Mitigation has to move beyond existing cap-and-trade approaches, which do not engage large current emitters and large fast-growing developing economies that are contributing most of the growth in emissions. Current carbon trading approaches rest on a framework whose 2012 lifespan is already crimping the cleaner use of fuels in environmentally-sound investments with long lives and payoffs, such as coal use in super-critical and ultra-supercritical thermal power plants.

Adaptation to likely global warming over decades to come is a vital challenge to many small island states such as those of this constituency, and we would urge the Bank to develop more substantial and better-funded programs in this area. Neither mitigation nor (especially) adaptation is challenges only, or even mainly, for the handful of the largest developing economies.

*Existing tools and proposed new financing instruments*

A role for the Bank in clean energy for development requires close attention to the Bank’s core mission of poverty alleviation, the vital role of the UN Framework Convention on Climate Change, and
the comparative advantages of all institutions involved. In this examination, we regard evaluating the Bank’s existing lending tools and processes as the paramount and most urgent challenge.

The Bank has only recently completed an overdue simplification of its array of lending products, as part of the effort to achieve more clarity in work processes and to reduce developing countries’ costs of doing business with the Bank. We point also to the existing Global Environment Facility, which has elements with which several of the suggested new lending instruments would appear to overlap. Any new Bank proposals must not duplicate existing facilities, or undo the Bank’s limited progress in lowering costs of doing business with the Bank.

We would also caution against premature speculation about funding a new CEFV in large part from the assumed revenues from a long-term carbon trading regime which does not yet exist.

We doubt the Bank’s comparative advantage or core functions should expand to the science of climate change or of new energy technologies. However we do believe that the Bank should be mainstreaming into its country assistance strategies the infrastructure investments to extend energy access and other energy-related assistance that countries prioritize for their own development.

We see great potential for the Bank as a development-focused partner in dialogue on climate change. In particular, the Bank is best placed to serve as a proponent for the urgent interests of developing countries in improved access to cleaner and more sustainable energy, and the particular vulnerabilities of some developing countries to inundation and other climate-driven stresses. In stressing the imperative for energy access, the Bank should drive home that reasonable growth prospects for the poor can not rest on apparently easy but illusory options using small scale renewables, but without the capacity to meet the very large energy requirements for development. Rather, these challenges will demand the Bank’s serious engagement on large-scale energy options which may sometimes be unpopular with elements in rich countries.

Reform of the Bretton Woods Institutions

The IMF, the World Bank and the WTO (and its predecessors) have been core multilateral institutions for the peaceful and unprecedentedly rapid development of the global economy and the reduction of poverty over the last 60 years.

We believe comprehensive governance reform of the IMF and the World Bank is needed to sustain their effectiveness and legitimacy. Such reforms need to go beyond the long overdue but limited, ad hoc IMF quota increase being discussed for realization by the time of the Singapore Annual Meetings, to include more comprehensive quota reform which could also include consideration of an increase in basic votes. Broader governance reforms should include review of the roles and responsibilities of the boards, and ideally, consideration of appointment processes and size of boards.

We regard the spring and Annual Meetings of the DC and the IMFC as the apogee of the governance processes by which the Bank and Fund glean meaningful direction from Governors on a handful of specific issues at the frontiers of the BWIs’ development.

For this meeting, we have received two fascinating publications. But as the foundation for ministerial discussions, we think those documents represent too much paper, too many diffuse questions, and not enough focus by the Bank and Fund on a manageably focused small group of practical, strategic issues for Ministerial guidance.

We urge a significantly more focused approach to these meetings in future.
Statement by Mr. Eero Heinaluoma, Minister of Finance, Finland

Key messages

The Nordic-Baltic countries welcome the opportunity to focus, once again, our attention on the progress made in reaching the MDGs and on the steps needed to further intensify our joint efforts. Recognizing the significant progress made in increasing ODA and debt relief, we believe that delivery and monitoring remain issues of concern. Nevertheless, we agree it is time to give special attention to other important topics, such as access to clean energy, climate change and governance. We emphasize the following messages.

- Access to energy in the poorest countries is a fundamental prerequisite for reaching the MDGs. Therefore, we welcome the plan to develop a strategic work program for Clean Energy and Development. We encourage the Bank to maintain a fair balance between access to clean energy, mitigation of climate change and efforts to adapt to the impacts of climate change.

- The Bank Group has an important role to play in mainstreaming concerns that would ensure access to clean energy for poverty reduction and adaptation to the threats of climate change. The Bank Group should complement the work of other actors and focus on its areas of comparative advantage. The emphasis of the Bank Group’s work should be put on investment climate in order to attract private investments in the energy sector.

- On GMR 2006 we welcome the focus on governance and emphasize the importance of mutual accountability. The slow progress towards the MDGs in Sub-Saharan Africa is a cause of concern and we urge all donors to deliver on their commitments and increase aid to Africa. We also note with concern the mixed progress on gender equality and propose that gender is made a special theme for next year’s GMR.

- We fully support the renewed focus on anti-corruption measures in the Bank’s work and recognize the need for the Bank to create a framework to deal with this issue in a coherent way. We welcome a more thorough discussion on governance and anti-corruption measures at the Annual Meetings in the fall of 2006.

- While welcoming the agreement on the Multilateral Debt Relief Initiative we are, however, disappointed that some key initiators have not yet lived up to their commitment in securing the financing of the initiative. Keeping in mind the fundamental purpose of the MDRI we have supported it as proposed. In moving forward, it is vital that IDA’s financial viability is preserved. Thus, it is essential that political commitments are translated into binding financial commitments and that these are monitored.

23 On behalf of the Nordic and Baltic Countries
Clean Energy and Development: Towards an Investment Framework

We welcome the efforts to enhance access of the developing countries to clean energy and to mitigate and to adapt to climate change. We look forward to the more detailed proposal for new financing facilities to be discussed at the Annual Meetings in September in 2006.

The paper correctly highlights the need to address both access to clean and reliable energy for poverty reduction and the threats of climate change. With regard to ensuring access to clean energy, the use of renewable energy and innovative low emissions technology as well as enhancement of energy efficiency are important means. Significant aspects of the Bank’s involvement include the need to renew efforts in mainstreaming these concerns and the need to ascertain that projects in this area are in conformity with PRSP’s or other national strategies and robust for climate change.

Access to basic energy services in the poorest countries is a fundamental prerequisite for making progress towards the MDGs. Although some efforts would be geared towards the more developed of client countries we find it important that the intensified focus on clean energy does not divert the Bank’s attention from the energy needs of the poorest countries. We want to emphasize that lack of access to energy is a huge problem in Africa. Therefore, specific measures should be taken in African countries.

We would like to see the Bank’s comparative advantage spelled out more explicitly in order for it to play a complementary role to other actors and not risk duplicating them. The financing costs of developing countries to meet their energy needs are estimated at $300 billion yearly until 2030. The Bank has an important role to play in providing policy and technical advice to developing countries on how to fulful these needs, whereas the bulk of the financing needs to come from the private sector. Within the Bank Group IFC should play a key role in strengthening the private sector involvement. In this context we would like to stress the importance of improving the investment climate and governance in the client countries in order to attract private investments in the energy sector.

In our view the outline of the investment framework for clean energy and development needs further scrutiny. It is important that the World Bank draws on the expertise and knowledge of the relevant experts and complements existing frameworks. We stand ready to work with the Bank in the coming months to further this agenda. It is also important that this work complements the work of other development partners, such as OECD and GEF (Global Environmental Facility).

Global Monitoring Report 2006: Strengthening Mutual Accountability – Aid, Trade and Governance

Strengthening mutual accountability

We commend the Bank for the Global Monitoring Report, which is well structured and offers a comprehensive overview of the progress towards the MDGs. The focus of the report on the principle of mutual accountability is crucial and in line with the outcomes of last year’s high-level meetings. We agree with the key messages of the report, some with satisfaction, some with concern. We hope that the report will, over the coming years, develop into a strategically oriented and more focussed paper.

We welcome the reported increase in commitments to increase ODA and aid effectiveness but note with concern the discrepancy between commitments and disbursements. As the delivery of the promises remains a challenge, we reiterate our plea to translate these promises into actions to reduce poverty in all its dimensions. We also agree that it is important to increase the predictability and flexibility of aid resources and we welcome efforts to improve monitoring of the increasing commitments and flows. It is equally important that development partners cooperate in this monitoring work and avoid duplication of efforts. The OECD/DAC has an important role to play in this context.
Scaling up of aid requires timely implementation of the harmonization, alignment and results agenda. The lack of progress towards selected targets contained in the Paris Declaration is very disappointing as the commitments made in Paris are crucial to achieving the MDGs. We encourage all donors to intensify efforts to harmonize and align development assistance procedures at the country level and to improve staff incentives to work for these goals. While positive trends in the performance of IFIs can be noted, such as increased and joined efforts to improve development results, these efforts are still in initial stages and further efforts are needed.

We urge the Bank to further strengthen its trade-related support and to integrate it into country programs. We call for close cooperation between the Bank, the OECD, and the WTO Aid for Trade Task Force in analysing how the Bank, in collaboration with other development partners, can most effectively contribute to the development dimensions of the Doha Round. As strong supporters of the Integrated Framework for Trade Related Technical Assistance (IF) we welcome the commitment of the Bank to participate in the ongoing work to enhance the IF and urge the Bank to work with other stakeholders to find creative ways of making IF process more effective. We look forward to reviewing the recommendations of both the Aid for Trade and IF Task Forces and welcome the Bank’s commitment to respond to them.

The progress towards reaching the Millennium Development Goals on human development, in particular on health and education, remains disappointing. The challenges are greatest in Sub-Saharan Africa. Thus, we urge all donors to deliver on their commitments and increase aid to Africa.

We note with concern the mixed progress on gender equality. In our view the GMR should devote more attention to the gender dimension, focussing more on sexual and reproductive rights and health and also assessing the performance of the development partners with regard to implementation of strategies for gender equality. We propose that gender equality is made a special theme for next year’s GMR.

We would also like to see more references in the GMR to inequality within developing countries and to the important link between human rights issues and development. Persistent inequality is a basis for the lack of opportunities for poor people to improve their livelihoods.

**Governance**

We strongly welcome the focus on governance in the GMR and the efforts made towards addressing the challenge of monitoring governance. Last year’s task force report “Building Effective Societies, Forging Engaged Societies” clearly spelled out the importance of good governance and made a number of useful recommendations, which we encourage the Bank to implement. The discussion on the subject in the GMR is also an important contribution to the commitments made in the Paris Declaration and provides a valuable input towards fortifying the principle of mutual accountability. Therefore, it also provides a useful basis for the scaling up of aid in a responsible manner. However, to make progress on good governance at the country level is a complex process and we emphasize the need for a long-term approach.

We note with concern the general lack of references in the GMR to the responsibility of developing country governments for their own development, using their own national resources. The principle of mutual accountability must include such a perspective. We also note with concern that the references to governance in developing countries seem to be confined to the management of aid and other external resources, thus excluding the absolutely vital governance and accountability aspects of the
management of national resources. Global programs, measures and policies aimed at expanding the
development opportunities of developing countries should be complementary to national efforts.

We find the chapter in the GMR on strengthening global checks and balances particularly useful. We welcome that the GMR acknowledges the responsibility of all donors and IFIs in strengthening good
governance, including improvement of their own transparency and anti-corruption controls. On the other
hand, we note that work needs to go on. We urge all countries to give their support to relevant regional
and global anticorruption conventions. One concrete example of good initiatives that need to be
completed is the African Union Convention on Preventing and Combating Corruption, which so far has
been ratified by 10 countries, 5 short of the minimum needed for the convention to enter into force.

Finally, we strongly support the Bank’s increased efforts to fight corruption. Anti-corruption
measures are essential to ensure that development resources are used efficiently. We thus welcome a full-
fledged discussion on these issues in the Annual Meetings in the fall of 2006. Good governance and anti-
corruption have been a priority area in the Bank’s work for over a decade. Hence, the Bank possesses a
solid analytical and operational knowledge about these issues, which should feed into the upcoming work
on a framework for anti-corruption measures.

The Nordic-Baltic countries have always attached great importance to multilateral cooperation
and we believe that well governed multilateral institutions are key to promote development and fight
poverty on a global level. A transparent and rules-based approach, which enjoys widespread support
among shareholders, must also govern the internal work of the multilateral institutions.

*Multilateral Debt Relief Initiative (MDRI)*

We look forward to the implementation of the Multilateral Debt Relief Initiative (MDRI). We
applaud the fact that it emphasized both debt relief and the need for new and additional resources to
reach the MDGs. The strong commitment from the G-8 to compensate IDA “dollar for dollar, as shown
in the finance ministers’ letter to President Wolfowitz, were key to ensuring the support of the Nordic
Baltic countries.

Against that background, we are deeply disappointed that some of the key initiators of the
initiative have not yet lived up to their commitment in securing the financing of the MDRI. We are
concerned that the proposed financing framework does not provide sufficient assurance regarding the
future financial viability of IDA.

Monitoring of donor financing is crucial, both to preserve the principle of additionality of donor
commitments to the MDRI, and to maintain a fair burden sharing. We fully agree that donor
contributions for MDRI financing should be recorded separately from IDA regular replenishment
contributions.

Keeping in mind the fundamental purpose of the MDRI and the role it might yet play in the
poorer countries’ quest for development, we have supported the MDRI as proposed. In moving forward,
it is vital that impressive political commitments are, to a greater extent than currently, translated into
binding financial commitments.
Statement by Ms. Sri Mulyani Indrawati, Minister of Finance of Indonesia

Clean Energy and Development

We welcome the 73rd Development Committee Meeting, and the inclusion of Clean Energy and Development as part of today’s discussion.

We agree with the presented information regarding the need to step up our energy supply efforts through increasing ‘clean energy’ production capabilities that match the demand in growing economies. As regulators, we need to implement measures that can prolong existing energy resources and reduce consumption, while encouraging investment in research, development and use of new substitutes.

As an important first step, we feel that existing technologies are viable financially and could yield widespread benefits. These include low-carbon emitting resources such as bio-energy and natural gas products which could play a much greater role in supplementing the energy supply mix. Again, as regulators, we will need to create an environment that encourages the use of these types of energy sources. On this note, we believe that end-user efficiency improvements in the transportation industry, commercial and residential, can have significant impact on clean energy investment requirements.

We also agree that the issue of clean energy and climate change are interrelated, and all countries are vulnerable to the potential instability caused by these changes, with people of the poorest countries and small islands the most vulnerable. Therefore, we would like to urge fellow Governors to seriously take this issue into consideration in order to mitigate future losses arising from such catastrophes.

As to the future direction of clean energy, we support the need for increased investment in order to bridge the demand-supply gap which could potentially effect climate change. The resources for such investment should be additional to the current development financing levels under several schemes. We also welcome the recently proposed financing instruments under this clean energy initiative, and we feel that these instruments will allow us to achieve the desirable outcome. The Clean Energy Financing Vehicle (CEFV) could provide up-front funds for securing and offsetting the production costs of implementing promising clean energy technologies. We recommend further study be undertaken for CEFV and the other financing instruments with the findings made available during the next Meeting of the Development Committee this fall.

Global Monitoring Report 2006

We would like to thank the Bank for its work on presenting us with the GMR 2006 and the background documents to facilitate these discussions. The 2006 Global Monitoring Report (GMR) specifically sets the tone for these discussions as it provides an apt snapshot assessment of our achievements, in relation to meeting the Millennium Development Goals (MDGs) that were set in the year 2000.

In this regard, we will highlight several key issues that we feel need to be continuously stressed as they contribute to our collective efforts to strengthen mutual accountability, in the process of achieving our global poverty reduction objective.

24 Representing Brunei Darussalam, Fiji, Indonesia, Lao PDR, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga and Vietnam

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Millennium Development Goals

The Report recognizes that favorable growth has helped in our quest to reduce poverty, especially for middle and lower income countries. During these past five years, Over 100 million people have been lifted from extreme poverty, representing a 10 percent decline in global poverty. And while we welcome this as progress, we agree that it is uneven. For instance, the poverty trend in the countries of Sub-Saharan Africa has remained stagnate or worsened. They face the risk of not achieving the millennium goal for income poverty. Likewise, the progress toward the MDGs for human development remains a concern for many countries in Africa and South Asia. In this regard, we find the statistics of more than 10 million children under the age of five dying each year of treatable diseases to be startling. Therefore, we call on developing countries to treat the achievement of MDGs as ‘mission critical’ by following through on their development policies. Additionally, we should remind the developed countries of their role in supporting this process, both through adopting pro-growth policies for developing countries, such as opening their markets to trade, and financial assistance.

The Report stresses the importance of promoting domestic growth to accelerate poverty reduction. We couldn’t agree more with this point which is why more investment is needed in basic infrastructure and services to support sustainable growth. Developing countries have no choice but to improve their domestic investment climate and policies to attract these required levels of investments. In this area, we feel the Bank can play a greater role in assisting client countries; in policy analysis, identifying and dismantling of impediments that limit investments and growth, which will in turn hasten poverty reduction.

While recognizing the role that individual developing countries should play, we also would treat the acceleration and realization of the 0.7 percent of GNI as aid commitments with great urgency to help reverse the upsetting trends experienced by some regions.

Aid Effectiveness and Aid for Trade

We view Aid Effectiveness as a crucial development issue for discussion during this Spring Meeting. More than ever, we need to focus on the importance of putting in place effective consultative mechanisms where development partners recognize the use of country systems and the need to build local capacity within these systems. We believe this will provide a catalyst for strong leadership and ownership in development strategies and priorities.

We also believe that donors should shift assistance as much as possible to budget support as long as appropriate capacity and fiduciary standards are met. This approach creates an incentive system for improving governance and increases utilization efficiency by channeling these resources through standing budgetary systems.

Furthermore, we note that the current agreement on the IDA 14 places a maximum threshold of 30 percent for Development Policy Loan. We would support greater flexibility on this threshold while recognizing that aid financing recurrent costs is not a prudent approach to effective use of resources, which will encourage aid dependency. However, we would support clearly defined criteria and sunset clauses for such aid financing.

While on the issue of aid effectiveness, we would like to specifically refer to the administration of Global-Vertical Funds for the health sector. We urge donors to ensure effective coordination of these funds. Uncoordinated approaches, a lot of times, create administrative burdens for recipient governments and often duplicate resources to specific target groups. With the increasing prominent role played by
NGOs in developing countries, we call on our development partners to follow policies, systems and procedures agreed to with recipient governments.

We believe that aid for trade is the most effective type of aid. We believe it is sustainable in the long-run and mutually beneficial to both the developing and developed worlds. Therefore, global trade reform is necessary to promote growth and accelerate poverty reduction in developing countries. We are encouraged by the commitments made in the 6th ministerial meeting in Hong Kong although the progress was considered modest. We also urge the Integrated Framework (IF) Task Force to quickly come up with a practical solution to enhance the implementation of the Framework.

**HIPC Initiative**

We welcome the commitments made in Gleneagles to scale up aid and deepen debt relief in HIPC countries. We would also support a more coordinated approach in delivering aid with greater predictability and flexibility in both modality and levels. This may include a commitment monitoring system that would augment delivery of commitments and assist in the predictability of future resource flows. We would need to ensure that such a monitoring program would improve resource predictability, be made available publicly, and lock-in commitments. At the same time, we would call on greater attention to minimize risks associated with the implementation of the debt relief initiative to recipient countries, especially if future fiscal and borrowing policies of recipient countries are incongruent with the primary objective of the debt relief initiative. This is to ensure that the vicious debt trap is permanently avoided in the future.

We laud the work of IDA management on their part in advancing the Multilateral Debt Relief Initiative (MDRI) that was approved by the Board for implementation from July 2006. We note that due to MDRI’s long coverage period, there could be risk where budget constraints in donor countries would increase the uncertainty of aid flows in the future. Therefore, an increase in unqualified commitments for MDRI should be pursued. We hope that certainty of future aid flows can be locked-in through these approaches.

To maximize the benefits from the debt relief program, we would support country specific targets for reaching completion points. At the same time, we would encourage more transparency and accountability in the use of “freed resources” for pro-poor spending. Therefore, an effective Public Financial Management system is a must, to monitor spending and ensure effective use of resources. We would even go further and support an information sharing mechanism with creditors designed to prevent the risk of accumulating unsustainable debt.

**International Financial Institutions (IFIs)**

International Financial Institutions (IFIs) play an important catalytic role in development. Our region of South East Asia has witnessed a declining trend in lending from the Bank Group, especially to middle income countries. This has become an increasing concern for us and so we feel that the Bank Group should capitalize on these fast-growing middle income countries by creating supportive lending facilities.

We also note the progress made on enhancing IFI performances, especially on implementing and strengthening the results-based agenda. We look forward to the envisaged contributions of making MDBs more results focused, more dynamic and flexible in responding to client needs while maintaining high institutional integrity and transparency.
For the World Bank, the use of the Evaluation Group and the dissemination of its findings would be a significant step in the right direction. As a first step, we strongly encourage the Bank review its operations by looking at its original mandate, stipulated in the Articles of Agreement. Specifically, on “Global Public Goods”, we feel that the Bank might need to review its own policies and strategies and perhaps clearly define its involvement in providing these goods while recognizing the significant role played by other international agencies.

**Governance**

We cannot stress enough the critical role governance plays in development and so we openly welcome its discussion as an important part of the Development Committee. Governance is defined differently in different sectors. In the public sector, good public finance administration, for instance, is essential in safeguarding the effective use of aid through effective and transparent delivery systems. However, without administrative capacities we would be unable to maximize the return we potentially can derive from these systems. We therefore call on more support for continuous capacity building that is commensurate with improving these systems.

Furthermore, we strongly view transparency as an efficient governance instrument. In this regard, we support the publication of CPIA and Doing Business Indicators and feel that more progress can be made by individual countries for improving on their rankings. On CPIA specifically, we feel it can be improved by using disaggregated indicators that would measure key governance subsystems. Specific measures of subsystems might help countries better understand their problems and use the results as actionable indicators for improvement. These indicators can also be used by both donors and recipient countries in tracking achievements to set targets. Having said that, we urge the Bank to consult and communicate the broad mechanics of obtaining country rankings with its members before making such information available for public consumption.

Finally, we would urge the Bank to appropriately engage with those countries perceived to have weak governance systems. We believe that Bank’s governance criteria and policies adequately capture the ranking a country receives. This helps determine the level of assistance a poor country gets. In our view, such countries can ill afford to be penalized twice if the Bank disengages itself from these countries.

Therefore, we would suggest that a guidance framework on handling governance issues be established. Governance needs to be addressed under a broad development context and internalized into the Bank’s operations in a coherent way, as we feel that governance itself is not a universal recipe for all development problems.

**Statement by Li Yong, Vice Minister of Finance, P.R. China**

We welcome the discussion by this Development Committee on Clean Energy and Development: Toward an Investment Framework and Global Monitoring Report 2006: Mutual Accountability in Achieving the MDGs as well as some other global issues. I would like to take this opportunity to share with you some of my views on these important issues.

**Clean Energy and Development: Towards an Investment Framework**

We appreciate the World Bank’s report on this topic. We fully support the principle of common but differentiated responsibilities for developed and developing countries emphasized in the report. We agree that the concept of clean energy should be broadly defined to include not only renewable energies
but also conventional energies that are clean and efficient. We also support the call for a long term global clean energy regulatory system based on the principle of common but differentiated responsibilities, so as to secure affordable and reliable energy supply over the long run. In this connection, I would like to share with you four observations:

First, expanding energy supplies to meet development needs should be the top priority for the international community. To reduce poverty, we need growth. It’s a global consensus already. And to advance growth, we need adequate and reliable energy supply. It is imperative that the global energy financing be mobilized and all necessary measures taken to help developing and transition countries to bridge the huge gap in energy sector investment and scale up energy supply. We therefore call for a global consensus on the need and urgency for adequate financing for energy sector development.

Second, promoting the production and use of clean energy to address climate change represents a global public good. Therefore it requires the international community to strengthen cooperation based on the principle of common but differentiated responsibilities. Developed countries are expected to shoulder greater responsibilities, by providing new and additional development assistance to promote production and use of clean energies. We support the new financing instruments for clean energy development proposed by the Bank, and we hope these instruments can be put into operation as soon as possible.

Third, it is essential that international community accelerate transfer of clean energy technologies to developing countries. In developing and transferring technologies, we have to take full account of the fact that conventional energy sources will continue to dominate energy consumption in the next few decades. Efforts must be made to step up technology transfers and help developing countries acquire the capability to produce and use energy more efficiently.

Fourth, ownership and country driven approach should be emphasized in helping developing countries to address adaptation challenge. The proposed global investment framework for adaptation should be closely aligned with overall development strategy at the country level, in the sense that the energy strategy is meant to serve the strategy of sustainable development.

China shares the challenge of clean energy and development with other developing countries. We are taking decisive actions to promote more efficient use and conservation of energy resources and to build an energy-efficient and environmental-friendly society. We will use market-oriented measures and economic leverages as well as technological upgrading and advancement to achieve this goal. China’s 11th Five-Year Program has explicitly specified the objective to cut energy consumption per unit of GDP by 20% during the period of 2006-2010.

China stands ready to cooperate with the international community to promote clean and more efficient energy production and consumption, to address the issue of climate change and pursue global sustainable development.

Global Monitoring Report 2006: Achieving MDGs

We are pleased to see that, in the course of 2005, progress has been made by the international community in promoting developing countries to achieve the MDGs: global poverty reduction made sustained progress; GNI per capita developing countries grew on average by almost 5%, well above historic record; human development indicators are improving; there was an increase of ODA commitment by donors; the MDRI has been launched; the IFIs have stepped up their support for the efforts to achieve the MDGs.
We should also see the fact that there is still a long way to go for developing countries since less than 10 years left to achieve the MDGs by 2015, with particularly formidable tasks for Sub-Saharan African countries. Achieving the MDGs is a mutual responsibility and task for the entire international community. Therefore, both developed and developing countries should shoulder their own responsibilities and take more effective measures.

In this connection, two issues should be addressed. One is to increase resource flow to developing countries. The other is to ensure that the resources are utilized effectively in realizing the MDGs. Increasing resource flow requires that donors and IFIs increase aid level and deliver their aid commitment. Meanwhile, it is also necessary to improve aid quality and align the aid strategies with developing countries’ development strategies and institutions. Developed countries also should further open their markets to developing countries. IFIs should strengthen their role in development financing, enhance their support to development projects in developing countries, improve their own governance on integrity and transparency, study carefully development experiences and promote the sharing of these experiences. Developing countries, from their side, should commit themselves to formulating their own sound development strategies, promoting aid effectiveness, strengthening infrastructures, improving investment climate, and enhancing economic and social development in a healthy and sustainable manner so as to ensure the achievement of MDGs.

Governance

Governance is an important issue, as well as a complicated and sensitive one. In order to appropriately address this issue in global development co-operation, I would like to share with our colleagues the following observations.

1. Governance is an integrate part of the development process, and one of the instruments of promoting development. Meanwhile, improving governance would require necessary material basis provided by sustained growth. Therefore, while emphasizing the role of good governance in promoting development, we should by no means neglect the role of development in promoting governance.

2. Governance should match different requirements deriving from different stages of development. Various development stages determine different scopes of governance. There is no perfect governance; there is only constantly improved governance. Only by starting from their own country specifics can countries find the most suitable and effective governance system for their development.

3. The fundamental criterion in judging the effectiveness of governance lies in whether it will be able to enhance economic development, political and social stability and well-being of the people. There is no universal model of good governance and it is impossible to have such a model. In assessing good governance, full consideration should be given to countries’ historical and cultural backgrounds and their development stages, and full respect should be paid to the views of developing countries. The purpose of improving governance is to accelerate development rather than to keep some developing countries outside the door of international cooperation.

4. Improving the governance of recipient countries calls for common efforts at the global level. For recipient countries, comprehensive measures should be taken to improve governance gradually in light of their own historical and cultural situation. At the same time, international community needs to work together to improve global governance in order to create a sound external environment for developing countries to improve domestic governance and
accelerate development. Countries could share their ideas and views on the issue of governance and learn from each other’s experiences. The international organizations could play their due role in this regard. Ultimately, good governance can be achieved only by the efforts of the government and people of the countries concerned; it can never be imposed from outside.

5. In assisting developing countries to improve governance, the IFIs should abide by their mandates as specified in their Charters, improve their own governance and reduce arbitrariness. At the same time, the IFIs should also stick to the principle of non-politicization, fully respect the sovereignty of recipient countries, and treat the developing countries as equals in the process of helping them to improve governance.

The Chinese government attaches great importance to development and governance issues. We will continue to handle properly the dialectic relationship between governance and development in the light of our own country situation. We are determined to resolve various problems and challenges in the process of promoting development. At the same time, we would like to work with the international community to improve global governance and promote global development.

On the progress of the Doha Development Agenda (DDA)

It has been widely accepted among the international communities that trade promotes development. In addressing the development difficulties, increasing employment, alleviating poverty, achieving gender equity, promoting economic growth and social development, the developing countries need not only efforts of their own, but what is more important is a favorable international economic environment. A broad and rules based, open, non-discriminatory and fair multilateral trading system can make enormous contributions to trade, benefiting every member in the system.

As the first round of multilateral trade negotiations after the establishment of the WTO, the Doha round trade negotiations aim at further liberalizing the world trade market. It covers agricultural, manufacturing, service, trading regulations and development issues. Since its launch in 2001, the Doha round has been proceeding with tremendous difficulties and frustrations. The WTO Ministerial meeting held in Hong Kong in December 2005 established the roadmap for the conclusion of negotiations by end 2006, and achieved some progress on phasing out agricultural export subsidies and on development issues. Currently, the technical level negotiations have been broadly carried out in Geneva, but parties such as the EU, the US, Brazil, Australia and Japan maintain significantly different positions on the tariff reduction coefficients in agricultural and non-agricultural export products. Thus daunting challenges remain to reach the target of concluding the DDA by end 2006.

The Doha round is a development round. To what extend the development issues will have been addressed remains the key criterion for the success of the Doha Round. The Doha process should give adequate consideration of the development levels and affordability of the developing members, and effectively implement the special and differentiated treatment of developing members, enabling their adequate participation in the multilateral trading system and reaping real benefits. The developing members should be treated as a whole, and we are against the classification of the developing members. As a new member, China has always been positively participating in the Doha Round negotiations, and playing a constructive role.

At present, the gaps between negotiating positions on core issues such as agriculture subsidies remain wide, this requires greater political will of the parties concerned. As the developed members, the US, the EU and other developed countries shoulder special responsibilities and obligations, thus they
should step forward and lead the way in further opening market, lowering tariff, particularly reducing and removing the agricultural export subsidies, promoting progress in the negotiations.

We are pleased to note that for more than two decades, the World Bank, through its trade–related technical assistances, has made positive contributions to the developing countries in increasing trading opportunities, expanding market access, and alleviating poverty. We encourage the World Bank to play a more active role in the DDA process, including enhancing monitoring and coordinating with other donors.

**Fiscal Policies for Growth and Development**

Fiscal policy is an important policy instrument for a country to conduct macroeconomic control and promote economic and social sustainable development. Fiscal policy could play a very important role in promoting economic development.

We appreciate the view laid out in a recent World Bank research paper that fiscal policy should support economic development, especially the views that (1) fiscal policy should balance stability and growth; (2) the key to successful fiscal policy is to ensure proper expenditure structure and expenditure efficiency; (3) pro-growth fiscal policy should base on resource constraints and macro-economic conditions; (4) countries with weak capacities need to strengthen public fiscal administration capacity.

Strengthening fiscal policy research and implementing proper fiscal policy are critical for all countries, especially for developing countries to ensure sustainable growth and achieve the MDGs. A good fiscal policy shall well manage the relationship between maintaining macro-economic stability and promoting growth. Macro-economic stability can create good environment for sustainable economic growth. However, if developing countries try to achieve macro-economic stability by over-reducing fiscal expenditure, infrastructure and social spending will bear the brunt, which in return will undermine long term economic development. Therefore, a good fiscal policy will always need to strike a proper balance between stability and growth.

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

**Clean Energy and Development**

The critical role of energy for development has been widely recognized, thanks in part to Russia’s interest and active involvement in this issue in its capacity as G8 Chair, which has put this issue at the forefront of global discussion. In this respect we can only welcome the new World Bank report on investment framework for the energy sector. Russia, in its turn, intends to emphasize these issues at the upcoming G8 Summit in Saint Petersburg in July 2006, including through support of Bank’s strategy for increased lending for infrastructure and related sectors.

Importance of energy stems from several global trends. Most prominent among them is the unprecedented success and duration of macroeconomic stabilization worldwide that has led to historically low inflation and interest rates in most countries. At the same time, many countries have accomplished profound market reforms, trade liberalization and deregulation. This, in turn, has led to substantial acceleration of economic growth in China, India, former planned economies and many others countries, including those of Sub-Saharan Africa. As a result, we see great successes in poverty reduction.

At the same time, we observe some new important supply-side constraints to further growth, most particularly systemic investment gap in the energy and infrastructure sectors. This gap remains an important obstacle for global development.
This global challenge is identified in the report as the need to provide all people with reliable, clean and efficient energy. We fully share this goal and agree with report’s assessment of the level of investment required to achieve it.

Today’s energy problems are many and varied. Therefore, when we discuss the Bank’s work in the energy sector we have to address the question of priorities. For the Bank, these priorities should reflect its mandate, in other words, be directly linked to the goal of poverty reduction and sustained growth in the developing countries. When formulating these priorities, the Bank should be particularly responsive to the voice of its clients.

Against this background, the report seems somewhat biased towards the development of alternative and renewable energy sources as a means of addressing the so-called greenhouse effect. There is no doubt that some of the Bank’s shareholders give this problem paramount importance. It is however equally certain that the majority of the Bank’s clients attach an even higher priority to the urgent need to provide their people and economies with reliable and affordable energy, particularly electricity.

From this point of view, we would like the Bank to devote more attention in its future work to the support of traditional energy sectors. This should include refurbishing existing power plants and building new ones, supporting extractive industries, promoting good governance and transparency in extractive, infrastructure and energy sectors. Special importance should be attached to Bank’s efforts to attract private sector resources into developing countries’ energy sector.

The report proposes new Bank instruments for these areas. We believe this to be a very useful initiative. On the other hand we believe that we should not neglect existing instruments of assistance, especially in view of the recent successful efforts to reduce the cost of doing business. Consequently, we are not convinced that the Bank should promote new energy technologies before they have demonstrated their commercial viability. Bank’s comparative advantage is in spreading established and proven development knowledge. For its clients, Bank’s support for a particular policy or technology is tantamount to an expert and unbiased verdict of efficiency. We believe that the Bank would be well advised not to stray from this traditional role.

By the same token, we are not sure about blending together support to the energy sector and helping countries affected by climate change. In future we would prefer to consider these two issues separately.

While we are happy to support the proposed expansion of the Bank’s energy agenda, we would also suggest the following areas for future work:

- Review Bank’s policy on large hydropower projects. Experience shows that such projects can play a decisive role in developing entire regions and lifting tens and hundreds of thousands of people out of poverty. At the same time, international financial institutions continue to put prohibitively high barriers to financing such operations.

- Review Bank’s policy on other traditional large energy projects, especially in the electricity sector, so as to allow expanded assistance to clients in this area.

- Initiate analytic work on possible Bank involvement in nuclear energy.

With respect to the last point, it should be stressed that nuclear power is a clean source of energy both from the point of view of its local environmental effects and from the greenhouse gas emissions
standpoint. Modern technologies ensure high levels of safety and reliability, and the lessons of Chernobyl have been well learned in the intervening twenty years. In addition, Bank’s participation in infrastructure projects traditionally ensures a high level of compliance with all international standards and best practices – be it in financial transparency or environmental protection. Conversely, when the Bank stays away from projects it sees as controversial, they are quite often implemented anyway, but with a poorer governance and oversight structure, and usually less efficiently.

With this in view, we propose that the Bank, as a minimum, set up a working group to consider this issue.

Global Monitoring Report 2006: Strengthening Mutual Accountability

We welcome the Global Monitoring Report 2006, which focuses on major mutual accountability areas of the key players of development process – developing countries, developed countries, and IFIs. We find especially useful a more detailed analysis of challenges associated with closing the infrastructure gap, which is one of the major impediments to growth and increased productivity and competitiveness of developing countries. For the first time the GMR talks explicitly about huge gaps in access to basic infrastructure for different population groups and uneven quality of infrastructure services that exacerbates existing inequalities. The report also recognizes the need to create and adequately manage the fiscal space for infrastructure development while addressing the growing role of sub-national entities in implementing and financing of infrastructure programs.

However, there is still a long way to go in addressing these critical developmental challenges, both at the theoretical and practical level. For instance, the World Bank which claims to be a "knowledge bank", still has a limited understanding of the role of infrastructure in human development despite the fact that the magnitude of these effects is widely admitted nowadays. One manifestation of this “knowledge gap” is the fact that the Bank Group until quite recently has been unable to respond to growing requests to provide financing directly to sub-nationals, in local currency, and without sovereign guarantees.

The report candidly discusses issues related to budget management for human development results. We support Bank’s open discussion of the obstacles that prevent many countries from meeting the MDGs. Bank’s particular attention to maintaining efficiency of social spending is well justified. This problem is facing many developing countries. We believe that the World Bank Group has an in important role to play by providing direct technical assistance as well as by enhancing donors’ coordination along countries’ priorities and budgets.

Regular discussions of scaling up aid and improving its quality are very important. There is a clear indication that improving the quality of aid can largely substitute for its increased volumes. We also believe that the issue of macroeconomic management of aid needs to be analyzed in more detail. We believe that in future a separate chapter of the GMR should be devoted to this issue.

This GMR emphasizes the role of governance as a means to ensure development effectiveness. In our view, this emphasis is excessive. Instead, it would be more appropriate to concentrate on issues that are immediately relevant for the ways and means of achieving the MDGs. For example, a number of client countries are facing an urgent problem of improving their public finance management systems, which is essential for aid effectiveness, especially taking into consideration new opportunities opened up by MDRI. We are concerned that many of these countries still lack such essential elements of public governance as reliable statistical systems and public expenditures tracking mechanism. In this environment it would be very difficult to assess the immediate outcomes of programs financed by the international donor community, not to mention implementing refined methods of impact evaluation in the Managing for Developmental Results framework. We would therefore welcome an emphasis on practical
approach to improving governance and fighting corruption in the area of public finance and public administration. The proposed monitoring of governance should emphasize the more obvious and less controversial aspects of the issue which are directly linked to our ongoing work.

Fiscal Policy for Growth and Development: An Interim Report

We welcome this report, which is one of the first attempts to tackle the issue of fiscal space in a systematic fashion. The document correctly states that macroeconomic stabilization achieved through severe compression of public investment cannot be sustained without depriving the economy of long-term growth prospects and undermining key publicly funded social programs, particularly in infrastructure maintenance and construction, as well as in education and health services.

Clearly, fiscal policy prescriptions cannot be the same for all countries. On the other hand, it is also clear that international financial agencies have to develop some basic approaches to the issue that could be applied across the board. The issue therefore is that of the balance between these basic principles and particular circumstances of each country.

In the framework of Russian Chairmanship of the G8 we have achieved important common ground with respect to principles of responsible and efficient management of public finance. We hope that further G8 work in this area will stimulate global discussion that would benefit both particular countries and the world economy as a whole.

One of the solutions proposed by the Bank – calculating government net worth – deserves future study, although it is too early to say whether this could lead to a practical methodology of designing fiscal policy. We intend to consider this point further when the final report is available.

It would be fair to note that most of the conclusions presented in the Interim Report are not new. For example, we have already had many discussions of rationalizing public expenditures to reflect the requirements of stability and growth; mobilizing additional local resources and revenues; using loan and grant proceeds for productive purposes. The task is not to formulate these goals, but to attain them in practice. Introducing the notion of fiscal space will not by itself lead to a practical resolution of these urgent problems.

The Doha Development Agenda and Aid for Trade: Hong Kong and Beyond

The World Bank plays an important role in international trade discussions. We therefore welcome this report on the status of implementing the Doha development agenda. Bank’s role in this area is twofold. First, the Bank is a unique analytic center, performing independent and candid assessments of developments and proposing novel approaches to existing problems. Second, the Bank has an advocacy role in championing the interests of the developing countries, helps them formulate their negotiating position, provides technical assistance to build capacity and implements related projects.

As for the analytical role, the current state of negotiations as described in the report points to still substantial slack in multilateral trade liberalization. Negotiations are clearly lagging behind expectations. It should also be noted that the Bank is also to some extent responsible for these inflated expectations, because it was the Bank that initially proposed unrealistically high estimates of potential gains from agricultural trade liberalization. We were always skeptical about such estimates, and the Bank itself was eventually compelled to revisit these numbers.

We believe that the Bank should not confine its analytical work to the WTO paradigm. The logic of trade negotiations often dictates that a drop in tariffs is seen as a retreat, a favor that requires
compensation. Since the Bank is not a party to negotiations, it has a unique opportunity to emphasize the advantages of liberalization to the liberalizing country itself. These advantages have long been analyzed and understood by economists, but the Bank could help convince both the negotiators and the broader public.

As for aid for trade, we maintain our traditional supportive view of this work. At the same time, we are disappointed by the low effectiveness of technical assistance in this area and hope that it can be improved. Only increased effectiveness of this aid would justify allocating additional funds for these purposes.

HIPC Initiative: List of Ring-Fenced Countries Potentially Eligible under the Initiative

We are fully satisfied with the decision to draw the line under the list of potential beneficiaries of the HIPC Initiative. This is in line with our long-standing opposition to attempts to convert it into a mechanism for recurrent debt write-offs condoning irresponsible borrowing and lending.

We have always insisted that the Initiative had been designed as a package of mutual obligations and incentives, rather than a complete and unconditional debt forgiveness. The purpose of the Initiative was to ensure that the debtor countries adhere to strict conditions in the area of macroeconomic management and social policy. Their inability to meet these conditions should not be used as an argument for new extension of eligibility. We believe the only logical approach is to close this chapter. If the international community wishes to continue tackling the debt problem of the poorest countries, we should start working on new approaches to this issue.

It is likely that not all of the listed countries will be able to meet the stringent requirements of the Initiative, so that in the end some of them will not benefit from the Initiative. This only underlines the fact that the HIPC Initiative is but one of the many instruments available to the international community to assist sustainable development in the poorest countries. Current stage of the HIPC Initiative is a good time to start looking for more effective alternatives.

Statement by H.E. Guido Mantega, Minister of Finance, Brazil

Clean Energy and Development: Towards an Investment Framework

This Constituency commends the World Bank for taking the lead in one of the most critical issues of our time. We strongly support the idea of an investment framework aiming at promoting clean energy sources and uses. Climate change is rapidly becoming a major issue in the development agenda, with material losses linked to climatic anomalies increasing by a six-fold factor since 1970. The UN University in Bonn assesses that from 2010 onwards, approximately 50 million people will be displaced by natural disasters. As climate change is already inevitable, mitigation and adaptation steps to address it are equally critical and should be tackled by the proposed framework.

Long before the G-8 Communiqué on climate change, clean energy and sustainable development, the countries of this Constituency have held the view that these three issues are closely intertwined. However, tightly linked these issues may be, they represent different angles of a challenge that implies

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25 On behalf of Brazil, Colombia, the Dominican Republic, Ecuador, Haiti, Panama, The Philippines and Trinidad & Tobago
costs for all those affected by events such as changing patterns of temperature and humidity over seasons; varying microclimates along geographic regions; increased occurrence of floods, landslides and forest fires; reduced biomass production; agriculture productivity and fish catch; spreading vector borne diseases; poorer air quality; and a reduction in the reliability of hydropower. Curbing current and potential emissions will be costly. Worse yet, the incremental costs for developing countries to move strongly towards a lower carbon economy will conflict with a perception of unfairness if historical emissions are considered. International cooperation will be key to resolving this conflict.

The countries of this Constituency have an impressive array of successful experiences targeted to reduced emissions by means of using clean energy. For example, approximately 44% of Brazil’s primary energy supply comes from renewable sources. While hydroelectricity represents 85% of Brazil’s power generation, the country has developed only 41% of its hydropower potential. Ethanol’s participation in the matrix increased from 6.8% in 1978 to 13.5% in 2004 and is projected to reach 14.3% in 2010.

The challenge for international cooperation in coping with climate change is how to set up a collective action that is surrounded by uncertainty and permeated by other externalities, market imperfections, and weak representation of those most affected by the problem - the future generations. Such a complex inter-temporal international collective action has to deal with the assumption that climate change is global in both its origins and its effects. Even though rich countries have been the source of more than 70% of the emissions over the past 50 years, developing countries will account for more than 70% of the forecasted growth in emissions in the next 20 years. In this regard, clean energy attained through efficiency gains on both the supply and the demand sides would contribute to sustainable growth and development. Such gains can only be obtained if developed countries can take the lead in the transfer of cleaner, low-emission and cost-effective technologies to developing countries by means of concrete and innovative mechanisms. An initiative of this nature implies that issues relating to intellectual property rights and expansion of collaborative research will have to be addressed. Also, it means that South-South cooperation schemes are to be improved and expanded.

With respect to biofuels, South-South cooperation is not an abstract concept. Brazil is the world’s largest producer and consumer of ethanol from sugar-cane as a transportation fuel. Production has increased from 10.5 billion liters in 2001 to 15.4 billion liters in 2005. Brazil is now the lowest-cost sugar and ethanol producer in the world. Nowadays, ethanol accounts for more than 40% of fuel consumption for transportation in Brazil, with estimated savings of US$ 61 billion between 1975 and 2004 resulting from its ethanol program which substituted about 230 billion liters of gasoline. Currently, the sugarcane planted area represents 0.6% of the Brazilian territory, approximately 250 million hectares of fertile land with favorable pluviometric regime, adequate inclination, satisfactory logistics, and low environmental impact in all States (except in the Amazon region). Areas available for expansion equal 12% of the territory. Counting on 320 sugar mills and 100 distributors of ethanol to more than 30 thousand fuel stations, Brazil exported 2.58 billion liters of ethanol in 2005 (revenues of US$ 584 million).

The proposed investment framework offers the World Bank an opportunity to renew and deepen its ties with clients. The current decline in Bank’s operations with MICs is partially explained by the institution’s difficulty to both identify and meet clients’ needs. Frequent bilateral requests from countries willing to share technology of production and consumption of ethanol for urban transport clearly represent a need to be fulfilled. These requests suggest that the World Bank could constitute a platform to foster cooperation schemes and to facilitate the South-South energy investments, by providing expertise, financing and risk mitigation instruments.

This Constituency stresses once more that the United Nations Framework Convention on Climate Change (UNFCCC) provides the adequate framework to regulate issues pertaining to climate change. We are firmly convinced that the principle of common but differentiated responsibilities should be maintained
as it enables developing countries to contribute to global emission reduction without undermining their
overriding priorities of economic and social development. Within the UNFCC framework, we envisage a
need to establish a long term, stable and predictable regulatory system on global clean energy to create an
enabling environment and provide incentives for private and public sector investments. In our view, the
Kyoto Protocol was insufficient both in coverage and in time span. Where coverage is concerned, the
Kyoto Protocol encompassed only those countries projected to emit roughly half of the world’s
greenhouse-gas emissions by mid-century. Such a limited coverage does not suffice to provide a long-run
safeguard against the dangers of global warming, given that current carbon emissions are on an
unsustainable path. With respect to time span, we believe that the period ending in 2012 will not be long
enough to clearly demonstrate the benefits to be derived from the agreement.

In the spirit of the UNFCCC, we believe that the world’s industrial core should create incentives
for the developing world to industrialize along an environmentally-friendly, C02- and CH4-light path. Slow
growth of greenhouse-gas emissions in rapidly-growing economies must be accompanied by
credible promises to deliver massive amounts of assistance to meet the challenging tasks of
industrialization, education, and urbanization that developing countries face. Support is also needed via
technology transfer at zero or negligible costs. The developing world needs incentives for its energy
industries to undertake the investments in new technologies that will move the world by mid-century to an
economic structure that is light on carbon emissions and intensive on carbon sequestration.

At this early stage of the discussion on an investment framework, this Constituency deems that it
is wise not to discard any clean energy sources, nor to focus on readily available technologies. The wide
range of clean energy options notwithstanding, from sources as diverse as new thermal power plants,
natural gas, solar, wind, hydro, biomass, geothermal sources, and nuclear fission, we note that they are
not at the same level where effectiveness is concerned. If the proposed investment framework is to select
technologies that seek to enhance access to clean energy, improve energy security and promote
environmental protection at the local, regional and global level, then it will necessarily have to adopt
economic, financial, environmental, and social criteria to help establish a hierarchy amongst sources of
clean energy currently available. In this case, there is enough evidence to support the notion that
replacement of fossil fuels by biofuels, along with conservation techniques, represents the most effective
and cost-efficient way to mitigate greenhouse effect. Despite the superiority of this option, we see a need
to pursue a portfolio approach for policy, technology deployment and R&D involving natural gas, coal
(with capture and storage), biofuels, renewables (solar, wind, hydroelectric power with lower costs and
higher availability), nuclear energy (with safe waste management), hydrogen and fuel cells (with lower
costs and technical advances).

In addition to clean energy sources, we highlight that end-use efficient technologies are equally
critical to both mitigation and adaptation strategies. For developing countries, end-use energy efficiency
improvement is an important component that does not really impact public finances. For developed
countries, the benefit would naturally be much larger because of higher per capita energy consumption. In
our Constituency, we have the concrete example of flex-fuel vehicles in Brazil. Sales of those vehicles
have increased from 3% of total sales in 2003 to 50% in mid-2005. In January 2006 it reached 72.8% of
total sales in January 2006. Since 2003, Brazil has manufactured 31 new models of flex-fuel vehicles, by
seven automakers, which run with any mixture of gasoline and ethanol, with no necessary action by car
drivers.

The countries in our Constituency have common issues that hopefully will be addressed by the
proposed investment framework. A strategy for forested areas which balances developmental objectives
with forest maintenance and regeneration is a concern in many of our countries, along with exploitation of
hydro potential. In addition to energy efficiency savings, we believe that industrial scale bagasse and
ethanol production and research into biodiesel may bear important results. The definition with respect to
post-2012 climate management regime is of the essence, since carbon trading has already become an important financial tool to help promote clean energy. Also, the development of financial products to help stimulate cleaner technologies and mitigate risks (debt finance, credit guarantees, disaster insurance) is critical. Last but not least, our countries need improvements in their capacity to deal with climate risks, including extreme weather events.

We underline that the proposed financing instruments (Clean Energy Financing Vehicle, Power Rehabilitation Financing Facility, Project Development Fund, and Venture Capital Funds for Technology Adoption) should mobilize new and additional financing from developed countries, as developing countries are not expected to bear the additional costs of a low-carbon economy. Also, they should reflect the requirements of global public goods, and thus should not be subject to IFI conditionality.

The threats associated with climate change cast a new light on hydropower. This Constituency advocates hydropower, subject to reasonable national environmental and social standards, as a renewable clean energy source as agreed during the 2002 World Summit on Sustainable Development. We point out that electricity corresponds to 73% of US$ 8.1 trillion total capital investment estimated by the International Energy Agency from 2003 to 2030 for the developing and transition economies to meet their energy needs. Despite the increasing importance of hydropower, we remain skeptical about the possibility of the private sector financing the huge gap between installed capacity and projected capacity. We stress the disappointing performance of the private sector in financing the infrastructure gap, as recorded in a number of World Bank’s documents.

Furthermore, this Constituency considers that more attention should be paid to reforestation. In the Montreal Conference, Brazil submitted a proposal on forest conservation to mitigate global warming. We recall that approximately 75% of new emissions derive from deforestation. This is possibly the most relevant cause of global warming nowadays as it rivals those from CO emissions in North America. We urge that the Brazilian proposal be taken into account in the design of the clean energy investment framework.

Finally, we concur with the proposed two-track strategy proposed by the document, one encompassing activities to be completed by September 2006 (including a more detailed proposal for the financing facilities) and the other including activities to be developed over the next two years (with particular attention to new knowledge on technology options and proposed programs of action for selected countries).

Global Monitoring Report 2006: Strengthening Mutual Accountability – Aid, Trade and Governance

This Constituency acknowledges with satisfaction that this year’s document incorporates our comments on previous editions about the need for stressing the intertwined responsibilities of developed countries, developing countries and international financial institutions. In our view, the Global Monitoring Report must reflect the tripartite agreement established in Monterrey by clearly indicating progress in accomplishing the responsibilities bestowed upon the three different sets of actors. However, this tripartite responsibility is not fully reflected in the sections dedicated to governance. It would have been better if it showed the responsibilities of the three main actors with respect to governance.

We stress that the usefulness of the document lies in its ability to help policymakers design strategies aiming at reduced poverty. In this sense, we recall the seminal document “Achieving the MDGs and Related Outcomes: A Framework for Monitoring Policies and Actions”, approved by the Bank’s Board on March 11, 2003, which reads “the Development Committee would contribute to the implementation agenda through regular monitoring of the policies, actions, and outcomes needed to achieve the goals, and asked the Bank and the Fund to make proposals for taking their intention forward.
... a unifying thread across meetings”. From our prospective, the GMR must have two key features, namely: (1) to provide information and data to assess countries’ progress toward achieving the MDGs; and (2) to facilitate continuity of this assessment. In other words, coherence and continuity are imperative. Coherence and continuity will only be kept if a strong link is established between the main theme and the monitoring action. This is why we believe that both a careful selection of themes and a continuous review of past reports are essential.

This Constituency fully supports the notion that governance is a critical dimension of any development policy. However, we caution policymakers not to take lack of governance as a synonym for corruption. Corruption hinders development not only because it diverts resources but also because it signals flaws of governance. Whereas corruption must be fought against with all means, we indicate that focus on corruption excessively narrows the discussion on governance. It overlooks a number of other critical aspects such as mismanagement due to poor planning, insufficient training, absence of equipment and premises. We also underline that corruption is a two-way road, since the availability of avenues for providing secure and financial investment of the proceeds of corruption in various global financial institutions, banks and tax havens provide an additional incentive to divert public resources. We point out that current ODA inflows to developing countries are a mere fraction of resource outflows to developed countries due to commercial corruption.

Fighting corruption and improving governance is a continuing process that depends on a number of conditions, including external support. In this sense, it would be counterproductive to hold up all development efforts until the fight on corruption has been won. The fight against corruption does not preclude all involved parties from tackling real issues such as the quality of aid, debt relief, trade and infrastructure.

This Constituency highlights that the elaboration of aspects linked to governance is at a very early stage and hence robust conclusions cannot be drawn from data gathered by means of a still evolving methodology. Also, historic series are not yet extensive enough. Against this backdrop, we caution that no clear causality can be firmly established between development and governance and therefore more work is needed for developing specifically monitorable and actionable disaggregated governance indicators to avoid subjective judgment on governance at an aggregate level.

Finally, as we acknowledge that governance permeates all dimensions of Bank operations, this Constituency advises development agents not to attribute to lack of governance, each and every problem related to Bank operations. Since a number of other reasons help explain problems faced by Bank operations – such as insufficient volume, absence of country ownership, unpredictability and instability of flows, poor designing of projects – a comprehensive approach cannot be replaced by any conceptual panacea.

Statement by Mr. Trevor Manuel, Minister of Finance, South Africa26

Global Monitoring Report

We welcome this third Global Monitoring Report (GMR) and its key message of mutual accountability with respect to aid, trade and governance.

26 For the Africa Group 1 constituency.
The 2005 GMR had a central theme of “MDGs: From Consensus to Momentum”, and called our attention to issues of implementation of the Monterrey Compact. In terms of progress towards meeting the MDGs, the message of the 2006 GMR is consistent with that of last year’s i.e. we are still far from meeting the MDGs by 2015. In fact, at this moment, almost all regions are off-track on meeting some of the MDG goals. In Sub-Saharan Africa in particular, progress towards the goal of reducing income-poverty has been disappointing, and it is now clear that unless some drastic measures are taken, this goal will not be met.

These findings are indeed troubling and they should serve to remind us all of the urgency with which we need to act. The report reminds us once again that a higher and sustained level of growth is necessary if developing countries are to make any significant dent in the poverty reduction goals by 2015. Developing countries, for their part, have shown strong commitment to sound development strategies and stronger systems of governance. Their efforts should be supported by increased, more effective, flexible and predictable aid flows on the one hand, and a concerted effort to progress further on the Doha trade round on the other. It is in this spirit that we believe the GMR should continue to play a critical role, as a tool to assess progress on all fronts, but most important, towards meeting the MDGs.

We welcome the GMR as an integrated assessment of progress on policies and actions on the Monterrey compact, and note the emphasis on governance this year. The need for good governance to support aid effectiveness in improving service delivery to the poor is unquestionable. However, the governance discussion in the GMR could be more balanced in terms of considering, over and above what developing countries could do to improve governance, ways in which to strengthen global checks and balances, particularly those within donor countries and international financial institutions. It should also be acknowledged that African leaders are making significant progress on this issue, for example through the African Peer Review Mechanism. We believe these efforts should enable us to come to a mutually acceptable and objective monitoring framework.

Turning now to the issues for discussion, I wish to make the following three points:

Aid, Debt and Trade Commitments

The finalization of the MDRI is, in our opinion, timely. African countries that qualified for the 100 percent debt relief from the World Bank, IMF and the AfDB stand to benefit greatly and their ability to implement pro-poor growth policies will be strengthened, stemming from an enhanced fiscal space. It is concerning to note that more than 70 percent of the debt repayment falls due only after the year 2015 i.e. after the time period of the MDGs. It is important that the MDRI implementation is within the spirit of its original intentions, which is to assist in reaching of the MDGs. We look forward to its full implementation without additional conditionalities.

We further welcome the addition of eleven countries that will qualify for debt relief under a new round of the HIPC. We continue to argue, however, that there are other developing countries with equally unsustainable debt burdens and therefore a solution to their debt problems is also urgent. We therefore urge our development partners to live up to their commitments for increased aid and debt relief for all low-income countries.

Issues of enhanced market access for developing countries are also of particular importance to the development agenda. Increased trade is key to higher growth and sustainable development. We are therefore disappointed that the outcome of the Hong Kong meetings is modest. This, in our opinion, poses a real danger that the Doha Development Agenda might deliver very little benefits to developing countries. This situation could be further exacerbated by countries reverting to protectionist policies on the back of rising global imbalances.
Aid effectiveness, Donor Harmonization and a better Results Framework

The increase in aid as reported by OECD / DAC is welcomed, as are the major commitments made in 2005 by the G8 and other donors. There is a need, however, to focus on delivery and on improving aid quality. This calls for a monitoring framework to ensure aid additionality and effectiveness. Equally important is the need to address aid volatility, which in our view continues to disrupt the implementation of countries’ development agenda due to the uncertainty of aid flows. Collaboration between the Bank and the OECD/DAC on such work would be welcomed.

Governance as part of Global Monitoring

We agree that good governance is the responsibility of all and we concur with the broad thrust of the GMR that governance is central to development. The report provides a useful framework for identifying patterns of governance across countries over time. A key concern, however, is that most of the indicators to measure governance are based on opinion surveys, and fail to capture progress in institutional reform and regional/continental initiatives such as the African Peer Review Mechanism.

Indeed, since governance measures are based on perceptions, they can erroneously signal a deterioration in governance because of increased transparency rather than due to any real change in governance.

At the global level, we are concerned that many developed countries have not ratified the UN convention against corruption, and we would urge them to do so.

We wish to stress that the World Bank’s ultimate mandate is that of fighting poverty and it should therefore focus its attention on issues that promote economic governance such as building institutions, provision of basic services and infrastructure development. It is critical that promoting governance, and in particular fighting corruption, should not be at the expense of the poor.

Climate Change for Development

We support the proposed three pillars, namely (a) meeting clean energy needs of developing countries with no carbon constraints; (b) main actions needed to realize a global low carbon economy and reduce greenhouse gas emissions particularly in OECD countries; and (c) addressing the challenge of adaptation to the consequences of climate change are therefore timely.

For Sub-Saharan Africa, however, it is important to take due cognizance of the dichotomy that is at play, i.e. dealing with the negative impacts of global climate change as well as the absolute importance of increasing energy availability and efficiency. Going forward, it will be critical that the two-phase approach being considered for the development of the investment framework, which will address the key issues of financing, country program support and global research particularly on adaptation, should consider this dichotomy seriously. A key issue for us is the substantial resource requirements needed for SSA to finance the cost of adaptation.

Taking into account the circumstances which developing countries face, particularly countries in our region, it is perhaps necessary to stress the importance of the following priorities:
Access to energy in Africa is the top priority

- For the poor in Africa, access to energy is the top priority. Therefore the key issue for the region is the development of reliable and affordable energy supply. Also, Africa has tremendous unexploited potential for the supply of untapped traditional energy sources such as hydro, thermal (coal) power, and natural gas. In this connection, the key contribution by the World Bank in consultation with others is to explore affordable and cost-effective energy sources for the world’s poor. The proposed investment framework, should also seek to create investment for the private sector in developing countries. This could be structured in a manner that combines the benefits of reduced greenhouse gas emissions with job creation, rural development and managing environmental issues, including desertification. There are various other potential opportunities for investment in renewable energy including wind, geothermal and solar power for electricity production.

Financing the clean energy for development agenda

- Mobilising financing for the energy sector on the scale required is expected to be a significant and critically important challenge. To this end, we look forward to reviewing proposals by the Bank to be presented later in the year. In determining the financing modalities, facilitating active engagement with all developing countries and other stakeholders such as the regional developing banks, will also have greater impact. In the past the GEF has played a key role in exploring and transferring innovative technologies to developing countries. This success could be effectively built upon to the benefit of all countries. We therefore call for a significant fourth replenishment of the GEF, as it has the potential to benefit many developing countries.

Climate change adaptation

- On the issue of adaptation, extreme climatic shifts are creating effects that are of increasing concern to our region. Being the least developed region, we already face significant development challenges, and now we must also face climate change effects without the means or resources to adapt and safeguard lives. These adverse effects include the new wave of persistent and repeated droughts in some of our regions - which have a negative impact on such things as hydropower output and on agricultural production. Countries are thus finding it increasingly difficult to mitigate these and other recurring shocks.

Finally, it is perhaps important to note that as the work in this area will benefit greatly from an effectiveness communication strategy, that describes the development impact on poorer countries. In this connection, the issues of differential treatment between the developed and developing countries would need to be better spelled out, in order to ensure broader buy-in from all stakeholders.

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

On behalf of my constituency, I would like to begin by congratulating Mr. Alberto Carrasquilla, Minister of Finance of Colombia, on his appointment as Chairman of our Committee. I wish him every success in his mission. I would also like to pay tribute to Mr. Trevor Manuel, South African Minister of

27 On behalf of Afghanistan, Algeria, Ghana, the Islamic Republic of Iran, Morocco, Pakistan and Tunisia.
Finance, for the tireless work done by him during his mandate to achieve the objectives of our Committee.

I would also like to avail myself of this opportunity to extend congratulations to our new Executive Secretary, Mr. Kiyoshi Kodera, whose reputation for competence is sure to facilitate the work of the Committee.

The Seventy-third meeting of our Committee is taking place against the backdrop of expansion of the global economy, which continues to outperform expectations, despite high oil prices and natural disasters. This economic growth, buoyed by a steady increase in investment, accommodative macroeconomic policies, and highly favorable financial conditions, is projected to reach 4.9 percent in 2006 and 4.7 percent in 2007, compared to 4.8 percent in 2005.

As a result, relatively strong growth in the United States is expected to continue, with GDP projected to increase by 3.4 percent in 2006 and 3.3 percent in 2007, against 3.5 percent in 2005, driven largely by domestic demand. Economic activity increased significantly in Japan during the last four months of 2005, resulting in a growth rate of 2.7 percent in 2005. The growth rates in 2006 and 2007 should stand at 2.8 percent and 2.1 percent, respectively. In the euro zone, while economic growth remains vulnerable to domestic and external shocks, this rate should rebound to 2 percent in 2006, compared to 1.3 percent in 2005.

In the main emerging markets and other developing countries, the recovery continues to gain strength, with growth rates being revised upwards in most countries and regions.

In the emerging countries of Asia, growth is expected to stand at 8.2 percent in 2006 and 8 percent in 2007, against 8.6 percent in 2005, driven by growth rates that remain very high in China and India. Growth in China, in particular, is expected to continue to hover at close to 10 percent, propelled largely by investment and net exports.

In Latin America, despite Brazil’s low rate in 2005, GDP growth remains solid, as a result of a sharp increase in the prices of raw materials, which facilitated a marked improvement in debt ratios. Projected growth rates for this region are 4.3 percent in 2006 and 3.6 percent in 2007, compared to 4.3 percent in 2005.

In the Middle East, growth should continue to benefit from the rise in oil prices and production, and is expected to be accompanied by significant external and budget surpluses, in a context of consumer behavior that is, however, generally more cautious than in the past.

In transition countries, while GDP growth has become less sensitive to higher oil prices, worsening current account deficits and the surge in borrowing pose significant risks to these economies.

In the poorest countries, growth has reached the highest levels recorded in the past three decades, largely as a result of improved macroeconomic fundamentals and structural policies, an uptick in the prices of raw materials, and greater political stability.

Improvement in the global economic outlook has not, however, reduced the significant vulnerabilities existing in industrial and emerging countries, which pose a threat to the global economy and are linked mainly to sizeable current account imbalances, the rise in and volatility of oil prices, possible interest rate hikes, and the risks associated with an avian flu pandemic.
We have a joint responsibility to address these vulnerabilities and risks. As recommended by the international financial institutions, our work should focus, among other things, on reducing global imbalances in an orderly fashion, strengthening the medium-term fiscal position in both industrial and emerging countries, and creating conditions that would allow as many countries as possible to benefit from globalization, to achieve high and sustainable growth rates, and to reduce poverty, in particular by removing barriers to exports from developing countries, staving off protectionist trends, and increasing aid to developing countries.

Global Monitoring Report 2006: Strengthening Mutual Accountability

With regard to the Global Monitoring Report 2006, we would first like to commend the teams of the World Bank and International Monetary Fund on the germane content of this report, which underscores the need to strengthen mutual accountability with a view to achieving the Millennium Development Goals (MDGs).

Indeed, six years have elapsed since the adoption of the Millennium Declaration and it is important to take stock of what has been achieved since our last meeting and to highlight what remains to be done in order to attain the goals within the timeframes set.

A number of important events occurred in 2005, among them the convening of the Paris High-Level Forum in March, the UN Summit in September, the WTO meetings last December, and the publication of progress reports on achievement of the MDGs.

In order to attain the Millennium Development Goals, the Global Monitoring Report 2006 places additional financing needs at US$50 billion per year over the next ten years. Consequently, the international community must mobilize a higher volume of resources. This report also indicates that the OECD-DAC (Development Assistance Committee) member countries gave US$80 billion in aid in 2004 or 0.26 percent of their GDP. In this context, we would like to commend the five member countries of the Development Assistance Committee that provided aid amounting to 0.7 percent of their GDP, and well as non-DAC donor countries, among them Arab countries, whose aid amounted to 0.85 percent of their GDP. We urge other developed countries to follow their example.

In the area of poverty reduction, we are pleased to note that overall, progress expected has been achieved as a result of favorable growth trends. However, we regret the fact the progress made by many developing countries in improving the investment climate remains inadequate.

We are deeply concerned over the observation made, with respect to achievement of human development goals, that most MDGs will not be met in the majority of countries. Indeed, while globally it could be possible to achieve the objective of halving the number of people living on less than one dollar a day, achieving the human development goals by 2015 risks being gravely jeopardized, particularly in sub-Saharan Africa and South Asia.

We are, however, pleased to note that in a number of countries, significant strides have been made in the area of human development. Consequently, we share the view of the World Bank that infrastructure expenditure, in the areas of both investment and operating expenses, should be stepped up and the pace of governance-related reforms quickened in order to bolster this progress.

With regard to aid, debt relief, and trade, we applaud the new commitments made to strengthen aid and debt relief targeting low-income countries. We hope, however, that these commitments will be honored and that additional debt relief will not come at the expense of new financing that is needed, and should, in the case of these countries, primarily take the form of grants.
Against this backdrop, aid will need to become more flexible, more predictable, and better aligned with national priorities. This aid must also be used more effectively.

In the area of trade negotiations, we note with disappointment that the progress made remains grossly inadequate. The international community as a whole should make a concerted effort to ensure that the Doha Round yields results that are conducive to development within the allotted timeframe.

We note with satisfaction the progress made with respect to results-based management by the international financial institutions (IFIs) and national programs. It would be desirable, however, for work done in this area to be placed in the context of a long-term vision of development and for the process to incorporate in it the provision of additional resources and technical assistance aimed at building capacity in developing countries.

We are also pleased to note the fact that the report points to governance as a key component of the mutual accountability framework, central to the process of achieving the MDGs, especially given that the view is expressed in the report on the United Nations Millennium Project, prepared in 2005, that failure in the area of governance constitutes one of the four biggest obstacles to achieving the MDGs. At the same time, the United Kingdom’s Commission for Africa Report, prepared in 2005 and entitled “Our Common Interest,” recommends improving governance as a key means of reducing poverty.

We must nevertheless reiterate that governance problems are not the only constraints to growth and poverty reduction, and that these problems are not limited only to countries that receive aid. The partners, both IFIs and donors, should lend support to the global framework that is emerging in the area of good governance. They should help strengthen governance and reduce corruption by setting rigorous standards for their enterprises operating in developing countries and by encouraging the participation of partner countries, through the provision of the necessary aid, in order to enhance transparency and strengthen national statistical systems.

We therefore support the main recommendation of the Global Monitoring Report 2006: namely use of existing governance indicators and greater investment in the design of indicators that are more specific and actionable. However, given the impact of these indicators on the image and appeal of the countries concerned, it is important for them to be tailored to the specific characteristics of member countries and for the collection and related assessment processes to be infused with the utmost rigor and objectivity.

Clean energy and development: toward an investment framework for clean energy and sustainable development

We salute the World Bank’s initiative to approach this global problem of climate change and the need to promote sustainable development that respects the environment.

This approach will supplement the initiative taken by the Gleanagles G8 Summit in July 2005, where it adopted a Plan of Action on Climate Change which included in particular the establishment of an investment framework for clean energy and sustainable development. We salute the launch of this framework by the World Bank and the Chair of the G8 (United Kingdom).

The report presented as one of our Committee’s documents, entitled “Clean Energy and Development” has two main focuses, namely: (i) clean energy and the reduced carbon intensity economy; and (ii) adaptation to climate change.
With regard to the first, we have duly noted that the proposed framework should make it possible for developing countries to facilitate their people’s access to new sources of renewable energy at affordable prices with a view to reducing poverty, increasing productivity, enhancing competitiveness, and in the process, improving the prospects for economic growth. In point of fact, perpetuation of the current energy policy and energy technology choices would pose the risk of disastrous consequences both environmentally and in the economic and social spheres.

The range of technologies that would make it possible to meet the challenge of clean energy and the reduced carbon intensity economy is quite broad, ranging from wind energy, hydroelectric energy, solar energy, geothermic energy, or biomass-based energy, all the way to nuclear energy.

In this connection, it is our hope that access to nuclear energy for exclusively peaceful purposes can be extended to countries that demonstrate their capacity to adhere to internationally recognized standards and good practices in this regard.

With a view to ensuring better adaptation to climate changes which threaten the entire planet and risk undermining gains made in agriculture, health, and infrastructure as well as compromising the progress made to date toward achieving the MDGs, we consider it of primordial importance to guarantee the transfer of agricultural technologies and to review the planning systems and standards in this field, especially as regards the management of water resources and the agricultural use of high yield species and species that are highly resilient in a dry climate.

Lastly, we wish to stress the exorbitant burden posed by energy on those developing countries that are net importers of petroleum and the risks this brings to bear on their future growth and prospects of achieving the MDGs; this situation argues in favor of rapid implementation of the recommendations referred to above and in favor of working together to identify ways to ease this burden as rapidly as possible.

Toward a fiscal policy for growth and development

We are pleased to note the preparation of this interim report on the importance of a fiscal policy focused on promoting growth and development.

This highly germane report is, to our way of thinking, the first stage in developing a fiscal policy which must be transformed from one focused on macroeconomic stability into a policy oriented toward growth and poverty reduction.

We support the position set forth in this interim report on the need to safeguard macroeconomic stability and fiscal solvency as decisive factors in achieving long-term growth.

With regard to the creation of fiscal space, we support the position according to which the state must first take the following aspects into consideration:

- Improving the efficiency of public expenditure by reorienting it toward productive expenditure and expenditure capable of generating resources that can be reallocated;
- Significantly increasing revenue through tax-related measures; and
- Identifying the potential for attracting additional external financing in grant form, as this provides the greatest room for maneuver and makes it possible to finance productive public expenditure without a negative impact on solvency.
Finally, we support the recommendations of this report, namely:

First, with a view to achieving the MDGs, fiscal policy preparation must incorporate objectives relating both to stabilizing the macroeconomic framework and to stimulating growth.

Second, the composition and efficiency of public expenditure are essential factors in achieving growth and poverty reduction objectives.

Third, in view of the particular circumstances prevailing in each country, the development of a fiscal policy oriented toward stimulating economic growth must give due consideration to the initial macroeconomic situation of each country, the impediments to growth, the efficiency of public expenditure, and institutional quality, as well as the country’s capacity to make effective use both of existing resources and of resources to be attracted in the future.

Fourth, if capacities are weak, countries must accord priority to improving the quality of the institutions responsible for fiscal management and the mobilization of public revenue.

*The Doha development agenda and aid for trade: results of the 5th WTO Ministerial and the outlook after Hong Kong*

To bolster the effects of development assistance, full participation of the developing countries in international trade is, in our opinion, becoming an urgent need. In this connection we share the priority that the World Bank accords to the rapid and satisfactory conclusion of the Doha Round, which to our way of thinking should place the concerns of the developing countries atop the list of objectives for this round.

The Doha Round should make it possible for developing countries to play their proper part in global economic integration by opening their economies and increasing their trade with the rest of the world so as to further boost their chances of achieving the MDGs by 2015.

We are convinced that trade liberalization will strengthen the opportunities for poor countries to attain the MDGs. Indeed, while the poor countries’ additional requirements for official development assistance are estimated at US$50 billion a year, the gains expected from complete liberalization of trade come to US$280 billion a year by 2015.

It bears recalling that, according to the World Bank’s most recent studies, more than two-thirds (63 percent) of global gains stemming from trade liberalization are associated with reforming trade in agricultural products. In this connection, we cannot but be pleased by the progress recently made on the agricultural component at the last Ministerial in Hong Kong SAR. Significant progress in the liberalization of services could also considerably increase these gains, and even multiply them according to some estimates.

The total liberalization of trade in goods and services is not sufficient for the poorest countries, however. Indeed, it even risks having very limited if not negative effects for many low-income countries. The gains in question will not necessarily be automatic, and some countries may incur transitional adjustment costs. An increase in assistance is thus needed at the international level to help countries overcome supply side constraints and thus be able to take advantage of the new trade opportunities arising from the Doha development agenda, as well as to meet the transitional adjustment costs arising from liberalization. In this regard, aid in facilitating trade constitutes an essential factor in realizing the potential of the Doha development agenda.
Debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative: List of ring-fenced countries potentially eligible for aid under this initiative

We are pleased to note the finalization by the IDA and IMF teams of a list of 14 countries identified as eligible to benefit from the HIPC Initiative on the basis of indebtedness and income criteria estimated at end-December 2004.

We further salute the progress made in the area of multilateral debt relief and welcome the decision reached last November by the IMF Executive Board to cancel the debt of 19 low-income countries as well as the recent approval by the World Bank Executive Board on the financing and special modalities for the contribution of US$37 billion under the Multilateral Debt Relief Initiative (MDRI) that will lead to the cancellation of the debt to IDA of some of the poorest countries in the world. We express the hope that the IDA Board of Governors will examine the resolution and vote its approval as rapidly as possible so that the debt cancellation operations can begin on July 1, 2006. We remain optimistic as to the desire of donor countries to contribute to the implementation of such debt cancellation operations by the ADB (ADF) group. We further hope that all poor countries will be able to benefit from this initiative and that the relief thus provided can add to the resources made available to them for achieving their growth and poverty reduction objectives.

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

We welcome a Global Monitoring Report (GMR) that focuses more than any other in recent memory on implementation. As we pointed out in our previous statement to the Development Committee, we do not see irreconcilable divergences in policy agendas. While policy makers may discuss the relative emphasis and sequencing of policies, there is no one to challenge the assertions that basic education, primary health care, and a sound regulatory environment are public goods of paramount importance to development. Hence our satisfaction in welcoming a GMR that takes the discussion of development policy one step further towards better development effectiveness: implementation.

Governance rightly takes a prominent place in the GMR. Its discussion of the implementation of reforms in client countries is usefully preceded by a presentation of a framework for monitoring governance. This framework is, in itself, a sound implementation measure for the allocation of IDA resources. But it also underscores the country specificity of equivalent governance arrangements, and the need for periodic reassessments of objective indicators taken together.

The Implementation of Donor Harmonization Principles in the Health Sector

The Paris Declaration goes back to March 2005, and does not have the novelty value that it had a year ago. Much of the progress since then has been much lower profile on a country-by-country basis. There is some frustration that its key principles have not been evenly put in practice, and without immediately visible results to boot.

While accelerating progress on the Paris harmonization agenda is desirable in principle, one needs to be mindful not to accelerate work for the sake of reaching ambitious milestones, lest the progress...
become unsustainable. Reducing our frustration is largely a question of managing our expectations, and letting executives in donor agencies and recipient countries hack out the practical *modus operandi*. In fact, at this stage, we find much to rejoice about. When there are capable administrations in developing countries, they have confirmed that ownership could be greatly enhanced by donor coordination and alignment. Joint donor forums have been instrumental in keeping a constant and consistent dialogue between donors and recipients. A single policy framework supported by most donors has helped governments manage the predictability and volatility of aid flows - when their dialogue with donors is genuine.

We support the ambition of accelerating progress for the Paris harmonization agenda in the health sector – and other sectors as well. As stated above, we see donor coordination as a joint effort between the donors and the recipient country government. Beyond clear principles, implementation is very much a country-by-country proposal. Progress is likely to be uneven, dictated by the different circumstances in each country. That is fine, as long as it is not due to lack of effort.

*The Implementation of the Results Agenda*

Under the right country-specific circumstances, we see no compelling reason why progress could not be booked quickly for those tasks that befall donors in restructuring their cooperation among themselves (the interagency pillar of the concrete approach to the implementation of the Results Agenda, known as “Managing for Development Results” - MfDR). It rests on agreeing a common monitoring framework, common disbursement procedures aligned on those of the recipient country administration, and, perhaps most importantly, on leadership from the recipient country. The scaling down of donor institutions should also be considered to the extent that they have run their useful life, or if their business model is not compatible with the lessons drawn from experience.

Beyond the importance of being able to allocate sufficient resources, for a government to be successful in delivering health care as much as any other service, public expenditure management must be made leak-proof and effective. In some countries, addressing the “country pillar” of the MfDR framework will require 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.

A significant part of the country’s statistical system depends on accurate public accounting. Together with domestic revenue collection that is bound to improve with better financial management on the expenditure side, we believe that the most natural entry point in building up statistical systems is through Public Expenditure Management. Other statistical activities will nonetheless remain necessary, but are typically undertaken on an exceptional basis (surveys). Permanent capacity is not as necessary for these tasks, and can be found in regional resource centers, such as AFRISTAT – which, incidentally, will help in making poverty data comparable across the region.

Actions to improve the results focus on the Bank’s systems and instruments (the agency pillar of the MfDR framework) will in large part depend on a focus on the long-term. As we stated a year ago, this translates into three areas of reform (i) a strengthening of the delivery of client services; (ii) a simplification of planning and budgeting in Bank operations; and (iii) an overhaul of human resources management policies and practices. This should result in an increase in resources for advisory activities, judicious decentralization, and more senior and qualified staff on small country desks. To reach these objectives, there needs to be substantive minimum work programs for each country desk, and adequate staff incentives and managerial discretion to decide staff rotations.
Governance: the Entry Point for Bank Engagement

We believe that governance, and Public Expenditure Management in particular, is the area of choice for the Bank to engage the poorer client countries. Controlling the cash is the first step in implementing development policies – something all well-meaning administrations aspire to achieve. Therefore, as long as the banking relationship remains strong, the Bank should provide adequate technical and financial support to help the government improve its fiduciary standards.

The analytical basis with which to engage client countries on governance is extensive. The range of issues raised by the Country Performance and Institutional Assessment (CPIA) is but a general sample of the specialized knowledge that the Bank can bring to bear on governance. A solid banking relationship between expert staff and the client can leverage meaningful results, and help the emphasis of the dialogue to shift more toward policy issues.

Achieving basic fiduciary requirements also holds the promise of fast improvement in donor coordination. With adequate standards, budget support on a programmatic basis becomes appropriate. Under these circumstances, donors collectively find it easier to base their financing on the country’s own budget, and their fiduciary requirements on the administration’s own PEM systems. However, it is worth noting that without adequate fiduciary requirements, budget support on a programmatic basis takes the focus away from sine qua non actions to improve the functionality of the administration.

Frameworks for monitoring governance are useful, but should not be a substitute for discretion in managing the relationship with the client country. As a tactical decision, Management may decide to withhold financing as long as, under the current circumstances, based on country-specific indicators, and in Management's judgment, this position is likely to achieve more for development than continued lending.

However, even when the relationship with the client country has deteriorated dramatically, Bank financing can be justified. Bank interventions would then be rooted in a "global public good" rationale (across countries, but also across generations) compatible with its mandate – and allow the Bank to be consistent with the Performance Based Allocation framework. It is only a small stretch of the imagination to think of basic education as a means to manage the volatile combination of ignorance, poverty, and youth – not least in Low-Income Countries Under Stress (LICUS). The absence of support for basic education during one difficult year could cause irreversible damage to the education system, with catastrophic consequences for future generations, the country, and the sub-region.

The day-to-day management of the banking relationship requires some discretion regarding the Bank’s course of action towards the country. In extreme cases, the swift and sweeping reaction of Management to grave and public developments of a fiduciary nature calls for transparency, and requires a tactful exercise in public relations. On the other hand, adverse publicity from the Bank toward a client country is hurtful and compromises the Bank's ability to resume lending later - something the Bank is uniquely equipped to do as a multilateral body, with other donors in tow. The strategic implications are better handled with a degree of multilateral consultation, since the day that the Bank will resume lending will almost always come. Circumstances change, and countries almost never die. Regimes may falter, and the Bank's decision to stop lending may have an impact on this. But the Bank's decision to stop lending cannot be taken based on this objective - it is just not within the Bank's mandate. As regards the Bank, there is no such thing as an end game in the management of its client relationships, and the use of adverse publicity would only make sense in this limited context.
The Implementation of the Multilateral Debt Relief Initiative

The Multilateral Debt Relief Initiative (MDRI), as a form of unconditional budget support, poses a particular challenge to the World Bank. Many recipient countries do not have systems that can provide adequate assurances that transparency, checks and balances, and accountability are firmly entrenched. Nonetheless, we agree that they could make good use of debt relief, provided that the Bank is able to ratchet up its policy dialogue to improve the budget allocations and the country systems that will administer the proceeds of debt relief – with a view to managing the fiscal space provided by debt stock reductions.

With the likely loss of some financial leverage, the Bank must focus ever more on the quality of its banking relationship with clients to achieve poverty reduction. While this effectively limits the temptation to see the Bank’s relationship with its clients in terms of rapport de force, it also provides beneficiaries with a sizable one-off opportunity to increase their borrowing – a situation that increases the risk of “free riding.” The Bank has adopted a purposeful framework to deter such behavior, but its deterrent effect is limited to the amount of financing that the Bank may withhold. It is, therefore, crucial that the donor community finds the right approach to address such behavior. Looking forward, we therefore see the MDRI as a unique opportunity to sharpen the Bank’s ability to use its moral suasion and technical advice, in cooperation with the IMF. Together with additional resources and contributions to offset forgone reflows, a sound advisory relationship will improve the conditions for faster development.

The options with which poor countries will manage the fiscal space provided by the MDRI does not differ fundamentally from the ones available to richer countries. Faster development will require more resources and a more efficient use of resources (both in terms of allocative efficiency between expenditure programs and productive efficiency within expenditure programs). Improving the management of resource mobilization (including borrowing) and the efficiency of spending is, in large part a governance issue – thus underscoring the importance of setting up incentive systems that allow civil servants to perform as per their terms of reference.

Clean Energy and Development

The debate on the links between energy provision and development has also moved beyond the question of whether energy is necessary for development. It is. The question at hand is one of how to go about providing energy that does not compromise development through its impact on the environment. The willingness of donors to provide financing is a clear sign of consensus on this issue.

The progress report proposes useful strategic paradigms to the debate. But given the current status of the debate, and the need for further analysis, it understandably does not venture to discuss practical next steps. We are willing to entertain all ideas on their merits, and see promise in a number of options – especially the ones that seek to enhance service in rural areas. At this stage, these options do not include nuclear energy – and will not until issues of security and waste disposal are addressed satisfactorily.

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

We meet at a time of unprecedented economic prosperity. The IMF’s World Economic Outlook (WEO) states that despite higher oil prices and natural disasters, global economic growth in the second half of 2005 was more robust than anticipated. Similarly, the forecast for global growth for 2006 is 4.8 percent overall, and 6.9 percent for emerging markets and developing countries. In sub-Saharan Africa, the poorest region in the world, the WEO projects GDP growth in 2006 to be 5.8 percent, the highest level in over three decades.
These economic results, along with our concerted efforts to reduce poverty, can only add to the positive outcomes we are witnessing in terms of increased living standards. According to this year’s Global Monitoring Report, between 2000 and 2005 over 100 million people are estimated to have moved above the $1 a day poverty line. Not only has the number of countries that have achieved or are on track to achieve universal primary school completion increased significantly since 2000 but more importantly the pace of progress has increased. Likewise, the rate of progress in reducing child mortality is accelerating, particularly as childhood immunization programs are scaled up. And, the first signs of decline in HIV/AIDS infection rates are emerging in several high-prevalence countries. Despite these positive results, we know we still have challenges in establishing a firm foundation for long-run sustainable growth.

**Governance and Anti-Corruption**

These challenges begin with achieving good governance and ending corruption. The new President of the World Bank has set out his vision and we are encouraged by his leadership. First, good governance and fighting corruption – including sound public financial management and the rule of law – are fundamental to the process of achieving sustained economic growth. Our own strong belief in this principle is reflected in “ruling justly” being one of the three categories of criteria we established for countries’ eligibility to access Millennium Challenge Account funds. Second, the focus on governance highlights the need to give greater attention to the quality and effectiveness of aid. And third, as the Global Monitoring Report points out, good governance also plays a significant role in accelerating efforts within countries to help us reach the global Millennium Development Goals.

We recognize that governance can be a complicated issue and that we have more to learn about how different facets of governance interact and their precise impact on development effectiveness. But this should not stand in the way of the Bank’s efforts to support countries’ plans to improve their own management systems. This effort should include the development of disaggregated, actionable indicators of performance in governance. In particular, we urge the World Bank to commit to a time-bound plan of systematizing and universalizing the coverage of its Public Expenditure and Financial Accountability (PEFA) indicators so that they may become as broadly useful as the Doing Business indicators have proven to be for improving countries’ investment climates.

Corruption is a critical issue for donors, but more importantly, it is vital to the citizens of recipient countries. Fighting corruption begins with the multilateral development institutions ensuring that their own in-house operations meet high integrity standards and that their interventions in member countries promote good governance. We want to applaud the recent commitment of the Heads of the International Financial Institutions and the European Investment Bank to establish a task force to address both internal and external problems of corruption. We look forward to an agreement on a uniform Framework for Preventing and Combating Fraud and Corruption by the September annual meetings of the World Bank and IMF.

Second, we believe strong fiduciary integrity and sound public financial management systems are key to stemming corruption. This is why we look with concern at efforts to rush to use country systems that do not meet the highest international standards and to provide increasing amounts of budget support in countries with weak systems. This is particularly troublesome with respect to government procurement. We believe countries which receive assistance from the multilateral development institutions should use the World Bank's procurement standards – not only because they are the best in the business – but also because it promotes fair and efficient competition, which saves these governments money. Third, we need to build on measures to increase transparency and accountability. In particular, we should pay greater attention to those countries that are heavily dependent on natural resources.
Fiscal Space

Efficiency in government expenditure is at the heart of the fiscal space discussion. The Bank’s report emphasizes that it is the quality rather than the quantity of public spending that determines its ultimate impact on growth. We could not agree more. It is not only obvious as a matter of common sense, but well-documented by the enormously uneven cross-country evidence on the relationship between levels of public spending and growth.

More broadly, we feel that access to improved information about the composition of public spending in many developing countries is critical for supporting donor and developing country efforts to promote growth through mutual accountability. From the Bank’s perspective, this information should also help to improve the criteria used to select among alternative aid modalities, including the choice to engage in Development Policy Lending.

Debt Relief and Challenges Ahead

Our agreement on debt relief is historic. With the crushing debt burden lifted, countries can focus their efforts on generating economic growth by investing in infrastructure to help move goods from producers to purchasers, and by investing in their people.

We must remember, however, that one of the core objectives has been to foster long-term debt sustainability by conclusively ending the destabilizing lend-and-forgive approach to engaging poor countries. The clearance of unsustainable debt is a critical component of the broader solution. However, it also means we must take care that we don’t add to these burdens in the near term. The World Bank/IMF debt sustainability framework needs to contain new mechanisms to constrain the accumulation of concessional debt – including, and this is critical, the rate at which it occurs. Clear country experience has proved that the rapid accumulation of concessional debt quickly can lead to incidents of debt distress. In addition, donors need to address the issue of “free-riders”, i.e. creditors providing non-concessional financing immediately following debt relief or in the context of MDB grants. We look forward to advancing these important issues later this year.

Clean Energy and Development

In promoting clean energy, we believe it is important for the multilateral development banks to maintain a development perspective and take action within the context of their current mandates and comparative advantages. Energy is a means to development, not an end in itself. Lack of access to affordable and reliable energy services impedes economic growth and investments that improve standards of living, and thus perpetuates poverty. Moreover, many people have no option but to use traditional fuels, which contributes to local environmental degradation and sickness. Our ultimate challenge is to end energy poverty by stimulating access to secure, affordable, and increasingly clean energy services that are needed for development.

With respect to investment in energy infrastructure, international concessional finance is likely to be needed both to help meet developing country needs and to shift such investment toward cleaner, more efficient technologies. The question is how the multilateral development institutions can help achieve that goal through more effective application of their existing instruments in the context of all the other sources of financing, including the private sector, export credit agencies and domestic finance. Going forward, any discussion by the multilateral institutions of new instruments should evaluate their potential to: (1) shift overall investment toward lower pollution and lower greenhouse gas-intensity in key countries; (2) provide for both efficiency and additionality; and (3) leverage international and domestic
private financing, all in a manner that is consistent with the development and poverty reduction mandates of these institutions. The analysis of financing requirements should also consider the extent to which the need for external financing could be reduced by strengthening governance in energy and banking sector reforms, environmental regulation, contract enforcement, and intellectual property rights protection.

The Doha Development Agenda and Aid for Trade

We share the sense of urgency about the need for developed and developing countries alike to offer significant, broad trade liberalization if the growth and development potential of the Doha Development Agenda is to be realized. We also fully support the Aid for Trade agenda launched at the Hong Kong Ministerial.

Aid for trade will be an important complement to a successful Doha round, even though it is no substitute for completing the Round in a timely and ambitious fashion, and it should not itself become part of the negotiations. Like so many other aspects of the development agenda, developing countries, developed countries and IFIs all have important responsibilities with respect to effective aid for trade. It is essential that developing countries prioritize trade in Poverty Reduction Strategy Papers (PRSPs) in keeping with the principle of country ownership as the key element to successful trade capacity building; it should also be given priority in Country Assistance Strategies (CASs) and other donor support programs.

The U.S. commitment to successful aid for trade is reflected in the announcement at Hong Kong that the U.S. will more than double its grant contributions to Aid for Trade from $1.3 billion in 2005 to $2.7 billion annually by 2010. These will be carried out through bilateral programs administered by U.S. agencies.

The World Bank is making some strides to operationalize trade into its country programs, in keeping with country demand, but we would like to see the whole Bank focus much more energy on trade capacity building and easing supply-side constraints so that developing countries will be better equipped to engage with the global trading community and take advantage of new trading opportunities. It is important to avoid the establishment of new funds or institutions.

Closing

The past few years have seen a new era of global economic growth and poverty reduction based on free markets, expanded trade, financial stability, and the integration of the global economy. We have promoted debt sustainability and are hopefully turning the tide against AIDS and other infectious diseases. We are providing more assistance on more appropriate financial terms to help the world’s poor, and we’re starting to provide it more effectively. We are pushing for better ways to unleash the power of the private sector, to broaden and deepen access to financial services, to fight corruption and to promote greater transparency. With billions of people still living in destitute conditions, however, we cannot rest—we must do more to make these ideas and programs even more productive, beneficial, and effective.

Statement by Mr. Hiroshi Watanabe, Vice-Minister of Finance for International Affairs, Japan

First, I would like to extend my warm welcome to the new Chairman, Minister Alberto Carrasquilla, and the new Executive Secretary, Mr. Kiyoshi Kodera. With their profound knowledge on development issues, I am confident that this Committee will become an even more important and useful forum.
Clean Energy and Development

I appreciate that the World Bank prepared a paper of “Clean Energy and Development” in response to the requests by the Gleneagles Summit and the September 2005 Development Committee. I would like to see the Bank continue to closely coordinate its work on the Investment Framework with the Regional Development Banks (RDBs), International Energy Agency (IEA), and the Asia-Pacific Partnership for Clean Development and Climate. Because climate change could have its impact well beyond the country boundaries, both developed and developing countries are required to have realistic discussions, pursuing a global interest.

The oil crises in the 1970s forced Japan to seek more efficient use of energy, which also promoted the technological advancement in this area. Today, Japan’s energy efficiency is among the highest in the world in terms of carbon dioxide emission. For example, Japan’s carbon dioxide emission per unit of GDP is 0.25kg, which is about half of the average of OECD countries and at the lowest level in the world. As the host country of the COP3 meeting in 1997, we are trying to further improving the efficiency towards meeting the target of the Kyoto Protocol.

In elaborating further this issue, Japan expects the Bank to focus on the following three points.

First, in order to improve access to energy in the developing countries, the Bank needs to stimulate private investments in clean and efficient energy. It is a serious obstacle to achieve the MDGs that nearly 1.6 billion people still lack access to electricity. In this regard, we ask the Bank to enhance its work on dissolving bottlenecks for private investments, promoting R&D activities, and playing a catalytic role to promote private sector involvements. The Export Credit Agencies (ECAs) can also play an important role in mobilizing private investments.

Second, the Bank has to strengthen the policy dialogue with developing countries on climate change. Through the discussions for the Poverty Reduction Strategy (PRS) or the Country Assistance Strategy (CAS), energy efficiency and clean energy development should be integrated into the development strategies of each country as one of the serious challenges. We also call for the Bank to assist developing countries to reform energy prices or regulatory policies and utilize Clean Development Mechanism (CDM).

Third, the Bank needs to review thoroughly the existing financial instruments. We need to find any gaps in mission and function between the existing financial instruments and the proposed financial mechanism to achieve our goals.

In this context, it is particularly important to successfully conclude the ongoing replenishment negotiation of the Global Environment Facility (GEF). Only seventy days are left before the start of its next replenishment period (GEF-4). GEF is focusing on climate change and works under a unique scheme to entrust the project implementation with the existing institutions in order to seek the duel purpose of development and climate change. We would be hesitant to start the discussion on the new possible financing mechanism without agreeing on the GEF-4.

Lastly, we welcome that the report takes up the issue of adaptation to climate change. Climate change requires the developing countries’ adaptation in various fronts, from the prevention of droughts and floods to the shift of agricultural production. While agriculture has not necessarily drawn much attention in the Bank recently, we believe that the Bank should re-focus this sector from the view point of assisting the developing countries’ adaptation. As a major donor in water, agriculture, and disaster prevention, Japan stands ready to cooperate with the Bank in strengthening the adaptation initiatives.
Progress Toward Meeting the MDGs

Since economic growth is essential to achieve poverty reduction, it is appropriate that this year’s Global Monitoring Report (GMR) focuses on investment climate and infrastructure. Japan will host the Annual Bank Conference on Development Economics (ABCDE) in Tokyo at the end of May. In this conference, with the theme of “Rethinking Infrastructure for Development”, we intend to shed a new light on the role of infrastructure in development.

According to this year’s GMR, the progress in reducing income poverty is generally on-track, and most of this progress has been made through Asian countries’ economic growth. Looking at the human development indicators of the MDGs, however, many Asian countries are currently lagging behind. In the context of increasing our efforts to meet the MDGs, we must recognize again that, even in Asia, much more needs to be done.

It has been argued that more aid should be extended to cover recurrent costs in health and education and that it needs to be more predictable. However, developing countries cannot rely on donor resources forever. They need to continue the discussion with donors on how they can increase their own revenues to establish self-sustainable systems.

Mutual Accountability

The GMR emphasizes the need of mutual accountability both of developed and developing countries.

In terms of the developed countries’ accountability, we welcome the progress in implementing the Multilateral Debt Relief Initiative (MDRI) with the developed countries’ firm financial support to the initiative. The IMF already initiated debt relief last January and the IDA also reached agreement on the MDRI implementation. The MDRI is a large, long-term initiative that will last for over four decades. In addition to meet their financial commitments, the developed countries must assist the HIPCs to improve their public expenditure management and make sure that the freed resources are appropriately allocated to reduce poverty.

We also welcome that the IMF and the Bank began discussion on the issue of “free-riding” and the review of the Debt Sustainability Framework. We need to prevent the HIPCs from re-accumulating unsustainable debt after the MDRI. The new measures are necessary to control debt situation in these countries and they should involve all creditors, not just the members of the OECD DAC or the Paris Club.

This year’s GMR also refers to the increasing number of global vertical funds, such as for AIDS and Avian Influenza. These vertical funds made significant contributions to flexibly respond to the development needs and to mobilize resources from a variety of groups, including the private sectors. We need to make more efforts to harmonize these fund activities with each country’s strategy and assistance program.

Since last fall, aid coordination between Japan and the Bank has made significant progress. We held policy dialogues on East Asia, South Asia, Central Asia, and Africa. We jointly formulated a new CAS for Bangladesh with the Bank, ADB, and DfID. In several countries, such as Vietnam and Indonesia, Japan plans or provided co-financing on the Bank’s Development Policy Lending (DPL). In Africa, we are exploring ways to scale up Japanese aid agencies’ projects under the Bank’s own operations. As such, we are strengthening coordination with the Bank both in strategy and project basis.
Governance and Development Effectiveness

In terms of the developing countries’ accountability, we welcome the GMR’s focus on governance. Tackling governance issue by the multilateral institutions is quite important to us, since improved governance could also provide a favorable platform for bilateral aid. On how to monitor the governance, we support the report’s view that it is more useful to track progress of each actionable governance indicator rather than to aggregate these indicators into one index.

As President Wolfowitz mentioned in Indonesia, when facing the governance deterioration, “suspending loans on problem projects by itself does not deliver results for the poor.” We all need to explore effective measures for each of the President’s three approaches, namely at a country level, at the Bank-funded project level, and at the partnerships with the private sectors and MDBs.

Trade

Finally on trade, the WTO Doha Round, which supports and strengthens the multilateral trading system, is indispensable for the sustainable growth of the global economy. Currently, extensive discussions are being held to reach an agreement on the modalities including the tariff reduction formulas, and Japan is committed to actively participate in these negotiations.

At the Hong Kong Ministerial Conference last December, Japan announced the “Development Initiative” as a proposal of aid for trade, which is a comprehensive initiative to help developing countries fully benefit from the liberalized trading system. Under the initiative, Japan is determined to provide duty-free and quota-free market access for substantially all the products originating from the least developing countries. Furthermore, Japan set out the target to allocate no less than 10 billion US dollars over the next three years for infrastructure development related to trade, production, and distribution to improve the supply-side capacities of developing countries.

Statement by Mr. Mario Draghi, Governor of the Bank of Italy

General Remarks

At the outset, I would like to welcome Minister Alberto Carrasquilla Barrera as the new Chairman of the Development Committee. Leadership—and with it, a sense of direction and purpose—is an indispensable factor at a time when many of the problems affecting our planet require a stronger engagement of developed and developing countries in a system of global governance. This Committee and its new leader have a crucial responsibility in defining the strategic directions along which we should strengthen global governance in the area of economic development. On behalf of this Chair, I wish Chairman Carrasquilla Barrera well in his new leadership role.

At the turn of the millennium, the response of the international community to the urgency of global poverty raised the hope that world leaders were taking real cognizance of the risk embedded in procrastinating action. There was the recognition of the moral imperative to relieve half of humanity from deprivation and of the fact that the very long-term integrity of a globalized world would ultimately depend on providing those in need with the opportunity to achieve a decent standard of living.

29 On behalf of the constituency of Albania, Greece, Italy, Malta, Portugal, San Marino and Timor-Leste
The United Nations’ Millennium Development Goals (MDGs), and the consensus around them were fundamental steps in that direction.

There has been progress since then, and there have also been important results in an increasing number of countries and across a larger number of objectives. Yet, progress is slow and unequal, and results still lag far behind targets. South Asia and Sub-Saharan Africa are off track on all of the goals. At current trends, almost no single MDG will be attained globally by the year 2015, as originally envisaged, with some countries even sliding backward.

**Agenda Items for Discussion**

The Global Monitoring Report (GMR) is essential to track progress in achieving the MDGs and to keep the MDG agenda focused on the right issues. We endorse the conclusions of the GMR 2006.

The Report is especially important to implement the principle of mutual accountability from all the actors involved in the MDG agenda, with respect to their commitments and implementation programs. In this regard, the emphasis on governance and fighting corruption is timely and appropriate. I appreciate the clear distinction made between the two issues, and the balanced approach adopted to investigate them. Clearly, there is a need to elaborate the analysis further, and in more detail, before useful policy implications can be drawn on an issue which is multifaceted and difficult to subject to measurement. There is also a need to go beyond aggregate analysis and to be as specific as possible in the advice we give to governments. In particular, countries should be assisted to identify—and act on—governance problems which more directly affect their development programs.

To be clear, we welcome the work on improving the analysis of governance. However, we should avoid adding another fad in development practice. Most importantly, it is essential to achieve both goals of a stronger governance in developing countries and the fulfillment of aid and debt relief commitments by donors. Development assistance should be adapted to recipient countries’ governance characteristics. In particular, for instance, where favorable governance conditions prevail, direct budget aid could be a more appropriate option.

Strengthening governance must take place, when circumstances require it, in the context of the institutional reform programs that governments undertake as part of their overall development strategies. Such strategies should also increasingly focus on accelerating growth—which in turn is instrumental in making institutional reforms easier to implement. I will return to this issue later on.

While the GMR 2006 focuses on governance in developing countries, the donor community must also deliver on its side of the deal, especially with regard to aid effectiveness and quality. First, the lack of harmonization and coordination of donors’ policies and practices continues to be an enormous burden for, and a big drain on, many partner countries, especially those with the weakest capacity. Second, efforts should be redoubled by donors and aid agencies to put in place better feedback and accountability mechanisms to assess what works, what doesn’t and why, who is responsible for what, and which kind of incentives could help deliver better results.

It must be acknowledged that developed countries have been far from static on other important aspects of the compact. There have been significant new commitments to expand aid flows and to deepen debt relief. As a result, aid flows are increasing and the multilateral debt relief initiative, led by the governments of the G-8 countries, has been approved by the boards of the Bank and the Fund. Italy, on its side, in 2005 has increased its level of ODA to 0.29 percent of Gross National Income (GNI)—from 0.15 percent in the previous year—with a view to living up to the commitments made since Monterrey. Within the G-8 debt relief initiative, Italy has committed to provide financial support in addition to its aid...
commitments. Italy is also playing an active role in the field of the innovative financial mechanisms, which we consider important instruments to increase aid flows to meet the MDGs. With a contribution of 504 million euros, Italy is one of the founding members of the International Finance Facility for Immunization (IFFIm). We hope that IFFIm will become operational very soon and that other donor countries will join it. Italy is also actively working—along with other countries, the World Bank and the GAVI—on the launch of a pilot Advanced Market Commitment (AMC) scheme to support research and development of vaccines for diseases which affect the poorest countries.

We welcome the endorsement by the G7 countries of the concept of a pilot AMC and the continuation of the work for its launch in 2006.

As far as other members of our Constituency are concerned:

Portugal is joining the efforts of the international community to move forward on the achievement of the MDGs and the fight against poverty, through its commitment to the Multilateral Debt Relief Initiative (MDRI). Portugal shares the view that the initiative should be implemented without weakening the financial integrity of the institutions involved, namely IDA and the ADF.

Greece has shown a noticeable increase of official assistance to development, expanding its ODA flows in 2004 and 2005 by 13.3 per cent and by 11.4 per cent in constant prices, respectively. Overall, Greece, which acceded to OECD Development Assistance Committee in December 1999, has seen its ODA rise over the last few years from 0.17% of GNI in 2001 to 0.23% in 2005. Greece has also made a commitment to finance its IDA share of the MDRI, in support of debt cancellation.

Finally, Malta—in cooperation with the Bank—is leading a new initiative aimed to create a global network of small state economies through which states with specific policy or developmental needs may draw just-in-time assistance and aid from other small states possessing the required skills or resources. The network will also be used as a channel of ODA funds from developed to developing small states.

We support the Bank’s new evolving framework on clean energy in the context of assisting countries to adapt to climate changes, and I look forward to the framework eventually laying down the foundations for global participation to sustainable development. Yet, the Bank’s priority should remain to provide the poor with access to energy—one of the MDGs. The lessons learnt from two decades of Bank’s engagement in the infrastructure sector, recently discussed in the Bank, contain very important indications on how to articulate this policy goal effectively.

We would like the Bank to submit a broader work program, including a better definition of its role in this area, the analysis of opportunities to do more with existing financial instruments, cooperation with other players, and the demand and supply of assistance for client capacity building.

Other Items on the Agenda

Earlier on, I emphasized the need for renewed attention to the issue of economic growth. Recent important research, in which the Bank also participated, shows that grand reform schemes are not conducive to sustained acceleration of growth. The new findings call for redirecting policy strategies at more selective and country-specific reform programs, aimed at relieving binding constraints on growth, and for better sequencing the use of scarce political and administrative capital on institutional reforms.

We welcome the Bank’s evolving thinking on the use of fiscal policy to support growth and development, while preserving macroeconomic stability. It is important that the Bank and the Fund
develop a consistent view on this issue, since their cooperation on the field is essential. The proposed approach, while it needs much more work to become operational, may break significant ground by emphasizing the importance of integrating fiscal policy management with considerations regarding the composition of public spending and the impact of individual spending programs on growth and development. The attention to the microeconomic and inter-temporal effects of fiscal policy, called on by the proposed approach, requires governments to have sufficient capacity in place to evaluate their spending programs ex ante with enough accuracy.

An important contribution to growth and poverty reduction would derive from granting developing country producers greater access to markets in rich countries and from developing countries lowering trade barriers among themselves. Even with a successful conclusion of the Doha round, many developing countries—especially the least developed ones—would not be in a position to benefit from broader trade opportunities, due to domestic structural impediments. A successful Doha Round needs a robust Aid for Trade agenda as an integral part to it. Aid should be directed to those countries that would be expected to lose from the round, not to compensate their losses from trade liberalization, but to enable them to gain from trade. It is essential that aid for trade programs be delivered and implemented effectively. Utmost care must be devoted to the governance structure of such programs.

Conclusion

Five years into the race to the MDGs, while progress is still dramatically slow, we may be at a beginning of a turning point in terms of commitments and action. And while, globally, the world lags much behind the targets it has selected for itself, some encouraging results have become visible. Much too little for complacency, or even for moderate satisfaction: only indications that our framework can work.

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

The world is faced with a whole number of risks – economic risks, geopolitical risks, social risks. Since the global economy is marked by such a high degree of interrelatedness, these risk factors are becoming increasingly complex and explosive. The world is turning ever faster, allowing ever greater damage to be caused. Simultaneously, less and less time is available for political responses to crises. There is a growing awareness that there is a need for functioning global cooperation. The World Bank must take account of that:

Making full use of the potential for renewable energy and energy efficiency

Droughts, floods, changing rain patterns and rising sea levels are threatening development efforts in the world's poorest countries. Regions including Africa and South Asia – home to most of the 1.1 billion people who are living without clean water – will be among the hardest hit by changing weather patterns. Often these countries do not have the resources or the capacity to mitigate, or adapt to, the impact of climate change. Unless the long-term implications of carbon intensity are integrated into the development model, carbon lock-in will be considerable and will lead to irreversible and extreme climate change. Climate protection should not be considered as an extra burden to the economy, as it prevents major impacts from climate change.

Germany welcomes the Bank's work on clean energy and development. This issue is at the core of the World Bank's mandate. Urgent action is needed on most of the elements of the proposed investment framework. Promoting access to clean and reliable energy – that is, renewable energy – and energy efficiency must be a priority for the Bank. The lack of access to modern, efficient and sustainable energy
services will not only hamper economic growth but impede human development, e.g., in terms of health and mortality. Furthermore, the poor in developing countries will suffer most under the impact of climate change. On the one hand, these investments refer to a global public good; on the other, there are strong complementarities and interdependencies with regard to poverty reduction, as climate change erodes the progress towards achieving and sustaining the MDGs (e.g., water availability, food security) in the long term.

The current situation in the crude oil market is also undermining our efforts to achieve the international development goals. The recent surge in oil prices has a particularly strong impact on oil-importing developing countries, as their economies are more oil-dependent. The average vulnerability of newly industrialized and developing countries to oil price shocks today is about as high as the vulnerability of the industrialized countries in the 1970s and about twice as high as their vulnerability today. So it is an essential task for the Bank to reduce these countries' dependence on oil by means of increased reliance on renewable energy and promotion of innovative technologies such as BTL technology (biomass to liquid).

Enhanced energy efficiency and the dissemination of renewable energy must be at the center of our efforts. However, the economic opportunities involved in renewable energy options are undervalued, especially for rural energy supply. The suggested investment framework is biased in favor of conventional energy supply technologies. It tends to underestimate the applicability of new, clean technologies in developing countries (e.g., Integrated Gasification Combined Cycle, IGCC). The paper sends the wrong message by categorizing renewables as not yet financially viable. The lock-in effect can only be countered if renewable energy is spread more widely. The assumptions on the marketability of these technologies seem too pessimistic given the potential discussed at the Renewables 2004 conference. As the document's annex shows, the renewable energy industry has not even been included in the consultations.

In its further work, the Bank should take account of up-to-date analyses from other institutions to the greatest possible extent. The assumptions on the cost of avoiding dangerous climate change are based on too pessimistic a view of the development of markets for low-carbon technologies. The World Bank should bring its data up to date by relying on more recent models and scenarios so that it can play its role as a pioneer and does not send the wrong signals to the private sector or to governments. Climate change and the modernization of the energy sector constitute an economic opportunity, not an almost insurmountable problem. The International Energy Agency (IEA) will publish a study in May according to which greenhouse gas emissions can be reduced to a far greater degree by relying on available technologies and developing new technologies.

Germany welcomes stronger involvement by the Bank in the field of investment in adaptation to climate change. In that context, there is a need to take into account the efforts already under way to gauge the vulnerability of threatened regions as well as to design and quantify possible response measures within the framework of the United Nations Framework Convention on Climate Change (UNFCCC). Adaptation to climate change and its adverse effects is of high priority for all countries – especially for the least developed countries and for the small island developing states. Due to widespread poverty, they lack the capacity to cope with natural disasters caused by climate change. The Bank should look for options to reduce and manage vulnerabilities that have been identified. Germany welcomes the strong focus on adaptation and the importance given to innovative risk management tools. In particular, there is a need to further develop financial services and insurance-based instruments jointly with the private sector.

In choosing and prioritizing its support mechanisms, the World Bank should give special attention to possible synergies, especially in the field of bioenergy. Not only can bioenergy make an
essential contribution towards decentralized energy generation, especially if it is based on extensive land management systems such as wood production; it can also improve value creation by the rural population, help combat desertification, enhance biodiversity, and contribute to the supply of drinking water. All deliberations about clean energy should take into account the ongoing discussion on integrating land use, forestry and agriculture and their interaction with climate change as well as the potential for emission reductions.

**The Bank should make proposals on how to integrate clean energy and climate change issues into Country Assistance Strategies (CASs).** Mainstreaming climate concerns in overall investment activities and operational policies of the Bank should be addressed systematically in the coming years.

**Nuclear energy is neither a clean nor a "no-regret" technology.** The people affected by the Chernobyl reactor disaster have experienced this first-hand. There are high risks involved in nuclear energy, especially the risk of accidental radioactive emissions and the unsolved problem of nuclear waste. These risks are particularly difficult to manage in developing countries, due, among other things, to specialist staff who are in some cases not sufficiently qualified, the absence of a secure supply chain, and the risk of attacks. Moreover, there is the danger of nuclear energy being misused for non-peaceful purposes. Due to these severe risks involved, the German government does not see any role for the Bank in the nuclear energy sector.

**A long-term, stable and predictable regulatory system is needed. However, this has to be an integral part of the existing structure.** Important elements of a regulatory system already exist under UNFCCC and will be further elaborated during the post-2012 negotiations. Thus, the new investment framework has to fully reflect the negotiations of the post-2012 process. There is no need for a climate process in parallel to UNFCCC and the Kyoto Protocol. All activities should focus on establishing a climate regime which includes all parties, industrialized and developing countries.

**With respect to the proposed new financing instruments, any further development should therefore take place within the framework of a strategic review of existing mechanisms and with the aim of increasing their efficiency and coherence and avoiding duplication.** Germany does not support the establishment of new financing instruments that would duplicate the work of the GEF. The GEF is the internationally agreed financing mechanism for combating climate change and has shown good results. The operativeness of the GEF must be secured by the continued commitment of all donors.

**Germany expects the Bank to set out an expanded and more concrete work program, with a clear indication of costed inputs and expected outputs.** The Bank should systematically review the existing instruments, identify deficits, if any, and come up with proposals for improving the efficiency of the various financing instruments. Moreover, the work program should give more attention to exploring the opportunities for partnerships with other donors, multilateral development banks and the private sector. Germany therefore requests that the document be revised accordingly prior to the Annual Meetings.

**HIPC and debt relief – putting debt relief on a sound long-term basis**

**Debt cancellation is a means of providing necessary relief to heavily indebted countries. But it cannot be a substitute for commitment to reform or for good governance.** Strong political reforms and positive change are the core element of successful debt relief. We will continue to bear this in mind as we implement debt relief for Heavily Indebted Poor Countries (HIPCs) and the Multilateral Debt Relief Initiative (MDRI). However, we should not be overzealous as we address individual cases, such as the Republic of the Congo. The HIPC debt relief procedures have been successful mainly because they have created clear, universally applicable standards. We should not jeopardize their credibility.
A prudent international debt regime must continue to provide for appropriate, country-specific solutions to situations of overindebtedness. This is why the final expansion of the HIPC Initiative to cover another six potentially eligible HIPCs makes sense and is necessary to help these countries, too, to permanently break free from the debt trap through tried and tested procedures. We are thus formally ending the HIPC Initiative (ring-fencing). However, we should not cast aside the experience gained when it comes to putting to use the insights from what has, on the whole, been an exemplary debt relief mechanism. The HIPC approach can serve as guidance for future debt relief. So we must leave nobody in any doubt that, once they meet the criteria for eligibility, the potentially eligible HIPCs will be treated in accordance with HIPC standards even after 2006.

Debt relief is a decisive step towards sustainable economic and social development – but it can never take a country all the way. By successfully implementing the HIPC Initiative and agreeing to implement the MDRI, we took another important step last year towards providing relief to heavily indebted poor countries and creating additional scope for development. But unless economic momentum is created in the developing countries, their poverty challenges cannot be met. Both growth and debt relief are needed in order to ensure long-term debt sustainability and to be able to achieve the Millennium Development Goals.

In the interest of credibility, the debt relief that has been promised must not be financed at the expense of future assistance. We know now how much multilateral debt relief will cost and what forgone reflows we will need to compensate for in the long term. So it is a matter of international credibility that we fulfill this political commitment fully and unconditionally. Multilateral debt relief must thus not be to the detriment of the financial integrity of the International Financial Institutions concerned. Without the compensation of forgone reflows and without additionality of debt relief, MDRI would be an empty promise. Germany is firmly committed to fully compensating its share in multilateral debt relief to cover the forgone reflows of IDA and AfDF (additionality). We are hoping that other shareholders will do the same.

The new possibilities opened up by debt relief will only remain if an excessive accumulation of new debt is avoided. In order to ensure that the debt relief effort will be successful, we must therefore focus our attention on the future design of development cooperation. So it is of vital importance to establish debt sustainability as a key consideration in the future commitment of new development resources and to be clear about the kind and volume of future assistance. It is my personal conviction that the international donors, and above all the International Financial Institutions, share responsibility for preventing new overindebtedness caused by imprudent lending or by inadequate risk management. The debt sustainability framework and the performance-based allocation of new funds on the basis of debt sustainability considerations form an important prerequisite for that.

It is important, in particular, to avoid non-concessional lending to debt-sensitive countries in future (free rider problem). Free riders would quickly exhaust the financial scope that has become available through debt relief, thus causing a setback for countries' poverty efforts. So we welcome the fact that the IMF and the World Bank are actively participating in monitoring the accumulation of new debt. I believe that this aspect is just as important as the monitoring of the use of the resources that have been freed up. So far, there has been agreement among us that the use of these resources for other than the agreed purposes must be prevented. This also applies to potential inappropriate use for new non-concessional borrowings. This is another reason why the debate about fiscal space is so important.

Making good use of fiscal space

Germany fully supports the main statements contained in the report on Fiscal Space. In many developing countries, fiscal policies in the 1980s and 1990s focused very much on the goal of
stabilization. The financing of investment in infrastructure and in education and health was neglected. While stabilization is necessary for economic growth, it is not enough. We have pointed this out time and again: in the BMZ paper on the Post-Washington Consensus and in the most recent Development Committee meetings. We thank the World Bank for the work it has done and support the research program outlined in the paper. This program should be linked closely to the work on promoting broad-based economic growth.

In the coming years, the international community will increase ODA considerably. In that effort, we must ensure that these additional resources will indeed result in more social justice, growth, and increased productivity. This means that it is advisable to invest in public infrastructure, something which has been neglected for many years not least due to the mistaken belief that the private sector would step into the breach. But other investment, too, has been shown to contribute to economic development and competitiveness – particularly investment in education and in gender equality in economic and political life.

The identification of priority expenditure is to a large extent country-specific. The rate of return on an investment can vary a great deal depending on the country situation. The Bank should assess, for individual countries, the impact – if any – of public spending for various purposes. This will provide some guidance for governments seeking to improve resource use. We strongly endorse the systematic use of Public Expenditure Reviews (PERs) to that end.

What does this mean for focusing donor approaches in terms of specific expenditure categories? On the one hand, there is the argument (in the Global Monitoring Report, among other things) that donors should provide more financing for recurrent costs. On the other hand it is argued (e.g., in the document on Fiscal Space) that, in order to avoid Dutch disease and over-indebtedness and in order not to complicate internal resource mobilization, donor money should mainly be directed to investment financing. At a time at which we are focusing on countries' own strategies and the various resources – internal and external – are highly fungible, this is a false debate. The most important issue is not what kind of expenditure is financed by development cooperation, but the focus of the country programs. It is at this level that we have to make sure that there is a strong focus on efficient public as well as private investment.

The IMF must be more proactive in helping countries to create the scope for additional borrowing to finance productive and cost-effective public investment in a way that is consistent with macroeconomic stability and debt sustainability. The IMF should give more attention to the current fiscal balance – in addition to the overall balance – to ensure that scope for additional borrowing is used to increase public investment and the quality of fiscal adjustment.

Also, closer attention has to be given to the financing side of the budget, both in analytical and operational terms. Until now, many developing countries have relied on expenditure reductions rather than on revenue enhancement as the principal means of fiscal adjustment. It is worrying that a number of countries have seen a decline in the share of revenue intake in budget financing over the relevant period. Unfortunately, the Global Monitoring Report (GMR) neglects this issue. We must make sure that external financing does not reduce the incentive for governments to improve their revenue mobilization efforts and to combat tax evasion. Insufficient domestic revenue mobilization is not only an economic issue but also has social and political implications: transparent domestic resource mobilization fosters accountability vis-à-vis the citizens.

Strengthening governance and making headway on the anti-corruption agenda

Germany welcomes the Global Monitoring Report (GMR) and its focus on governance. Unfortunately, the GMR does not address the important issue of the division of labor, cooperation and
coordination between different development agencies. I suggest that this issue be placed at the center of the next GMR, focusing on the role of the Bank in the international aid architecture.

We know now that efficient institutions and good governance are decisive for making headway on development. Differences between countries are largely due to differences in governance. Those countries that have been successful have evolved political processes and public-sector institutions which restrain selfish behavior, protect public interest and enforce accountability for resource use.

If governance indicators are to be of informative value, they must be sufficiently differentiated. For the time being, broad governance indicators will continue to be based mainly on largely subjective perceptions. A substantial margin of error in governance assessments will remain. This speaks in favor of disaggregated assessment systems that might not allow worldwide cross-country comparison, but produce findings and recommendations that can be translated into practice.

The transparency initiatives are of outstanding importance. They should be further deepened and broadened and made more binding. Thanks to the Extractive Industries Transparency Initiative (EITI), the debate on the mining sector is the most advanced. (Germany supports the Multi-Donor EITI Trust Fund and has contributed €500,000.) It would be desirable to broaden such standards to include other sectors as well, such as infrastructure and health. Also, we need to make transparency requirements more binding.

The industrialized countries, too, must step up their contribution to greater transparency and accountability. There are numerous openings for related action, for instance clear transparency guidelines for companies listed on the stock market, strict policies on the provision of foreign trade guarantees, and increased cooperation on identifying and releasing illegally obtained assets and on fighting tax evasion.

Development and the respect and enforcement of human rights are intimately linked. Human rights standards are universally accepted standards; all UN member states have made a voluntary commitment to implement the human rights treaties they have negotiated and ratified. We should align our efforts to assist each other in living up to these commitments. The World Bank's policies and practices should constitute an integral part of these concerted efforts.

Anti-corruption is at the heart of the development agenda. Corruption hurts the poor at all levels. It raises costs, diverts resources and undermines integrity. Corrupt relations between business and government deprive people of essential services, for the benefit of elites. State capture leads to grave misallocation and theft of funds on a grand scale. Corruption undermines people's confidence in the state and contributes to conflicts.

Ever since Jim Wolfensohn placed this issue on the agenda of the World Bank in 1996, we have pursued the anti-corruption agenda with determination. The Bank has since focused more on promoting institutional reform in partner countries. This has also made important contributions to the fight against corruption. In the area of public financial management in particular, considerable progress has been achieved since. Public administration reform in sectors such as local authorities and customs as well as reforms of the judicial and legal systems have also helped fight corruption. There is clear evidence that the overall dedication, commitment and passion of World Bank staff are beyond question. I want to take this opportunity to reiterate the trust that I have in World Bank staff, and express my personal appreciation for all their hard work and extraordinary commitment.

German development cooperation boasts a wealth of experience in the field of anti-corruption and is willing to engage in increased cooperation with the World Bank in these areas. Germany currently supports some 70 projects worldwide that are related to the prevention and reduction of corruption. We
have made the area of "Democracy, Civil Society and Public Administration" a priority area of our cooperation with 30 of our partner countries. Between 2002 and 2004, we increased the volume of related support from €80 million to over €220 million.

There is a broad consensus that the anti-corruption agenda must be continued with determination. I therefore welcome the fact that the Bank has taken up the proposal put forward by Germany and other shareholders that a comprehensive approach be developed. This approach should be based on a clear definition of corruption and on a review of the Bank's relevant instruments and policies and should answer the question of whether, and how, these instruments and policies need to be adjusted – for instance by ensuring that in allocating resources (PBA), account is taken, not only of current indicators, but also of their development over time (dynamic assessment). It must be taken into account that corruption cannot be viewed in isolation. Corruption is always a symptom of deficits in governmental and societal structures. The various aspects of governance are closely interlinked and, in some cases, mutually dependent or mutually reinforcing. Moreover, different societies find different ways to break free from clientelism and pursue different paths of governance reform. Accordingly, a broad and flexible approach is needed. Development cooperation should foster this process within society.

Although good governance and anti-corruption efforts are primarily the responsibility of developing country governments, donors have an important role to play. As donors, we must ensure that what we do encourages improvements in governance rather than undermining it: by means of closer cooperation amongst each other; by means of enhanced transparency and disclosure of relevant data; and by means of ensuring that donor contributions are generally made available via partner countries' public budgets. Three areas are of outstanding importance with a view to making ODA more effective and eliminating opportunities for misappropriation:

- There is a need for implementing the Paris Declaration consistently: The alignment of development contributions with partner countries' policies and procedures not only strengthens their ownership but also lays the foundation for improved internal accountability and contributes towards the improvement of national systems. This also means that wherever country systems meet the requisite minimum standards, donor institutions should accept them.

- We need to abandon the focus of ODA on inputs – such as specific types of health expenditure –, which is still widespread. Systematic efforts must be undertaken to further the focus on development results. This lays the foundation for enhanced accountability, both at the level of institutions and on that of projects and programs. While it is not always easy to identify reliable results indicators, positive experience has been gained with results-based development cooperation such as the EU Commission's budget support. The World Bank and the donor community must address this challenge systematically, for example by means of strengthening evaluation capacity in partner countries and by reviewing the way in which the Independent Evaluation Group (IEG) operates.

- One important element of the anti-corruption agenda must be the promotion of international law and, thus, of the structures underpinning global governance. Global rule of law and joint efforts to define legal standards – which, incidentally, should also include the private sector – constitute a response to the challenges of globalization. The UN Convention against Corruption, which entered into force in December 2005, is the most far-reaching international agreement. It commits the international community to taking action against corruption both nationally and internationally. It is complemented by the specific anti-corruption conventions of the African Union and of the countries of Latin America as well as by the OECD
Convenion on Combating Bribery of Foreign Public Officials and the Council of Europe conventions. This framework of legislation must be further developed, and implemented

We must continue and increase our efforts to develop a common understanding and an operative framework with regard to anti-corruption efforts. Germany advocates a close consultative process between the Bank's management and the Executive Board with a view to achieving a Bank approach to corruption and its consistent application across Bank programs. The related report should be made available before the Annual Meetings.

Gender – an effort is needed

Women's empowerment is a key factor for economic and social development. Narrowing this down to MDG 3, the way it has been done in the Global Monitoring Report, or to specific social sectors is not an appropriate response to the challenge. We therefore need to step up efforts to foster gender equality at all levels and in all sectors, not only in social sectors such as health and education. As shown in the OECD Creditor Reporting System study, Aid Activities in Support of Gender Equality, 1999-2003, only $3.1 billion out of $17.2 billion of reported sector-allocable bilateral aid can be identified as "focused on gender equality." Two thirds of this is in the social sectors, especially basic education and basic health. Little is reported in the economic, transport, communications and energy infrastructure sectors. We have tended to focus on the social sectors, or social protection, rather than seeing women as active players in generating pro-poor growth and as partners in decision-making. The Bank's budget should be engendered and also reflect specific measures to close the gender gap in all relevant sectors without limitation to the social sectors. This is also reflected in a statement by Paul Wolfowitz, who said: "Investing in gender equality is smart economics."

Gender mainstreaming must be complemented by other policy-related initiatives. Many have recognized that over-reliance on gender mainstreaming as the sole strategy to achieve gender equality has not delivered the intended results. In an era of increased focus on country programs, budget support and other programmatic approaches, it is essential that the gender issue be given greater importance at this level as well.

Making the Doha round a success

There are both positive and negative international developments in the trade sector:

Starting with the positive, a number of path-breaking decisions for the benefit of developing countries were adopted at the WTO conference in Hong Kong in December 2005: phasing out of export subsidies, market access for LDCs, integration of the provisions on improved access to generic drugs in the TRIPS Agreement. We also strongly support the agreements on strengthening aid for trade:

- It is only with this type of support that numerous developing countries will be able to seize the opportunities arising from the opening of markets. However, it is important to note that aid for trade, in terms of its real effect, cannot be a substitute for trade liberalization on the part of the industrialized countries. Both elements are needed if the Doha round is to be a success.

- Germany supports the ongoing work of the two Geneva task forces – the one on the Integrated Framework on Trade-Related Technical Assistance for LDCs and the WTO Task Force on Aid for Trade. At the Annual Meetings, we should discuss implications for the Bank and the Fund.
As for the negative side, the Doha round is in jeopardy notwithstanding the positive decisions adopted at the Hong Kong WTO conference. The negotiations on the important central issues on agricultural and non-agricultural tariffs have bogged down. Nobody dares take the first step to break the gridlock. But all players must realize that they will need to make some sort of concession if the Doha round is to result in more than a minimal consensus. I would like to appeal to all players to advocate flexible positions in their respective countries so that we may succeed in making the Doha round a success after all. An ambitious solution to the cotton issue would be an important contribution. We have all committed ourselves to the global partnership laid down in MDG 8. If the Doha round were to fail, we would have failed in that goal.

Statement by Ms. Agnes van Ardenne, Minister for Development Cooperation, The Netherlands

This Development Committee is not about “business as usual”. This meeting is one of the first opportunities for Ministers to deliberate on the implementation of last year’s major decisions: the Paris agenda on harmonisation and alignment, the initiatives on multilateral debt relief and climate change and clean energy, the outcome document of the New York Summit and the creation of a Peace Building Commission in which the World Bank will participate.

As to the Bank’s implementation of the MDRI, my constituency is satisfied that these discussions should draw to a close. It allows debt cancellation to begin on 1 July 2006, and we urge all donors to come up with the additional financing they promised at the 2005 Annual Meeting to compensate IDA. We also welcome the transparent monitor system to track the fulfillment of the donor payments to safeguard IDA’s financial viability.

Strategic Focus of the World Bank

In his speech at the 2005 Annual Meetings, Mr. Wolfowitz gave an outline of his priorities for the World Bank and stated his intention to focus on six areas. My constituency supports his observation that the World Bank should be a more focused institution and would like to highlight three issues that merit further consideration: division of labour with other institutions and especially further clarification of the role the WB can play in middle income countries, implementation of the MDGs and especially MDG3 and the Bank’s role regarding the global public goods agenda.

The Paris agenda implies a clear division of labour with other multilateral institutions and bilateral donors at country level and we look forward to organisational changes that would enhance such a division of labour. Harmonisation and alignment implies that the World Bank does not necessarily have to be lead donor in every country and in every sector. Nor does it imply that its rules and regulations are to be followed under all circumstances. My constituency encourages the use of country systems in those countries where they are of sufficient quality. Ideally, in low income countries, the Bretton Woods Institutions, regional development banks, the UN and donors should work together under leadership of the developing country on a single national development strategy and agree on a clear division of labour, based on relative strengths and weaknesses.

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30 Representing the constituency consisting of Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, the Republic of Macedonia, Moldova, The Netherlands, Romania and Ukraine
My constituency welcomes the Bank’s recent attention to the implementation of the third Millennium Development Goal of gender equality and we would like to encourage the Bank to continue to mainstream gender in its lending practice at country level. We would also like to invite the Bank to take gender equality on board when discussing scaling-up of aid.

When considering global public goods (or “bads” as in the case HIV/AIDS) the G8 – and in its wake the world community – automatically turns to the World Bank for leadership. My constituency is very grateful to the World Bank for providing such leadership in the case of avian flu earlier this year and the investment framework for climate change right now. The Bank’s willingness should not, however, detract from the international community’s obligation to think about how to deal adequately with global public goods and to critically consider which agency is best mandated to perform specific roles. In 1944 the World Bank was not designed or mandated to deal with such issues.

The current ad hoc approach, combined with an overall lack of global leadership and fragmentation of the multilateral response, has led to a variety of special-purpose initiatives, especially in the health sector. This, in its turn, has led to an increasingly unsatisfactory situation where development funding through vertical initiatives has increased, whereas horizontal spending along the lines of one single national development strategy has not kept pace and synergies between the two approaches have been insufficiently explored. We should take this into account before deciding on the institutional set-up of, for example, the investment framework for climate change. With regard to the management of global public goods, Ministers should eventually define the Bank’s role and that of a reformed United Nations system in a way that benefits the Bank itself, its clients and the international community. We hope that the recommendations of the International Task Force on Public Global Goods, that are due to be published in June, turn out to be helpful in this respect.

Global Monitoring Report 2006

My constituency welcomes the increased attention to results management, in which outcomes rather than inputs are managed. In this context we welcome this year’s Global Monitoring Report, which gives a thorough analysis of where we stand with respect to the achievement of the Millennium Development Goals. It should however have been drafted in cooperation with the UN, and not just the IFIs. In this respect we also believe that in cooperation with the UNDP disaggregated data at country level should have been included to identify specific bottlenecks in achieving the MDGs.

We applaud the new chapter on IFI performance and welcome the development of the common performance assessment system, COMPAS. This system not only makes it possible to inform the Multilateral Development Banks about their respective activities, but may also be used to improve the current division of labour amongst them.

We welcome the choice of governance as this year’s theme and especially the notion that good governance is everybody’s responsibility. Further analysis in this area should take into account the importance of political institutions and political will for reform. We also welcome the Bank’s reinforced focus on combating corruption, alongside other, broader governance issues. Fighting corruption requires a systematic approach with regard to capacity building coupled with specific measures by donors to avoid misuse of their development funds. Whereas capacity-building measures are part of good governance policies in partner countries, the introduction of safeguards against misuse of development funds is part of the internal financial and accountability policies of donors themselves. We expect the Bank to support the national anti-corruption strategies of the countries concerned, but we also favour a more active approach with regard to the internal measures the Bank can take to avoid misuse of its funding. We call on its management to present a coherent and transparent anti-corruption strategy to avoid ad hoc actions and inconsistencies in decision-making regarding the combating of corrupt practices.
Clean energy and development

My constituency welcomes the report *Clean Energy and Development: Towards an Investment Framework*. We welcome the two-step approach, but would also like to emphasize that before further elaborating on the proposed financial facilities, the World Bank should first analyze existing facilities. This analysis should determine whether new facilities are really necessary.

Developing countries need to gain access to energy in order to reduce poverty and increase productivity. At the same time, they should acquire tools to mitigate their impact on climate change and to adapt themselves to climate change’s impact. We feel that the currently proposed framework is mainly directed at larger middle-income countries, where there is a potential market for the use of clean energy. From the perspective of climate change, this is logical: greenhouse gas emissions from low-income countries are much smaller (less than 1% of total emissions). As a consequence, the proposals do not sufficiently address issues of sustainable access to energy for the poor in less developed countries. We therefore propose to include an Energy for Development Window as part of the investment framework for the provision of access to modern energy services to the poor, especially in Sub-Saharan Africa. This window should clearly indicate how many poor will be provided with modern energy services by rationalising existing instruments on infrastructure development and assisting developing countries with policy and market development, project development and financing. The increased ODA funding in the coming years could support such an initiative. The Netherlands is currently working with the World Bank to provide 10 million people in the least developed countries with sustainable access to energy by 2015. Similar initiatives to provide 0.5 billion people in Africa with sustainable access to modern energy services would be welcomed.

Fiscal space

My constituency supports the use of the concepts of fiscal and macroeconomic space and welcomes the forthcoming work on the relationship between spending and outcomes, in particular the pilot country case studies. We are much interested in the Bank’s recommendations on very practical issues such as the circumstances under which a topping-up of salaries of health and education staff is a solution for strengthening these sectors.

My constituency agrees with the notion that fiscal space – and in particular the amount of domestic revenues generated – benefits from complementary measures in the area of improving the business climate. Preconditions for the creation of fiscal space are the presence of good governance, good quality budget institutions and public sector management. It is therefore crucial that the international donor community and national governments focus on improving governance and accountability.

Grant aid presents many challenges, including volatility, unpredictability and undermining of country ownership and accountability. These challenges stress the importance of domestic resource mobilisation by recipient countries, and improving the predictability and reducing the volatility of aid flows by donors. The World Bank and IMF can assist in the effective use of aid flows by developing scaling-up scenarios. New borrowing might also create fiscal space and should be allowed within the bounds of current and future debt sustainability. Further refinement and implementation of the Debt Sustainability Framework are crucial in this respect to prevent accumulation of unsustainable debt and deter free riding problems.

Progress report on the Doha Development Round and Aid for Trade

We welcome the progress report on the Doha Development Round and Aid for Trade, which points to the double challenge that countries face: to conclude the Doha negotiations with ambitious
outcomes and to elaborate adequate mechanisms under the Aid for Trade agenda before the end of 2006. Doha has to translate into concrete results: effective market opening and increased capacity of developing countries to benefit from more open markets under an Aid for Trade package. We would like to call on Ministers to show an active commitment to such an ambitious outcome.

The growing attention for Aid for Trade is positive, and we support the work in the Task Force on Aid for Trade that was agreed in Hong Kong. My constituency sees three ensuing issues. (1) Integration of Aid for Trade into a developing country’s development strategy is key; (2) Developing countries themselves should decide how to come up and implement National Aid for Trade plans. It is important that these plans are discussed with, and where possible implemented by the private sector, as the private sector is an important instrument in increasing trade on the ground. (3) Donors and the Bank should integrate trade into their policies and programming.

HIPC

My constituency supports closing the list of potential HIPC eligible countries, as the HIPC Initiative has always been envisaged as a one-off initiative rather than a permanent one. Although the World Bank and IMF propose to close the list, we agree with the possibility of including other countries in the future on a restricted case-by-case basis. In this respect, we want to underscore that restrictive accession is only applicable for those countries whose data has to be verified to meet the end 2004 debt threshold like Afghanistan. Some countries on the potentially eligible HIPC list may have difficulty meeting the requirements of the HIPC initiative before the end of 2006, the sunset date, and may therefore not benefit from HIPC debt relief, despite being on the list of ring-fenced countries. We look forward to Staff’s examination of the potential options (including their financial implications) to deal with this. When the Multilateral Debt Relief Initiative is implemented, debt ratios in the Low Income Countries will become much more sustainable. With the Debt Sustainability Framework already partially implemented, we have put a powerful control mechanism in place to prevent a renewed build-up of unsustainable debt.

I will elaborate on my constituency’s views on the Global Monitoring Report 2006 and the Bank’s report *Clean Energy and Development: Towards an Investment Framework* during the Development Committee’s session on Sunday.

**Statement by Mr. Fernando Zavala, Minister of Economy and Finance, Peru**

Our statement will be focused on two broad topics: a) assessing the effectiveness of the current model of aid delivery as reported in the Global Monitoring Report (GMR), and b) seeking effective ways of substantially expanding the supply of clean energy.

*Global Monitoring Report*

*At the current pace of progress, most countries will not achieve most of the Millennium Development Goals (MDGs) by 2015.* The human development MDGs, which are crucial for a permanent exit from poverty, show the largest gap between current progress and the targets. We must keep in mind that we are now almost 9 years away from the target date.

31 On behalf of Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay
The two most important questions are why the current progress is insufficient to achieve the majority of the MDGs in most of the countries by 2015 and how we can accelerate it. We will address these questions in two parts: 1) assessing the effectiveness of the models of aid delivery, and 2) assessing the volume and quality of financing required to achieve the MDGs.

Models of Aid Delivery

First, we think the current model of aid delivery used mainly by the International Financial Institutions (IFIs) and Official Donors is slow, complex and centralized, placing too much emphasis on processes and too little on results and mutual accountability. On the supply side, the main actors are the IFIs and the Official Donors. Both have embarked on a process of harmonization and alignment that started in 1997 and is not ready yet to scale up despite a number of coordination meetings, the last of which was in Paris. This, of course, makes it difficult to deliver opportune, flexible, untied and predictable aid. On the demand side, the IFIs are convinced that good governance of the client’s central government institutions is a prerequisite for aid delivery. They expect then to see clients’ governments in the driver's seat, as owners of the reforms programs and accountable to the people, with good monitoring and evaluation and results-based frameworks. Since we are facing governments with weak institutions and politically unstable, fulfilling these expectations is a very complex and long-term endeavor. Also, assessing progress toward this goal is now impossible because, as described in the GMR, aggregate governance indicators are severely flawed. These bottlenecks on the supply and demand side are delaying the implementation of concrete policies and actions that can accelerate progress toward the MDGs and can be evaluated by results, which will permit to hold supply and demand actors accountable.

Second, we think we should consider more models of aid delivery to enhance competition and evaluate each model by results on the ground. In particular, we think it will not be appropriate to include the Global Partnerships in the harmonization and alignment exercise. Instead, they should be let operate under their own delivery models. Similarly, we think more emphasis should be given to the delivery models of the Civil Society Organizations (CSOs). The interplay among these groups will permit each one to specialize in its own comparative advantage in terms of products they could best deliver and countries they could best serve. We are optimistic about this multiple-actors model of aid delivery. Overall, results will be better and achieved faster than trying to channel all the aid through the conventional model. But for this “competitive model” to function, actionable indicators of results have to be developed to evaluate the effects of the policies and actions of each supplier of aid and thus build the necessary accountability that does not exist at present.

Third, multilateral trade liberalization in goods (specially in agriculture) and services through a meaningful culmination of the “Doha Development Round” is a complementary delivery mechanism to achieve the MDGs that does not require as much aid as the traditional models of aid delivery. It is particularly important to advance decisively in agricultural trade liberalization, which represents two-thirds of the expected benefits of the round and benefits the rural areas, where most of the poor live. The World Bank estimates of the impact of a meaningful Doha Round have shown that additional employment creation and income generation can lift a substantial amount of the poor out of poverty, assuming that merchandise trade and services, in particular labor migration policies, are substantially liberalized. Liberalization of labor migration policies is a long-run necessity for the world, given the different rates of population growth in mature and young countries.

Financing for Development and Financing the Achievement of the MDGs: Aid and Trade

Aid commitments have increased significantly in recent years, but aid is still not sufficiently flexible, untied, predictable, and focused in reducing poverty. Higher aid flows are a reflection of an increase in the aid effort by DAC (Development Assistance Committee) and non DAC countries, but they
are mostly in the form of debt relief and technical cooperation and significantly directed to geopolitical strategic countries. That is, more aid through the usual channels, but not flexible, predictable and untied enough. For the HIPC countries that reached the decision point, debt relief has allowed them to increase poverty reduction expenditures from about 6 percent of GDP to 8 percent in 2004. But a solution to the issue of creditor participation is still pending. The Multilateral Debt Relief Initiative (MDRI) will affect gross assistance flows of IDA and the African Development Bank (ADB) in the relief effort, and it benefits the non-LAC IDA countries the most. The MDRI has to be additional, including intertemporally, which is very difficult to monitor. It also has to avoid free-riding problems that affect debt sustainability, which is another monitoring challenge.

We see significant uncertainty about the amount and the type of aid delivery in the medium and long term. The high commitments made in Gleneagles would increase aid by 25 billion dollars a year to Africa and 50 billion dollars a year to all developing countries by 2010. It was also in Gleneagles that the goal to reach the ODA/GNI 0.7 percent by 2015 was reaffirmed. Given that the budgets of donors are approved annually and are under significant pressure, these aid commitments are perceived as very uncertain. Therefore, more emphasis should be given to grant funds from private donors, to channeling better remittances, and to innovative mechanisms such as the International Financing Facility (IFF), Advance Market Commitments, airline departure tax legislation, Output-Based Aid, and the like. Finally, we should not lose sight of the fact that less than 25 percent of the donors have ODA/GNI ratios at or above 0.7 percent.

Trade can become a significant component of financing for development if a good Doha Round is achieved. Meaningful merchandise trade liberalization raises real income significantly by 89 billion dollars per year, according to the latest World Bank estimates. If we add partial immigration liberalization, that number could easily double the welfare gains from trade. Remittances, which are currently much larger than official aid, can also increase substantially. It would be interesting to have a precise estimate of the effects of multilateral trade liberalization in goods and immigration on the needs of aid to achieve the MDGs. The last Global Economic Report that reports on the effects of full multilateral trade liberalization in goods and services is of 2002.

Governance

Governance is a two-way street that requires well-established mutual accountabilities to work appropriately. The main problem that cuts across all the governance issues is that IFIs, Official Donors and the governments of client countries do not have well-established accountability mechanisms. As stated in the section on Models of Aid Delivery, problems of governance in the supply side (donors) and demand side (client countries) are at the heart of slow progress in aid effectiveness.

Actionable bottom-up indicators of governance for both client countries and donors (which are yet to be developed) are superior to current aggregate top-down indicators. Current aggregate indicators of governance for developing countries show significant measurement errors and other technical problems, and they should not be used to classify developing countries. We wonder if it is possible to find appropriate governance indicators at such an aggregate level. Just solving the attribution problem is nearly impossible in the aggregate. We concur with the GMR that it is by far better to focus on concrete actionable indicators more amenable to develop accountability mechanisms, for both client countries and donors.

Indicators to measure governance of developed countries as it relates to their interaction with developing countries should be given equal weight in the discussion. We are surprised to see that only a small box in the GMR is dedicated to indicators that rate donor countries. The Commitment to Development Index of the Center for Global Development is one of such indicators that require more
attention; probably it is too aggregate and needs to be broken down into actionable indicators of the quality of aid. Tied aid is another indicator of the quality of aid and of implicit corruption that also requires more attention in future GMRs.

Clean Energy and Development

We think the analysis of clean energy should be done in the context of the global market for energy, and climate should come into play via the externalities that conventional energy and clean energy produce on development and poverty reduction by changing the climate. This way the interactions between energy and climate change are well spelled out and double counting is avoided when estimating the funding required for climate change and clean energy, as it appears to be the case in the background paper.

All sources of energy should be considered together since they are close substitutes, and the market will choose its energy mix according to the relative prices of each source. The energy investment needs of developing and transition countries are estimated at 300 billion dollars per year. The electricity sector alone needs 160 billion dollars of investment a year but is investing only 80 billion dollars a year. The main polluters are the industrial countries, but since they are overburdened with other development needs, they are reluctant to pay the bill of the enormous effort of gearing energy supply toward more clean energy. The private sector remains the main vehicle to finance the future path of energy consumption. Be it clean or polluting energy, it all depends on the relative costs of the alternative sources of energy. The investment climate in most developing countries has to be improved significantly to further facilitate private sector investments in energy, and the Doing Business database is an excellent diagnostic and monitoring tool for this purpose.

We concur with the report that we need to factor in the negative externalities that the price of polluting energy creates, eliminating subsidies and taxing this type of energy, which is a way of approaching private profitability to social profitability for polluting energy relative to clean energy. This is a more powerful instrument to change the mix of energy consumption than expecting public sources of funds and the fast scaling-up of market-based mechanisms such as the carbon fund.

In this context, we would like to bring two specific proposals to your consideration.

First, adopt a policy of free global trade for biofuels and similar technologies that are likely to be profitable in the market place. Currently, biofuels are at a competitive disadvantage (high import taxes) with oil products, which enjoy a truly free global market. We think that letting biofuels compete in the global market, together with eliminating subsidies to oil and taxing its negative externalities, can produce a significant change in the relative price of these sources of energy with profound consequences for the increased use of biofuels and the like.

Second, eliminate the policy restrictions to invest in large hydro and gas projects. Real interest rates are low, and the price of oil is high and will stay at these high levels for the indefinite future. These conditions have made a whole array of hydro projects that remained dormant profitable. At the same time, new policy restrictions have appeared – such as the stringent social and environmental safeguards promoted by the IFI, which have practically paralyzed investments in large dams. These hydro projects can also benefit from the carbon fund credits, which further increase their profitability to scale up this activity. There is clearly a significant trade-off between expanding the supply of clean renewable energy and complying with very strict environmental and social safeguards. This obviously calls for an objective cost-benefit analysis to determine the best option between these two: i) no investment with the current stringent environmental and social safeguards and ii) significant investment in clean energy while
complying with equivalent flexible safeguards. Similar arguments can be applied to the scaling up of gas projects.
Statement by Mr. Haruhiko Kuroda, President, Asian Development Bank

On behalf of the Asian Development Bank, I wish to express our appreciation for the invitation to attend the 73rd meeting of the Development Committee as an Observer.

The Importance of Developing Asia

The international community recently re-affirmed the central importance of developing Asia for achieving global poverty reduction as well as being a prime driver of global growth, and stressed the need for continued — and increased — assistance to developing Asia. On 6 to 7 March 2006, the United Kingdom’s Department for International Development, the ADB and the World Bank co-hosted a major international conference on the development successes in Asia and challenges to be faced in the coming decade. The conference shared a vision of ending poverty in Asia within a generation. The vision sees Asia as a thriving regional economy that is well integrated internally and with the international economy. And that vision also sees all countries and citizens of the region as having the opportunity to contribute to economic growth and to share the benefits to improve their quality of life.

Major Development Trends and Challenges in the Asia and Pacific Region

Persistent poverty despite high growth. Despite the adverse effects of the Asian financial crisis, the region has grown at an average of about 6% per annum during the past 5 years, and there has been rapid decline in poverty incidence. The proportion of population surviving on $1 or less a day declined from about 34% in 1990 to 19% in 2003, and may have dropped further by the end of 2005, mainly because of high growth. However in terms of absolute numbers, over 620 million people still live on $1 or less a day and about 1.9 billion people live on less than $2 a day. These large numbers of poor people reflect large-scale underemployment in many developing member countries (DMCs) of ADB, especially in South Asia, and low wages in rural areas and the urban informal sector. While the region is broadly on track for achieving the Millennium Development Goals (MDGs) for reducing income poverty, it is less so for non-income dimensions of poverty. Many DMCs may fail to achieve the goals on children’s under nutrition, net primary enrollment rate, and reduction of infant and maternal mortality.

Poor investment climate. The region’s high growth is at risk because of its poor investment climate. The region’s overall investment rate of around 25% may not be enough to sustain a regional growth rate of 6%. Some estimates indicate deficit of $200 billion annually for infrastructure investment in East Asia alone. Several developing countries, including the People’s Republic of China (PRC) have large savings surpluses that are invested outside the region. Besides policy uncertainties, weak governance, and poor infrastructure, immature financial markets exacerbate the problem.

Weak governance. Governance remains weak and there is a high incidence of corruption in many DMCs. Corruption, inefficiency, and poor capacity in public systems not only impede investment but also add large transaction costs to ongoing private economic activities, reduce the quality of life, and weaken public social and economic programs, eroding the effectiveness of DMCs’ development efforts. The poor are often the worst victims of weak governance and high incidence of corruption.

Environmental degradation. High growth has concomitant environmental costs. Demographic pressure and growth are driving rapid urbanization, with 36% of Asians now living in urban areas, and as many as 11 megacities each supporting over 10 million people. Urban infrastructure is collapsing in many
of these cities, and water and air quality are deteriorating. Rapid depletion of energy and other mineral resources threatens the sustainability of high growth. Most countries are off track on the MDG for providing access to potable water in rural areas, and forest cover and biodiversity resources are declining in many DMCs. Water supply has been affected by population growth and distributional changes (urban, industrial) while coastal erosion and degradation have taken their toll on the biodiversity of marine and coastal resources. Moreover, the region faces the challenge of natural disasters. The World Disaster Report and technical analyses of specific disasters show increasing frequency and magnitude of damage.

**ADB’s Response to the Challenges**

Let me inform you of some of ADB’s strategic responses to these challenges.

**Inclusive growth.** Focusing on operations that promote productivity enhancing reforms, rural development and social development, is key to ensuring inclusiveness.

ADB’s assistance will be directed not only to promote higher growth and employment, but also to promote higher productivity which would raise wages. Policy and institutional reforms to improve the investment climate, which will help establish efficient and competitive markets that drive growth and productivity, are important to strengthen some aspects of inclusive growth.

With over 70% of Asia’s poor living in rural areas, any credible program of attacking poverty through inclusive growth has to focus on the rural sector, particularly on diversifying the rural economy and expanding off-farm employment in rural industries and services alongside developing agriculture. Developing rural infrastructure and rural finance are essential to expanding both farm and off-farm employment. Among these, ADB will focus on rural roads, power, irrigation and water management, and rural finance - sectors in which it has a good track record. This approach can be further strengthened by targeting operations for less developed areas within DMCs where poverty is concentrated.

Supporting inclusive social development, the main pillar for reducing the non-income dimensions of poverty, is equally important. Investment in education and health has great intrinsic and instrumental value in raising productivity. ADB will prioritize education sector interventions, and selective interventions in the health sector supported by cross-sectoral investments.

ADB believes that the effectiveness of all its interventions to promote inclusive growth depends crucially on improving governance and preventing corruption because the poor suffer most from the consequences of weak governance and corruption. Progress on this front is imperative for increasing economic stability, enhancing the credibility of DMC policies, and reducing resource leakages. Improving governance and preventing corruption have been identified as strategic priorities for ADB.

**Improving governance and preventing corruption.** In 1995, ADB became the first multilateral development bank (MDB) to adopt a governance policy that applied to all its operations. Three years later, ADB adopted an anticorruption policy. To keep ADB’s assistance in this area focused, ADB’s interventions will give priority to public financial management, including procurement, public expenditure management, as well as the legal and regulatory framework and capacity development in sectors/subsectors where ADB is active. ADB will also work closely with other MDBs to: develop a uniform framework for preventing and combating fraud, standardize definitions of corruption, improve the consistency of investigative rules and procedures, improve information sharing, ensure that compliance and enforcement actions taken by one MDB are supported by all others, and work together to develop concrete proposals to assist countries over the longer term in strengthening their capacity to combat corruption and to improve cooperation with civil society and other stakeholders and institutions such as the press and judiciary with the goal to enhance transparency and accountability.
**Investing in infrastructure for growth.** In most DMCs, inadequate and unstable power supply, inefficient transport systems, poor quality roads, weak and ageing railroad networks, badly equipped and congested ports and airports, unreliable communications systems, and grossly inadequate urban infrastructure raise transaction costs, curtail productivity, and often render investments unviable. In some cases, the transaction costs also include health costs due to higher pollution. Over the past three decades, ADB has directed a significant share of its lending toward infrastructure development, averaging about 50% for energy, transport and water supply and sanitation. Through the years, its interventions have evolved into more complex operations, including reforms of policies and procedures to improve efficiency in resource management and service provision, and ensure strict compliance with safeguards. This trend will be reinforced particularly by developing public-private partnerships, which will be a priority especially in the middle income countries. Also important will be ADB’s nonsovereign lending operations, and use of its guarantee and credit enhancement products to mitigate risk.

**Investing in energy efficiency, renewable energy, and low carbon technologies.** Adequate energy supplies are crucial to Asia's future. But we cannot ignore the potential environmental consequences of steadily increasing the consumption of energy from traditional sources. Sustained global warming will affect everyone. However it is the poor who will suffer most - bearing the brunt of increased flooding, lower food production, disease and other ill effects, with limited means to adapt. Countries in the region have recognized this and are now paying greater attention to energy efficiency, renewable energy, and low carbon technologies. Several countries, including PRC and India, have recently announced targets for energy efficiency and renewable energy. ADB is actively involved in helping DMCs in their efforts. For example, ADB is one of the few international institutions that provide underlying finance for projects that can produce tradable emission reduction credits. ADB recently proposed the Carbon Market Initiative to bring projects to fruition and help meet the world's long-term demand for carbon credits. ADB has also constituted a task force to explore ways to increase its program on clean energy to a billion dollars a year by 2008. The plan is to identify and address barriers to clean energy investments and to develop a portfolio of tools and investment mechanisms to meet the specific needs of each distinct market, targeting both public and private sector investments. Efforts such as these are essential to move Asia to a more sustainable growth path.

**Investing in ‘water for all’.** ‘Water for All’ is ADB’s vision for the entire region. Promoting a national focus on water sector reform, fostering integrated management of water resources, and improving and expanding delivery of water services are the cornerstones of ADB’s effort to attain this vision. The Asia Water Watch 2015 study, commissioned by ADB, WHO, UNDP, and UNESCAP, estimates that annual investments of $8 billion, at the minimum, will be needed over the next decade to meet the MDG targets for safe drinking water and sanitation alone. Additional investments are needed for irrigation services, river basin management, flood management and mitigation, and wastewater management to ensure the future of this precious resource. In response to this, ADB formulated the Water Financing Program (WFP), which seeks to make water a core investment area for ADB. Under the WFP, ADB proposes to increase its water investments to well over $2 billion annually. Launched at the 4th World Water Forum in Mexico, the WFP includes a large pipeline of programmed water investments, a wide array of knowledge and awareness products, and regional cooperation services. Its focus will be on combining increased investments in water infrastructure with capacity building and private sector participation.

**Catalyzing private sector investment.** ADB recognizes that government budgets and official development assistance alone cannot meet the development needs of the Asia and Pacific region. ADB is finding ways to engage more broadly with the private sector to assist the region in meeting its investment requirements. Huge resources can be tapped from the private sector, provided the investment climate is suitable and appropriate risk mitigation products and instruments can be deployed to mobilize these.
resources. ADB needs to leverage more and better investments from the private sector. To accomplish this, ADB will use its whole range of products and services, including sovereign and nonsovereign loans, grants and investments, guarantees, complementary financing scheme, syndications, and loan and grant administration services, expertise and technical assistance. Moreover, ADB will use its loan, investment and credit enhancement instruments to leverage cofinancing with public and private sector partners. ADB’s good relationship with DMC governments and good standing with investors are also valuable assets that can be used to improve the region’s investment climate and generate attractive investment opportunities. The private sector can also provide intellectual and technical expertise and assist the development of economically productive human resources. A healthy, competitive private sector is critical to national and regional growth and development—and to eradicating poverty in Asia.

Building regional cooperation and integration. ADB supports and promotes regional cooperation as a means to reinforce country-level poverty reduction efforts through regional level initiatives to maintain high growth, reduce cross-country disparities, and manage cross-border environmental and health risks. Subregional cooperation programs support the coordinated development of connectivity infrastructure, such as cross-border networks for transportation, power, and communications. These programs, which strengthen connectivity and integrate the region by linking markets and people, will remain integral to the ADB’s regional cooperation and integration (RCI) strategy. In addition to this, ADB will extend its RCI programs to respond to the region’s emerging need for coordinated approaches to address financial, monetary, and currency issues, and trade and investment cooperation and integration. Also important are regional responses to cross-border environment and health hazards. The frequency of catastrophic events such as earthquakes, floods and epidemics in Asia is rising. The region is dense in population, and any natural disaster or infectious disease tends to take a large toll on life, property and the regional economy. The Indian Ocean tsunami, the earthquake in South Asia, SARS and avian flu starkly illustrate how vulnerable Asia is to such catastrophes. Responses to these calamities can only be managed effectively if they are managed cooperatively within the region and in partnership with the international community. RCI programs require innovative funding arrangement because the distribution of benefits and costs among the partner countries is not always balanced. In the absence of a facilitator, individual countries would not bear the cost of providing public goods from which the benefits would primarily flow to other countries. Because it has a strong reputation in RCI, ADB can be such a facilitator.

Engaging with middle-income countries. Asia is home to 63% of the world’s poor people struggling to survive on less than a dollar a day, the majority of whom live in middle-income countries (MICs). Many MICs still face the daunting challenge of overcoming poverty. Their progress on the non-income MDGs has been mixed. It is thus important to mobilize resources and disseminate knowledge quickly and effectively to assist MICs in achieving all the MDGs. Moreover, MICs continue to be confronted with challenges such as supporting fair trade, developing alternative and cleaner sources of energy, and fighting the spread of avian flu and HIV/AIDS. ADB is fully committed to supporting MICs and helping them to meet their development challenges. At the same time, ADB recognizes that the needs and expectations of MICs are now much varied and different from the past. ADB, together with other MDBs are now developing new approaches that are both responsive to the needs and demands of MICs and are more sharply focused on achieving measurable results. At the recent meeting of the Heads of MDBs in February in Washington, it was agreed to conduct joint MDB consultation meetings with client middle-income countries in each region. Very recently, ADB and the WB jointly conducted a regional consultation with MICs in the Asia-Pacific region.

Assisting weakly performing countries. ADB recognizes the importance of engaging effectively with the growing number of fragile or weakly performing countries in the region. In the last few years, the region has experienced significant disruptions related to failed governments, civil unrest, violence and natural disasters, where human and economic impacts have been devastating. ADB has responded. In Afghanistan, ADB is broadly engaged in nation-building in partnership with other multilateral and
bilateral donors, as well as civil society and the private sector. In Sri Lanka, ADB supports regionally balanced development, pro-poor growth to generate employment and increase rural incomes, social development to enhance the marketable skills of the labor force, and good governance for greater public sector accountability. In all post-conflict situations in which ADB engages, it collaborates closely with development partners to conduct joint poverty assessments, develop trust funds, rehabilitate infrastructure, and support capacity development. ADB is now in the process of developing a comprehensive approach to engaging with weakly performing countries, with particular attention to both selectivity and focus, and strategic partnerships.

The importance of partnerships. ADB, in partnership with others, will continue to be at the forefront of collective efforts to sustain growth and end poverty in Asia. Using development assistance effectively in the fight against poverty requires partnerships. There is a growing interdependence between developing Asia and the global economy and global community. Economic and financial cooperation and integration within the region are accelerating. Continued progress in the fight against poverty in developing Asia depends on creating and nurturing stronger partnerships and closer cooperation. Such partnerships must go beyond “donor-client relationships” to involve inter-government cooperation, joint public-private sector investment, engagement with civil society, and cooperation among development finance institutions under the framework of the Paris Declaration agreed to in 2005.

Asia’s Continued Development – A Global Challenge and Global Opportunity

In conclusion, let me emphasize that poverty in developing Asia presents challenges that require the continued engagement and strong support of the international community. But overcoming these challenges in the region also presents an opportunity - a huge opportunity - for the global community. The region's dynamic growth is good for Asia - and good for the world. By staying involved and engaged with developing Asia, by helping it meet its challenges and by solving global challenges together, all countries - and all people - stand to benefit immensely from a more stable, more open and more prosperous world.

Statement by Mr. Louis Michel, Commissioner for Development and Humanitarian Aid, European Commission

Strong Financial and Political Commitments from The EU On Development

Over the past year, the EU has made strong political and financial commitments to accelerate progress towards the Millennium Development Goals (MDGs), particularly in sub-Saharan Africa. These commitments translate into more, better and quicker aid.

The EU’s strong financial commitments are reflected in the June 2005 decision to increase Official Development Aid (ODA) to a collective average of 0.56% of GNI by 2010, and to 0.7% by 2015. It implies that the EU, which already provides more than half of global ODA, will contribute about 80% of the scaling up of ODA worldwide by 2015. I would encourage other partners to prove this projection wrong by stepping up their efforts.

The strong political commitment is embodied in the historical adoption of the first EU Development Policy Statement, the European Consensus on Development, in December 2005. This Consensus is a breakthrough, as for the first time the European Commission, Parliament and Member States agreed on a common vision for development assistance, based on shared values, objectives, and
principles, as well as a substantial financial increase. It commits the whole of the Union\textsuperscript{32} to enhancing coherence, co-ordination, and complementarity and serves as a platform for greater aid effectiveness. The European Council also agreed in December 2005 on an EU Strategy for Africa, the continent which should receive at least 50% of the aid increase. An Aid Effectiveness Package was adopted in April 2006.

Global Monitoring Report

The European Commission shares the key messages of the joint World Bank/IMF 2006 Global Monitoring Report on Strengthening Mutual Accountability (GMR), some of which are reflected in the European Consensus on Development and the EU Strategy for Africa.

The European Commission welcomes the GMR which, in a comprehensive and balanced way, reviews the progress toward meeting the main MDG targets and provides an important input for our own reflections on how to improve monitoring towards the MDGs. Strengthening progress towards the MDGs continues to be the overarching priority of the European development policy.

Effective Support to Governance

The European Commission shares the balanced approach taken in the GMR on the complex area of governance. Progress in the protection of human rights, good governance and democratisation in partner countries is fundamental. For this reason, support to improving governance in partner countries is an important objective stated in the European Consensus on Development.

To translate the European Development Consensus into practice, I have decided to put the dialogue on governance at the heart of the preparation of our country strategy papers with the 79 African, Caribbean and Pacific (ACP) countries within the framework of the 10\textsuperscript{th} European Development Fund (EDF). In this context, the European Commission is currently developing a methodology for assessing governance. The results of these assessments will also be taken into account in the allocation of funds.

Governance will form an integral part of our general dialogue with partners when preparing and implementing our country strategy papers (CSPs) as well as of our political dialogue.

The EU Africa Strategy also foresees a Governance Initiative to support Africa-owned efforts in this area. The Commission is currently working on this initiative which will be accessible for all ACP countries, but will pay particular attention to the Africa Peer Review Mechanism.

The recognition of the complexity of governance calls for balanced and graduated responses - depending on the gravity of the problem - and better cooperation between donors. In most cases of governance problems, dialogue has to be the first and preferred step. The appropriate reaction also has to take into account the impact it would have on the poor population, including the need for maintaining some degree of predictability of funding whenever possible.

Tackling the link between natural resource governance and conflict is an important theme for the European Commission. The EC is particularly active in the Kimberley Process, and will assume the chairmanship in 2007 (representing the 25 European Member States). Another focal area is conflict timber, where support is provided under FLEGT (the EC’s Forest Law Enforcement, Governance and Trade Initiative). Both processes are good examples of how different instruments and policy areas, i.e.

\textsuperscript{32} Meaning the European Commission, the Council of Ministers, the European Parliament and the Member States as bilateral donors.
governance, trade, development, security and human rights, can be combined to ensure a coherent approach.

The European Commission supports the message included in the GMR that *sound expenditure management systems* are needed to materialise increased and more flexible aid and to meet the fiduciary concerns of donors and finance ministries. The European Commission promotes the wide adoption of the Public Expenditure and Financial Accountability Performance Measurement Framework (P.E.F.A.) by the donor community as the common and only tool to assess the quality of public finance management systems. This will reduce transaction costs and facilitate dialogue between donors and governments. Such a common assessment tool will also be valuable for partner countries, as it will provide feedback on the results of their reform efforts.

Development assistance can be provided through different and complementary modalities depending on country circumstances. The EU has decided to *increase the use of general and sectoral budget support*, wherever circumstances permit. The rational for this decision is to support ownership in the financing of national poverty reduction strategies, strengthen partner countries' national accountability systems and procedures, and promote sound and transparent management of public finances.

*Aid Effectiveness and Harmonisation*

The scaling up of aid has to come in parallel with an increase in quality. Aid effectiveness is central to the EU Development Consensus, operationalizing the principles of the Paris Declaration on harmonisation, ownership, alignment, and management by results. The *Aid Effectiveness Package adopted on April 11*, translates commitment into detailed and concrete measures to be implemented by 2010. The focus is now on implementation on the ground, taking into account country specificities and best practices.

Mention must be made, in particular, of the adoption of:

(i) An *EU Joint Multi-annual Programming Framework*. There will be a common format for country strategies, compatible with our partners' systems, and open to other donors. The EC proposes to launch an immediate shared analysis of the political, economic, social and environmental situation of each country over the medium term, in order to establish a collective strategic response to poverty challenges.

(ii) A mandate to further progress on complementarity through the adoption of *operational principles on the division of labour* before the end of 2006.

(iii) A mandate to develop by 2006, a methodological framework for *enhanced financial cooperation and co-financing* between EU actors.

*Trade*

The European Commission welcomes the Trade Progress Report, which provides a helpful overview of the results of the Hong Kong Ministerial Meeting of the WTO and of the Aid for Trade Agenda. The European Commission fully recognises the importance of *timely delivery of Trade Related Assistance* in order to ensure that all developing countries, especially Least Developed Countries and other small and vulnerable economies, can reap the benefits from trade reform. However, Aid for Trade, while being a valuable complement, can not be a substitute for a *successful DDA outcome* that reflects the interests of developing countries.
As regards Aid for Trade, the European Commission has taken a lead role with a contribution on average of above €800 million per year since the start of the DDA in 2001. The Commission indicated that this amount will be increased to €1 billion per year and the EU Member States agreed to strive to provide collectively another €1 billion of Trade Related Assistance by 2010. It is important to add that this combined amount of €2 billion refers to a strict definition of what is trade related. The European Commission is also very active with regards to broader support for strengthening the supply side (e.g., through infrastructure), as well as for facilitating adjustment to a new trade policy situation.

The European Commission and the Member States contribute to the work of the Task Force to enhance the Integrated Framework (IF) to assist LDCs. The new IF will have to be much stronger at the country level. The IF is one of the main tools to coordinate Aid for Trade and to achieve better mainstreaming of trade in poverty reduction strategies. Further progress in this area is urgently needed. Up to now, we have paid too much lip service to mainstreaming and have not advanced enough in practical terms.

Aid for Trade should also take into account the regional integration dimension. Landlocked countries should be targeted in the regional context to reduce the cost of their trade transactions by improving transport corridors and simplifying procedures.

The European Commission does not consider that new mechanisms are needed to deliver Aid for Trade. Existing channels can be used, which in fact facilitates the mainstreaming and programming of assistance. What is important is that Aid for Trade pledges are credible and increase the confidence of developing countries.

Clean Energy and Development

Access to reliable, affordable, and clean energy services is critical to accelerate economic growth and social development in poor countries. However, there is a big financing gap in the energy sector and a need for new and innovative instruments that can blend grants and loans to reduce costs and risks, and attract additional investment from the private sector. This need is particularly strong in poor developing countries, such as in Sub-Saharan Africa. As reflected in the European Consensus on Development, the EU is committed to help solving the energy problems of poor countries.

In order to take action, the EU has, in close collaboration with the African Union and NEPAD, decided to establish an Africa-EU Partnership on Infrastructure that will address the need for increased investment in transport, water, energy and ICTs, and has established a trust fund with the European Investment Bank, as a mechanism to attract financing for cross-border and regional infrastructure. The EU has also created the ACP-EU Energy Facility that focuses on improving access to energy in poor rural areas.

In 2004, the EU adopted a Strategy and Action Plan on climate change in the context of development cooperation. In this context, innovative risk management tools can make an important contribution in reducing vulnerabilities in developing countries.

Partnership with The World Bank

The European Commission values its constructive partnership with the World Bank in the shared struggle for poverty alleviation. The frequent consultations between the two institutions as well as the synergies and complementarity of their development strategies highlight the joint determination to support and accelerate the achievement of the MDGs that have proven so difficult to attain, especially in Africa.
Statement by Mr. Lennart Båge, President, International Fund for Agricultural Development

Over past six months the international development community has been hard at work to translate into action the renewed commitment to achieving the Millennium Development Goals made by world leaders last September. We have been working on many fronts to accelerate and expand programs, improve analysis and measurement, harmonize systems and procedures, identify and foster innovation, and build on best practices. This meeting provides an important opportunity to reflect on our progress and identify additional actions that will further advance our efforts.

The Development Committee’s discussion of clean energy and development contributes momentum to ongoing efforts to tackle an issue that is extremely challenging but essential for achieving the full range of development goals that lie ahead. Clean and efficient energy alternatives, such as wind and solar power, are of particular importance for rural development, especially in remote areas where it is more difficult and costly to connect to larger networks. At the same time, residents in rural areas may provide or have the potential to provide environmental services that contribute to reducing greenhouse gases. Most often, however, incentives to encourage production of these environmental services by poor communities are absent. It is important that efforts to combat global warming and desertification recognize and develop the potential of rural communities, in a variety of settings, to provide environmental services that contribute to a healthier climate for all. Success in this area would provide a double dividend of helping to mitigate climate change while strengthening sustainable livelihoods that reduce rural poverty.

The Committee’s focus on the need for mutual accountability of aid, trade, and governance, together with wider efforts to reform institutions and processes, amount to a comprehensive renovation of the business of development. Are we “getting it right?” I believe that we are, in many ways. Yet, in at least one critical respect, we are not. Our priorities and investments still do not reflect the fact that three-quarters of the world’s poor live in rural areas. A recent World Bank report argues that “the potential and the urgency for securing agriculture’s prominence in the development agenda have never been greater.” There are signs of a gradual shift of attention toward agriculture and rural development, prompted in part by current trade negotiations, but the process needs to be accelerated and intensified if the MDGs are to be met on time.

Nowhere is the need to focus on agriculture and rural development more urgent than in sub-Saharan Africa. Recent action by African Union Ministers of Agriculture demonstrates their recognition of the chronic underinvestment in a sector that accounts for some 30 percent of their GDP, 40 percent of exports, and about 70 percent of employment. In February, the African Union Ministers approved an Agriculture Expenditure Tracking System that will make it possible to monitor national governments’ funding for agricultural development. This is an important tool to ensure the realization of the 2003 Maputo pledge by African leaders to allocate at least ten percent of national budgets to agriculture and rural development. In fact, a preliminary survey found that most of the 21 countries responding were expending in the range of five percent and that expenditures for agriculture and rural development had not increased since the 2003 commitment was undertaken. The new tracking system will provide a critical instrument for planning, assessment, and accountability.

Agriculture and rural development need to be placed at the centre of national development and poverty reduction plans in many, if not most, poor countries, especially in Africa. The Poverty Reduction

Strategy (PRS) approach is particularly important in this regard and could provide a pivotal mechanism for accelerating and intensifying investment, policy reform, and capacity building in agriculture and rural development. The 2005 Review of the Poverty Reduction Strategy Approach pointed to the need to incorporate productive sectors more effectively and to adopt targeted strategies that connect poor people to economic growth. As part of a concerted effort to sharpen the rural focus of the PRS process, IFAD – in consultation with the World Bank and the Donor Platform on Rural Development – is conducting case studies of the PRS experience in a number of sub-Saharan Africa countries. These studies are meant to identify analytical gaps on rural development in the PRSs, as well as potential improvements in the participatory processes related to the formulation or revision of PRSs.

Engaging farmers and other rural groups in formulating poverty reduction strategies can help to accelerate a shift of priorities and resources toward rural development. The authors of the World Bank study cited earlier highlight the involvement of agricultural stakeholders in policy and investment decisions as one of the five key areas for concerted action by the international community to get agriculture back onto the development agenda. Such involvement, it is argued, will logically shift priorities in their favor and contribute to better policy and investment decisions.

As part of its strategic objective of strengthening the capacity of the rural poor and their organizations, IFAD recently hosted a Farmers’ Forum meeting, in conjunction with its 2006 Governing Council. Representatives from 53 farmers’ organizations from around the world participated in the Forum, which henceforth will convene on a biennial basis. In the conclusions of their two-day deliberations, they noted that “the deterioration of rural livelihoods is, in no small measure, due to lack of capacity of rural organizations to influence policies and negotiate with other actors. It is also due to the fact that governments and international institutions provide little space for inclusive social dialogue whereby the perspectives of rural people are taken into account.” Creating space for this kind of inclusive dialogue needs to become a routine part of national planning, implementation, and evaluation processes.

Increased donor harmonization can also contribute to greater integration of agriculture and rural development in PRSs. A noteworthy development in this regard is the establishment of a Global Donor Platform on Rural Development34 comprised of 26 multi- and bilateral member organizations and 21 associate organizations and institutions. These organizations have come together in the belief that “getting the rural development agenda right” is essential for global poverty reduction. The Platform advocates in favour of opportunities for the rural poor in international, regional, and national policy arenas; shares learning, innovation and best practices; and supports harmonization of procedures and practices in rural development, consistent with the Paris Declaration on Aid Effectiveness.

IFAD is working to improve the alignment of its own analysis and strategy development with the PRS approach. Pilot tests of PRS alignment of Country Strategic Opportunities Paper35 (COSOP) will be part of the development of a more rigorous and results-based operating model.

The interests and perspectives of small scale farmers and rural entrepreneurs need to be afforded significant consideration in the deliberations on Aid for Trade that are currently underway within the WTO Doha round. In many least developed and low-income countries, small farmers and rural entrepreneurs are among those groups most in need of assistance to withstand potential negative effects of trade liberalization and to develop the capacity to access the beneficial opportunities that such liberalization may create.

34 Information about the Global Donors Platform on Rural Development can be found at www.gdprd.org.

35 IFAD’s vehicle for its country level program and policy strategy development process
It is important to note continued progress toward the commitment to cancel 100 percent of the official and bilateral debt of HIPC countries, as agreed at the 2005 World Summit. The recent approval by the International Development Association (IDA) Board of $37 billion in debt relief in the context of its participation in the new Multilateral Debt Relief Initiative (MDRI) marked an important milestone in this regard. In light of this milestone, this would be an especially appropriate time for an IDA Deputies technical meeting on HIPC, which has been pending for more than a year. The need for such a meeting is particularly urgent for IFAD, which has forwarded to the Deputies its request to access the World Bank-administered HIPC Trust Fund. It was agreed that IFAD would present to the next HIPC technical meeting a paper that described its institutional exposure. The urgency of IFAD’s request has increased over the past year. I urge a technical meeting on HIPC of the IDA Deputies at the earliest possible date.

Mr. Chairman, in closing, I would like to draw attention to the important work of the newly-appointed High-level Panel on United Nations System-wide Coherence in the Areas of Development, Humanitarian Assistance, and the Environment. This panel has been asked to bring forward recommendations for strengthening the UN system to more effectively meet current global challenges related to poverty reduction, natural and manmade disasters, and environmental degradation. Some members of the Panel, as well as some members of the UN General Assembly, have suggested that the question of coherence before the Panel be extended to include the Bretton Woods Institutions. Whether or not these institutions are included in its review, I believe the Panel’s recommendations will be highly relevant to the Development Committee and its own effort to promote coherence, coordination, and cooperation among international institutions.

Statement by Mr. Juan Somavia, Director General, International Labour Office

The global economy has proven surprisingly robust, recording increases in world output of around 5 percent in each of the last two years. As noted in the WEO economic growth exceeded expectations in the second half of 2005 despite higher oil prices and natural disasters. It is a concern however that global imbalances continue to expand and that growth in several of the largest Western European countries remains sluggish. This partly reflects subdued consumption expenditure and may be related to fears about declining job security.

On the brighter side, the upturn in global growth is not confined to developed countries. In fact several large emerging economies continue to record impressive economic growth. Equally important relatively high growth rates have been recorded in several African, West Asian and Latin American countries in the last few years. This is encouraging after several decades of disappointing performance. The challenge now is to ensure that this is growth spurt is sustained and translated into improved labour market performance and higher living standards. Economic growth is not an end in itself but a means to an end.

This will not be an easy task. As the WEO indicates the recent improvements in many developing countries are closely associated with rising demand for raw materials and improvements in the terms of trade for commodity producers. In a number of countries growth is concentrated in a few capital intensive sectors of the economy, like mining and hydrocarbons, which have benefited from booming prices. Unfortunately these industries usually have weak production linkages with the rest of the economy and the dramatic price increases for base metals has already intensified the search for substitutes in industries like construction.

Moreover the oil and mining sectors are traditionally capital intensive with relatively low employment elasticities. This helps explain why faster output growth has not been translated into improved labour market performance. In fact global unemployment increased slightly in 2005 to reach a
new peak of 192 million. But more importantly, the extreme working poor (living on less than $1 a day) are nearly three times as many as the global unemployed, and half the global labour force do not earn sufficient to lift themselves and their families above the $2 a day threshold. With such a large proportion of the global labour force poverty stricken it is important to recall the necessity of sustaining high global growth for many years and of finding national policy packages that increase the employment content of growth.

The prospects for economic growth and labour market trends in developing countries over the medium term will depend, at least in part, on how the income generated by export-orientated sectors during the current commodity boom is utilized. It is imperative that significant proportions of the wealth now being generated spillover into the domestic economy, in the form of both local investment and consumption of domestically produced goods and services. If the bulk of the increased profits flow out of these developing economies, they are unlikely to shift on to a sustainably higher growth path. As the WEO points out commodity prices remain highly volatile so unless growth becomes more broadly based and economies more diversified we are unlikely to witness labour demand expanding by the magnitude necessary to significantly dent unemployment and underemployment levels.

If however higher profits are reinvested in domestic projects a virtuous circle involving increased growth, investment and employment can be initiated. Similarly if local workers receive their fair share of the recent income gains the repercussions for the local economy can be much more positive. Increased remuneration for low and semi-skilled workers enhances the likelihood that demand is boosted for local labour intensive services and goods. Consequently sound labour market institutions and appropriate wages policies can play a significant role in determining the distribution of income and thus the prospects of transforming recent “windfall” gains into sustainable higher growth patterns.

This issue of the WEO focuses special attention on the relationship between globalisation and inflation. Greater price stability in the last decade or more has delivered important benefits. These conditions have been conducive for improved business confidence and private investment in at least some countries. Reduced inflation is also advantageous for low income consumers and particularly the poor who need to survive on fixed incomes. Consumers in some countries have benefited from a much wider, and often cheaper, choice of commodities and services provided by the private sector. Lower inflation, and reduced public borrowing in many countries, has also contributed to lower interest rates which benefit borrowers both large and small. In industrialized countries, these same conditions have helped many workers and their families accumulate important assets including equities and have helped expand home ownership. Consequently in many industrialized counties total wealth in middle income families has increased.

The WEO analysis considers only a part of the nexus between globalisation, labour market developments and inflation. To the extent that recent labour market reforms are considered, the relevant chapter suggests that if anything the demise of centralized and coordinated wage bargaining may exacerbate wage pressures and place upward pressure on inflation. Recognition of these down side risks associated with decentralized wage bargaining systems is desirable even if labour market pressures on inflation are currently negligible in most countries.

During the mid decades of the twentieth century many industrialized countries established a framework of employment rights and a range of labour market institutions to promote inclusion and equity through the world of work. It often included labour legislation, labour inspection, labour courts, conciliation and mediation services and measures to facilitate the organisation of workers and collective bargaining. In some countries it also included institutions for determining minimum wages and wage adjustments, and the use of remuneration adjustments in the public sector to influence bargaining patterns throughout the economy. Several countries also created forums for regular consultations between
governments, trade unions, employers and civil society over broad economic and social policies. A number of developing countries followed this lead and established similar labour legislation and institutions. These institutions and policies increased employment and income security and helped ensure that work was decent for the vast majority of people in developed countries. They often had a substantial impact on the distribution of incomes and aggregate demand within societies. They are also often credited with fostering industrial harmony, promoting human capital development, facilitating structural change and improving productivity.

Reforms of labour market institutions and regulations in the last two or three decades were designed to promote numerical, functional and labour cost flexibility at work. Almost everywhere the role of the State in labour relations has declined. These reforms were not unrelated to globalisation. In fact many governments opted for deregulation because of perceived pressures on their international competitiveness and the desire to attract foreign direct and portfolio investment after they had open their capital markets.

Simultaneously, globalisation was creating dramatic changes in the workplace. In the pre-globalisation period formal labour markets, and the institutions that regulated them, coincided with product market competition. Both were contained largely within national frontiers and workers were largely sheltered from external competitive factors. In contemporary markets the expansion of global trade, the development of global production chains and massive international capital movements mean that workers must compete with other workers who are very distant from their own national boundaries. At the very least, enterprises have increased potential to alter the location of production or the source of their inputs. The extent to which enterprises have actually taken advantage of these additional choices and moved production to new locations remains a moot point. However to a large extent it is this potential for firms to move or rapidly alter their production chain, rather than realised movements, that have weaken the bargaining position of labour and tilted the industrial relations playing field to the advantage of employers.

Consequently intensified competition is reflected in downward pressure on remuneration packages for non-managerial and non-professional workers in many countries. Other labour market strategies exist for enterprises facing intensive international competition. In recent decades many corporations have sought to reduce labour costs and enhance their international competitiveness through a dramatic expansion in atypical forms of work, including part-time, casual, and short-term work. Also on the increase is home work, zero-hours contracts, contract labour and agency work. There are also various other forms of disguised employment relationships where workers are re-labelled as “self-employed”. These workers are not eligible for many of the rights and benefits that apply to regular employees doing the same types of work.

Globalisation, and the associated need to constantly improve competitiveness to maintain market share, is also reflected in increased intensity of work, tighter deadlines and faster production processes. New working time patterns include flexible working hours, flexible working weeks, flexible working years, flexible contracts, flexible places of work and flexible working lives. Often, but certainly not always, flexible working arrangements have adverse consequences for family life and local communities.

Labour market developments in industrialized countries help explain the changes in the inflation-output elasticity’s that are reported in the WEO. Certainly it would appear that real incomes of many unskilled and semi-skilled workers failed to keep pace with productivity improvements. Data presented in the WEO from industrialized countries clearly indicate that workers only received a fraction of the benefits they might otherwise have expected from improved productivity over the course of the 1990s. As noted in the WEO, “the most noticeable feature of cost developments is the greater decline in unit labour
cost increases compared to producer price inflation... As a result, the labour share has been declining over the 1990s”.

While this may be conducive for eliminating inflationary pressures and stimulating investment the fact that it was accompanied by record level profits and a rapid growth in salaries, share options and bonuses paid to executives meant that the income distribution widened appreciably in many countries. These trends in relative remuneration have significant implications for perceptions of fairness. They help explain another important development highlighted in the WEO, namely the strong re-emergence of protectionist pressures in many countries and the threat this poses to a successful conclusion of the Doha trade round. The preservation of open economies and the participation of a wider range of countries in increased international trade are highly desirable. – A new approach to labour markets which aims to balance better security and flexibility is warranted and would contribute to creating the conditions needed to manage the adjustments consequent on further market opening.

It would appear that these concerns are being recognised and terms like fairness, equity and redistribution have re-entered the debate among development economists. For example, last year’s World Development Report declared that “equity is complementary, in some fundamental respects, to the pursuit of long-term prosperity”. Moreover, the same World Bank publication suggested that some forms of redistribution - of access to services, assets or political influence - can increase economic efficiency. This same publication explored the extent to which denial of workers' rights and inadequate labour regulations increase inequality and harm economic development. The decision by the International Finance Corporation to require that its clients respect a number of basic labour and social as well as environmental standards is a significant development that could be developed for lending by other multilateral institutions.

The WEO discusses the need to rectify unsustainable balance of payments positions in many countries especially China. External imbalances are in part a reflection of internal imbalances. The promotion of sound labour market institutions and appropriate wages policies in China may help to rectify widening income inequalities, boost consumption expenditure and encourage imports. Thus helping to recycle the massive balance of payments surpluses that have been accumulated in the last decade and which represent a significant threat to stability in the global economy.

It is evident from the above that many of the issues and challenges discussed in the WEO and last year’s WDR are related to employment and decent work. These themes are certainly receiving wide attention at present. In 2005 over 150 Heads of state and governments decided to support the objective of fair globalisation, full and productive employment and decent work for all in the Outcome Document from the UN World Summit. Attention is now focused on appropriate ways to implement these commitments, on a system-wide basis, for example through the forthcoming ECOSOC Ministerial meeting in July.

Given the wide spread concern with global economic imbalances and increasing income inequality, as well as the desire for a successful conclusion of the Doha round and preservation of relative price stability, further investigation of the relationship between growth, investment and employment is warranted. This could be topics for further joint research and policy discussion between the World Bank, IMF, ILO and other institutions in the context of calls for enhanced policy coherence at the international level.
Statement by Mr. Amadou Boubacar Cisse, Vice President (Operations), Islamic Development Bank (IsDB)

The Islamic Development Bank (IsDB) Group has the privilege and honour to participate in the 73rd Meeting of the Development Committee, which has on its agenda the following items: (i). Clean Energy and Development: Towards an Investment Framework, and (ii). Global Monitoring Report 2006: Strengthening Mutual Accountability – Aid, Trade and Governance. In addition, following Background Reports are submitted for the consideration of the Development Committee: (iii). Fiscal Policy for Growth and Development: An Interim Report, (iv). Trade Progress Report – The Doha Development Agenda and Aid for Trade: Hong Kong and Beyond, and (v). Heavily Indebted Poor Countries (HIPC) Initiative: List of Ring-Fenced Countries Potentially Eligible under the Initiative. All these Agenda Items and Background Reports address emerging development challenges facing the developing countries, including the IsDB member countries, and provide useful and relevant insights in terms of their immediate operational relevance as well as enhancing the effectiveness of assistance provided by multilateral development banks.

While the developing countries and development community are ten years away from the target date of the U.N. Millennium Declaration, many regions and countries have achieved significant improvements in various socio-economic indicators. Efforts by the development community, including the IsDB Group, to assist the African countries by way of debt write-off, supporting poverty alleviation programmes, and duty-free market access for exports have certainly improved their overall economic prospects and resources to tackle entrenched socio-economic indicators. Indeed, progress towards achieving eight Millennium Development Goals (MDGs) and eighteen related targets by some African countries have started to show some progress yet, for many, the slippages raises cause for serious concern.

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 welcomes the opportunity to participate in the discussion on the emerging developmental challenges during the 73rd Session of the Development Committee. The IsDB Group would like to briefly update the 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 of IsDB Member Countries

According to the latest World Bank estimates, the global economic growth decelerated from 3.8 percent in 2004 to 3.2 percent in 2005 and is projected to grow at the same rate in 2006. Real GDP growth of developing countries remained fairly robust at 5.9 percent in 2005, which is almost one percentage point below the growth recorded in 2004.

In line with the above global trends, the real GDP growth of fifty-six IsDB member countries, as a group, decelerated from 6.2 percent in 2004 to 5.5 percent in 2005, which is expected to slightly recover to 5.8 percent during 2006. The least developed member countries (LDMCs), as a group, sustained their

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36  Data on IsDB member countries’ macroeconomic performance is based on estimations made in September 2005.
economic growth of little over 6 percent both in 2004 and 2005, which is expected to accelerate to 7.9 percent during 2006.\textsuperscript{37} Inflation in IsDB member countries reached 8.4 percent in 2005.

Current account surplus of IsDB member countries surged from 5.5 percent of their combined GDP in 2004 to 9.6 percent in 2005, which is owing mainly to higher income of oil-exporting member countries. In contrast, the current account deficit of LDMCs, as a group, was reduced from 4.6 percent of their combined GDP in 2004 to 3.9 percent in 2005 and is projected to further fall to 1.7 percent during 2006. On the basis of revised data, the IsDB member countries recorded the highest flow of net foreign direct investment (FDI) at US$38.9 billion in 2004, which is an increase of 46 percent as compared to 2003. In recent years, the annual increase in the stock of external debt of LDMCs, as a group, ranged between $3 to $4 billion, which appears to be sustainable as the debt servicing ratio is gradually declining from 12.8 percent in 2000 to a projected 7.7 percent in 2006.

For the IsDB member countries, risks and uncertainties arising from global financial imbalances generate concerns for the future economic development prospects. During 2005, a rising trend in international interest rates has emerged which, coupled with rising energy prices, could potentially lead to economic slowdown, particularly in the U.S.A. and the E.U. region. Such a global slowdown of economic growth could setback 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 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.

Clean Energy and Development: Towards an Investment Framework

The IsDB Group expresses appreciation to the World Bank for preparing extremely well researched document which addresses complex set of issues related to investment framework for clean energy and development. A notable feature of the global economic performance during last two years was its resilience in the face of higher energy prices. In many industrialized countries, economic activity is close to its maximum while many emerging economies continue to expand at a robust rate. However, the economic performance of oil-importing developing countries are vulnerable to the rising risk premium as exemplified by the future energy market scenarios. Furthermore, meeting the energy needs of underserved population in developing countries could lead to both massive environmental degradation and soaring prices. Such a vulnerability to long term and sustainable economic growth can be addressed by forging an equitable global energy compact that embodies security, access, and greater investment in developing alternative sources of energy.

The focus of the document “Clean Energy and Development: Towards an Investment Framework” is to highlight the national level energy sector policy reforms, achieving macroeconomic stability through diversification of sources of energy, utilization of clean and efficient energy technologies, addressing impact of energy on climate change and mitigating greenhouses gases, and developing new financing instruments and options. While all the issues addressed provide numerous insights for reforming energy policies and development of energy sector at the national level, there is

\textsuperscript{37} Of the 56 member countries, the IsDB Group classifies 28 countries as the 'least developed member countries' (LDMCs), which makes them eligible to receive concessional financing and flexible terms and conditions on other modes of financing.
clear need to developing regional approaches for meeting the energy requirements of developing countries. In this context, developing energy corridors between west/central Asian region and the rest of Asian countries offers not only attractive investment opportunities but will also address the need for utilizing cleaner energy sources for sustaining economic growth as well as enhance the prospects of regional integration. In addition, involvement of multilateral development banks (MDBs) in financing of nuclear-based parks for energy generation, *albeit* under international safeguards, could also be considered as a viable option for generating efficient and clean energy.

The estimate that for developing countries to meet their energy needs will require a total investment of $8.1 trillion, which averages to about $300 billion between 2003 and 2030, highlights the enormity of developing sustainable investment framework for the energy sector at the global level. Treating climate as a public good necessitates the need to mitigate adverse effects of human-induced climate change and ecosystems. To mitigate adverse effects also requires an international investment framework for energy sector with MDBs along with the private sector catalyzing financing of efficient and clean energy projects.

Like other MDBs, the IsDB Group has been mainly involved in the financing of fuel- and hydro-based energy generation projects in the public sector. The cumulative net approvals by the IsDB Group up to the end-2005 to finance electricity generation, distribution, and transmission reached $2.2 billion. A recent example of innovative public-private sector financing partnerships between the IsDB Group’s co-financing arrangement with the Asian Development Bank (AsDB), and consortium of local banks to finance construction of an environmentally friendly hydropower project in the Pakistani private sector at a cost of $150 million. The project will not only provide clean energy but will also generate cheaper power especially against the backdrop of rapidly escalating hydrocarbon prices. In fact, the wider central Asian region holds the potential to replicate such environmentally friendly energy projects on a much larger scale that could feed the growing energy needs of emerging and rapidly growing economies in the region.

*Global Monitoring Report 2006: Strengthening Mutual Accountability – Aid, Trade and Governance*

The IsDB Group commends the World Bank for producing the Global Monitoring Report, 2006 (GMR-2006). The previous Global Monitoring Reports 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 ODA flows to fully fund the implementation of MDGs, such crisis countries need the donors' attention and to target resources in the light of their absorptive capacities.

As emphasized by the GMR-2006, the international donor community need to urgently commit to supporting crisis countries by providing grant-based financing to implement MDG-related programs. It has been estimated that additional aid is needed in the range of US$40-100 billion annually in order to fully support the implementation of MDGs and related targets. Doubling the current level of ODA will imply 0.43 percent of DAC countries' gross national income, which is still below the target of 0.7 percent reaffirmed in the Monterrey Consensus. An innovative financing mechanism for generating grant-based resources are efforts by seventy-nine countries to establish a new international fund under the International Finance Facility, which will help to raise additional resources by levying taxes on airline travel. Such grant-based funding of poverty alleviation and other MDG-related programs will help accelerate progress towards achieving MDGs by the year 2015. In addition, over $50 billion was pledged in new aid commitments by 2010, including a doubling of aid to Africa, while the new multilateral debt relief initiative will write-off about $50 billion of debt, which translates in generating fiscal space of around $1 billion annually.
The GMR-2006 helps to clarify links between governance, investment climate and access of poor to basic infrastructure services. Paradoxically, the least developed countries place the greatest regulatory burden on businesses and their efforts to reform investment climate are the least. In terms of regional progress towards attaining the human development MDGs, the GMR-2006 reports that the relevant indicators in South Asia and Sub-Saharan Africa regions are not only extremely entrenched but the current rate of progress is also worsening. However, latest survey results do indicate that progress across various human development indicators are indeed being made and gains are reaching the poorest households in selected least developed countries, including at least three LDMCs.

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. 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 pledged 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 2003 to 2007. After three years of its implementation, the IsDB Group cumulatively approved development assistance amounting to $1.2 billion million by end-January 2006, which represents 60 percent of $2 billion earmarked under the Declaration.

More recently, the Third Extraordinary OIC Summit, which was held in December 2005 in Makkah Al-Mukarramah, Saudi Arabia, commissioned the Board of Governors of the IsDB to establish an IsDB poverty alleviation fund. The 31st Annual Meeting of the IsDB Board of Governors, which will be held in Kuwait city in May 2006, is likely to endorse the preparatory steps for establishing such a fund. In the near term, it is expected that the IsDB Group will be able to further strengthen and expand its role in providing concessional financing for accelerating growth and improving socio-economic indicators in the LDMCs.

The IsDB Group welcomes the insight of GMR-2006 that the focus of MDBs should shift from managing inputs and processes to achieving real results and development outcomes. Nevertheless, it is important to recognize that MDBs efforts to manage processes related to development financing are also vital for ultimately ensuring desirable outcomes at the ground level. The IsDB Group would like to support and express interest in participating and developing common performance measurement system (COMPAS) and initiatives to integrate management for development results into MDB practices.

Fiscal Policy for Growth and Development: An Interim Report

The IsDB Group expresses appreciation for preparing well researched Interim Report ‘Fiscal Policy for Growth and Development’. The Report develops useful topology of options available for creating fiscal space for growth. In the context of developing countries, especially those which are implementing second or third generation reforms, the renewed interest to using fiscal policy as an instrument for economic growth, albeit maintaining fiscal solvency and macroeconomic stability, is indeed welcome. The Report argues that the past stabilization programs achieved their success in part due to disproportionate share of fiscal adjustment being borne by cutbacks in public investment programs. Widespread evidence points to countries significantly reducing infrastructure category of the public investment expenditure in order to achieve fiscal deficit reduction targets. Such an approach to fiscal stabilization may have been achieved at the cost of long-term economic growth by making the expenditure provision of basic infrastructure services difficult as well as by restraining the ‘crowding-in’ effect of public investment.
Beginning from early 1980s, many developing countries have actively pursued privatization programs that have resulted in the selling of both profit- and loss-making public enterprises. The Interim Report does not adequately address the experiences of privatization programs in terms of creating fiscal space. In some developing countries, the option to enhance public revenues was substituted by an active privatization program. The issue to examine is under what conditions the fiscal space generated through privatization program could lead to either debt retirement or funding the public investment programs.

Public investment in infrastructure development, particularly in rural areas, reduces poverty through higher growth in the agriculture sector and increases rural non-farm employment opportunities. In recent years, the IsDB volume of assistance for infrastructure development grew rapidly from $353.95 million in 2002-03 to $928.97 million in 2005-06. IsDB’s assistance in infrastructure development mainly supports power generation; electrification, water supply and sanitation; and expanding road networks, particularly in member countries in Central Asia and Sub-Saharan Africa regions. In addition, IDB assistance to support rural electrification programs has allowed access to basic services at affordable prices by the poor, thereby improving their quality of life. In 2001, the Bank established $730.5 million IsDB Infrastructure Fund for equity investment in infrastructure projects. So far, the Fund, which is a prime example public-private partnership, has committed equity investment of $496.1 million in the power, petrochemical, telecommunication, transport, and mining sectors.

Trade Progress Report – The Doha Development Agenda for Trade: Hong Kong and Beyond

The launch of the new multilateral trade negotiations in Doha, 2001, was deemed to be a major step towards achieving the objectives envisioned by the Marrakech Declaration at the conclusion of the Uruguay Round of trade negotiations. The Doha Development Round focuses on the developmental aspects of its work programme. Hence, when the Doha Round of trade negotiations started in 2001, developing countries, and the LDCs, expected that the outcome would meet their economic development needs. The expectations of the developing countries were, that the Doha Round would help to remove supply-side constraints, improve trade-related infrastructure, diversify export capacities, enhance productivity and competitiveness, and above all improve their market access.

Given that the WTO Ministerial Conferences in Seattle and Cancun faltered, the Hong Kong Ministerial Conference gained added importance. The credibility of the multilateral trading system was to some extent restored when the Conference reached various agreements that carried forward the Doha Work programme. Nevertheless, the trade negotiators face intense pressure to complete the “full modalities” in agriculture and non-agricultural market access within the new deadlines.

The most significant achievement of the WTO Ministerial Conference held in December 2005 in Hong Kong, was the agreement to end export subsidies in agriculture by 2013. EU’s export subsidies comprise around 2 percent of total farm subsidies and the Hong Kong Declaration states that the agreed date is conditional. In order to even make this commitment effective, some of the issues related to hidden export subsidies in credit, food aid, and sales of exporting state enterprises must be addressed. On the issue of domestic support, the Declaration states that there would be three bands of tariff reductions in final bound total “aggregate measure of support (AMS)”. In the overall reduction in trade-distorting domestic support, there would be higher linear cuts in higher bands. However, the cuts in subsidies are subject to further negotiations. Also, the Declaration does not adequately address issues related to dumping caused by “excessive” levels of domestic support in the industrial countries, both in terms of cutting the amount spent and closing gaps that enable countries to exempt their subsidies via the Green Box.

For the cotton sector, the deadline for elimination of domestic subsidies is end-2006. In addition, cotton exports from least-developed countries will be allowed into developed countries without import
duty or quotas from the start of the period for implementing the new Agriculture Agreement. The Declaration also states that trade-distorting domestic subsidies on cotton will be cut by more than would normally apply under the new Agreement.

With respect to negotiations on market access for non-agriculture products, members agreed to adopt the “Swiss Formula”, which primarily aims to cut higher tariff rates proportionally more than lower tariff rates. As yet, there is no agreement on the specific parameters to be adopted but the choice of parameters is to be guided by a number of development-related considerations.

In terms of trade in services, the Declaration states that negotiations must include the setting of qualitative targets, the level and type of liberalization, and reduction or elimination of economic needs tests (ENTS). The Declaration also requires members to increase their level of engagement in the negotiations. As for the negotiation techniques, there has been an agreement to supplement the bilateral approach of negotiations with a plurilateral approach. Developing countries viewed this approach as altering the architecture of GATS, which ensures and protects the concept of progressive liberalization, the right to regulate and the opening up of sectors and modes of supply depending on the development needs of developing country members. The insistence by developed member countries for expanding and expediting the sectoral and modal coverage in GATS negotiations could potentially undermine the position of the developing countries.

The WTO Declaration does not reflect the concerns of developing countries with regard to a number of development issues. The text of the Declaration simply calls upon members to “redouble their effort” on a range of issues including special and differential treatment, implementation related issues, the particular problems faced by small economies, trade, debt and finance, trade and transfer of technology, commodities and preference erosion. Regarding Aid for Trade, which is an emerging concept, a negotiating structure is yet to be constituted; however, the WTO Director General has been requested to form a task force, which will submit its recommendations by July 2006.

The IsDB Group has an active WTO technical assistance program to support member countries to strengthen their WTO trade negotiation capacity and assist in trade integration. Prior to the Conference in Hong Kong and within the framework of its WTO-related Technical Assistance Programme for the OIC Member Countries, IsDB organized a Ministerial-level consultative meeting for the OIC member countries. Held in Hong Kong, the meeting was attended by 22 Ministers and 157 delegates representing 35 OIC member countries and several regional and international organizations. The Ministerial-level consultative meeting provided the OIC member countries with a forum to exchange views and share information on the latest developments in the Doha Work Programme with emphasis on agriculture, non-agricultural market access, services, accession and cotton issues, particularly in the OIC least developed member countries in West Africa.

The meeting requested the Bank to organize a workshop for OIC member countries that are currently in the WTO accession process, which was held in March 2006, where experiences of those member countries which have recently acceded were shared with member countries in the WTO accession process. The meeting also provided an opportunity to explore how best to enhance cooperation on WTO-related issues, particularly in terms of evaluating the outcome of the 6th WTO Ministerial Conference.

In addition, the Bank supported initiatives to promote competitiveness of cotton-producing member countries. During 2005, IsDB organized an Expert Group meeting as well as a Conference to explore ways of addressing challenges to enhance competitiveness and export of cotton and its value added products from member countries, particularly in Sub-Sahara region.
In 1997, the IsDB launched an extensive Technical Assistance Program (TAP) for strengthening the human and institutional capacity of OIC member countries and to enable them to better participate in the multilateral trading system. The WTO-related TAP of the IsDB consists of a number of activities, such as holding of workshops/seminars on WTO Agreements, organization of Trade Policy Courses, and undertaking of subject-specific studies. During 2005-06, the Bank undertook eleven different activities to assist member countries on WTO-related matters. These included organizing two seminars, two trade policy courses, one consultative meeting and six WTO specific activities in selected member countries.

Heavily Indebted Poor Countries (HIPC) Initiative: List of Ring-Fenced Countries Potentially Eligible under the Initiative

After its introduction in 1996, the Heavily Indebted Poor Countries (HIPC) initiative was enhanced in 1999 to provide deeper and faster debt relief to a larger group of eligible countries and to increase the programme’s links with ongoing poverty reduction efforts. Despite its groundbreaking nature, there was a growing consensus that the HIPC initiative has had limited impact. This was because the volume of debt relief provided under HIPC was limited and generally insufficient to fund poverty alleviation programmes. The limited success of the HIPC initiative coupled with the prospects of slippages in achieving MDGs led the international donors to consider debt cancellation as well as to substantially increase ODA.

The G8 Summit launched the debt cancellation initiative to HIPC, which was subsequently endorsed at the Annual Meetings of the World Bank and the IMF, in September 2005. This initiative is now known as the Multilateral Debt Relief Initiative (MDRI) and is designed to provide 100 percent cancellation of HIPC debt owed to IDA, IMF and the African Development Fund (AfDF). The MDRI will assist HIPC to reach the MDGs while preserving the financial integrity of the creditor institutions. MDRI entails a total debt cancellation of at least $57 billion, to be funded entirely by donor payments to IDA and the AfDF, and mostly by internal resources in the case of IMF.

The potential benefits of the new debt cancellation initiative for the IsDB member countries are many. Debt relief generally has lower transaction costs than other forms of aid and provides resources that can be used for meeting development needs. Eligible countries could also set aside a portion of the annual forgone debt service as a buffer for expenditure needs created by future exogenous shocks. Once implemented, MDRI will potentially restore long-term external debt sustainability of the IsDB member countries. For the post-completion point HIPC, the average NPV debt/exports ratio is expected to fall from 140 percent after current HIPC relief to a projected 52 percent after the implementation of the MDRI. Furthermore, resource transfers in the form of additional official aid will assist the eligible countries to achieve their MDGs. Without additionality, debt cancellation would only alter the composition of external assistance, leaving overall ODA volumes unchanged. In addition, recipients of debt relief should maintain adequate performance standards, including in the areas of governance, accountability and transparency, to ensure that savings from debt relief are used for economic development.

Debt cancellation directed toward post-completion point member countries is estimated to be around $11 billion or 38 percent of the total IDA debt relief for this category of countries. Post-decision point member countries are expected to receive about $4 billion or 56 percent for this category. The total debt relief for 14 HIPC-eligible member countries amounts to $15.5 billion or 41 percent of the total debt relief granted by IDA. Five pre-decision point member countries will have a share of $3.2 billion and the two sunset clause IsDB member countries, Kyrgyz Republic and Bangladesh, are potential beneficiaries of almost $9.7 billion or 79 percent of the total share for these groups of countries.
The IsDB Group expresses its appreciation to the World Bank for preparing a report on the ‘Heavily Indebted Poor Countries (HIPC) Initiative: List of Ring-Fenced Countries Potentially Eligible under the Initiative’. The report identifies 11 countries that meet the HIPC Initiative income and indebtedness criteria by using end-2004 data. Of the eleven countries in this category, the following IsDB member countries meet the ring-fenced criteria: Comoros, Côte d'Ivoire, Somalia, Sudan, Togo, and the Kyrgyz Republic. The cost of HIPC Initiative debt relief for the 11 countries is estimated at $21 billion in 2004 NPV terms.

Under the Ring-Fenced HIPC Initiative, the 11 identified countries should have initiated a comprehensive reform program supported by the IMF and IDA between October 1, 1996 and December 31, 2006, the date of the HIPC Initiative sunset clause. In order to obtain debt relief, the 11 eligible countries need to adopt national-level poverty reduction strategy and pursue a program of stabilization and structural adjustment. The IsDB Group reiterates its commitment to Ring-Fenced HIPC member countries in terms of continuing to support economic development programs as well as to participate in the HIPC debt relief packages.

With these words, I wish the 73rd meeting of the Development Committee every success.

Statement by Mr. Richard Manning, Chairman – OECD Development Assistance Committee

In 2006 the development community is focusing on delivery of the commitments made in 2005 to increase aid, to make aid more effective and for developing countries to adopt comprehensive development strategies to achieve the MDGs. In this statement I address the contribution of the developed countries represented in the OECD Development Assistance Committee (DAC):

- More Aid: latest trends in ODA and its composition;
- Scaling Up for Results: preparing to make better use of increased aid flows;
- Reducing Poverty through Pro-poor Growth;
- Renewing focus on gender equality and women’s empowerment;
- Clean Energy for Development; and
- Aid for Trade

More Aid

Official Development Assistance surged to US$ 106 billion in 2005, representing 0.33% of DAC members’ combined national income. Most of the increase was in the form of debt relief grants, which increased 400%. Other aid rose by 8.7%, accelerating the underlying trend since 1997 of an average annual increase of 4 to 5% (see www.oecd.org/dac/stats).

The exceptional increase in 2005 was mainly due to the first year of implementation of the Paris Club agreements of large debt relief operations for Iraq and Nigeria. In 2005 DAC members provided debt forgiveness grants of nearly US$ 14 billion to Iraq and a little over US$ 5 billion to Nigeria. Further debt relief to Nigeria will be included in ODA figures in 2006 and to Iraq for the next three years as members implement the other stages of the Paris Club agreements.
Another major factor was tsunami aid. DAC members provided about US$ 2.2 billion in official assistance to countries affected by the devastating December 2004 Indian Ocean tsunami.

These two factors reinforce the observation that much of the headline increase in ODA in the past five years is accounted for by debt relief, technical cooperation and emergency aid. While all of these are important, emergency aid is not designed to assist long term development and, where debt repayments were not being made, debt relief does not release fresh money for development purposes. Technical cooperation, in turn, provides a variety of important inputs towards development results but its impact in closing financial gaps is hard to gauge. Still there is a welcome sign of recent growth in other bilateral aid for long term development—of just over US$ 10 billion in the past two years—though much of this is concentrated in just a few countries, notably Iraq and Afghanistan. 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 2005
($ billion at 2004 prices and exchange rates)

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<tbody>
<tr>
<td>Emergency Aid</td>
<td>-0.3</td>
<td>0.5</td>
<td>1.9</td>
<td>0.6</td>
<td>0.6</td>
<td>3.3</td>
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<tr>
<td>Net Debt Relief Grants</td>
<td>0.5</td>
<td>3.1</td>
<td>1.7</td>
<td>-3.3</td>
<td>18.4</td>
<td>20.4</td>
</tr>
<tr>
<td>excluding Iraq and Nigeria debt relief grants</td>
<td></td>
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<td></td>
<td></td>
<td>-0.4</td>
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</tr>
<tr>
<td>Technical Co-operation</td>
<td>1.4</td>
<td>1.5</td>
<td>1.3</td>
<td>-0.9</td>
<td>1.0</td>
<td>4.2</td>
</tr>
<tr>
<td>Other bilateral</td>
<td>-0.8</td>
<td>0.2</td>
<td>-1.1</td>
<td>4.1</td>
<td>6.1</td>
<td>8.3</td>
</tr>
<tr>
<td>Multilateral</td>
<td>0.5</td>
<td>-0.7</td>
<td>-0.9</td>
<td>3.8</td>
<td>-1.1</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>Total Net Rise</strong></td>
<td><strong>1.2</strong></td>
<td><strong>4.5</strong></td>
<td><strong>2.9</strong></td>
<td><strong>4.2</strong></td>
<td><strong>25.0</strong></td>
<td><strong>37.8</strong></td>
</tr>
<tr>
<td>excluding Iraq and Nigeria debt relief grants</td>
<td><strong>6.1</strong></td>
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This structure is likely to change further in the coming years. Total ODA is expected to fall back slightly in 2006 and 2007 as the exceptional debt relief declines. This will provide space for other forms of aid to increase further as donors fulfil their ODA volume pledges for later years, including the pledge to double aid to Africa by 2010. On the assumption that DAC Members deliver on their public statements on future aid levels, the latest simulation by the DAC Secretariat indicates that ODA from OECD donors will approach US$ 130 billion in 2010 (at 2004 prices and exchange rates, see Chart).

DAC Members' net ODA 1990 - 2005 and DAC Secretariat simulation of net ODA to 2010

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38 These figures have been revised from the preliminary data included in my report to the 2005 Spring meeting. The revisions mainly affect TC and other bilateral aid. TC fell by US$ 0.9 billion in 2004 compared to the preliminary estimate of a US$ 1.3 billion rise. Other bilateral aid increased US$ 4.1 billion (the preliminary figure was an increase of just US$ 0.4 billion) due to this reclassification of some TC, a change to show debt relief grants on a net basis, and because the final figure for total ODA in 2004 was US$ 1.1 billion higher than the preliminary figure.
The increase from 2007 to 2010 represents a huge challenge. We estimate that ODA will need to increase by 10% per year over these years, twice as fast as the underlying rise in recent years. Nevertheless, donors have reiterated their commitments to increase ODA, using a mix of budget increases, debt relief and innovative sources of financing. If public support for aid is to be strengthened and maintained, there needs to be a shift from measuring inputs to demonstrating real results in developing countries. The third Roundtable on Managing for Development Results next year offers a chance to share and consolidate best practice in this field, including for building the essential statistical capacity with which to produce the data to monitor results. A focus on results is a central theme of the discussion of scaling up aid.

**Scaling Up for Results**

Since the annual meeting last September, the DAC and the World Bank have hosted three discussions on how to deliver effectively on the promises of more and better aid. The discussions have recognised the need to work at both the national and the international level. At the national level, the focus will be to enhance existing local consultation processes – such as Consultative Groups and Roundtables – into annual ‘Results and Resources Meetings’ that would maintain the same focus on harmonisation and aid effectiveness, but increase alignment by linking to country strategies for accelerated development, as expressed in more ambitious poverty reduction strategies and medium term expenditure frameworks. These discussions would also examine how effectively donors are delivering aid in each country based on the indicators of the Paris Declaration on Aid Effectiveness, for which the baseline data will be collected in a survey from May to September. The dialogue will need to involve central banks and ministries of finance to address the macroeconomic challenges, ensure debt sustainability, and avoid ODA substituting for domestic resource mobilisation.

At the international level, the DAC are conducting a survey of donors’ indicative spending plans by recipient. The information collected will be approximate and partial in this first iteration as a number of countries’ systems/budgets do not currently provide/permit sufficient forward planning to indicate future country programmes with any certainty. But it will help to inform further discussions – to be organised by the DAC/EC/UNDP/World Bank in June – on how to better coordinate between donors and focus the increases in aid on helping more countries to achieve the MDGs.

With the planned doubling of aid to Africa, strengthening the mechanisms for joint policy discussion and forward planning will be particularly important for that continent. Following the Gleneagles summit, the Africa Partnership Forum, meeting in London, agreed to establish a Support Unit to be located at the OECD. I am glad to say that the structures and financing for this Unit are now in place and staff are being recruited. In addition the 2006 African Economic Outlook (AEO) – a joint venture between the OECD Development Centre and the African Development Bank – will be launched on 7 June. The AfDB will take on full responsibility for the AEO from 2007, providing the African continent with its own key annual economic reference point, covering both country-level and thematic issues and growth prospects.

The scaling up challenge concerns all developing countries, both good performing and fragile. Appropriate responses depend on country circumstances, including the governance, administrative and physical capacity to absorb substantial increases in aid. The suggestions in the *Global Monitoring Report* for improved monitoring of governance capacity are welcome in this context.

A major aspect of scaling up aid is improving its predictability. This is more than just providing information about future aid levels and delivering that aid on schedule—though that would be a major step forward for countries with sound governance and policies. It is also about how to react to adverse
political changes or worsening corruption. On one hand, it is clear that publics in donor countries are sceptical about providing more aid to countries that are seen to be corrupt or where human and democratic rights may be at risk, especially if that aid appears to underwrite overall government spending. On the other hand, if countries are to meet the education and health MDGs they need to recruit and pay sufficient numbers of teachers, nurses and doctors. In many poorer countries, part of these salaries will be funded by ODA and it would be highly disruptive to take action that would prevent them being paid even if political circumstances change.

This requires a more transparent dialogue with countries in keeping with the Millennium Declaration compact in which donors promised more aid and partner countries agreed to secure the governance conditions for its effective use. There is a need to balance accountability to donor publics with stronger local accountability, including the role of local Parliaments. Donors recognise the need to take collective positions and apply consistent actions, with greater transparency on predictable and graduated donor responses to different political scenarios. While the aim is zero tolerance of corruption in aid funded programmes, ways need to be found to help countries to build their administrative capacity and to maintain and increase that assistance when corruption indicators move in the right direction.

Reducing Poverty through Pro-poor Growth

Achieving the MDGs requires much more than scaling up aid. Economic growth is recognised to be the major contributing factor to reducing poverty. Promoting pro-poor growth – that is, enabling both a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth – is critical to achieving a sustainable trajectory out of poverty. Rapid and sustained growth needs to be broad based across activities and regions. The DAC Network on Poverty Reduction (POVNET) has been developing and sharing good practice in advancing this agenda. The DAC High Level Meeting on 5 April endorsed a Policy Statement on Pro-Poor Growth (see www.oecd.org/dac/poverty). The DAC will publish a compendium of POVNET work in early summer, entitled Promoting Pro-Poor Growth: Policy Guidance for Donors, supported by a CD-ROM.

The POVNET has sought to build consensus on the key underpinnings of pro-poor growth and to explore recent thinking on risk and vulnerability and developing a harmonised methodology for carrying out ex-ante poverty impact assessments. For donors, POVNET guidance calls for, inter alia, strengthening organisational capacities and incentives for field staff to empower them to negotiate, coordinate and implement programmes based on a sound understanding of the constraints to pro-poor growth. It is particularly at the “sectoral” level – e.g. in areas important for pro-poor growth such as private sector development, agriculture and infrastructure – that a pro-poor growth lens on thinking and practice requires a rethinking of agendas and how to implement them.

This work represents a renewed focus by bilateral donors on strengthening the components of economic growth in developing countries. Donors acknowledge the need to pay more attention to agriculture, private sector development and infrastructure. As aid is scaled up, this may mark a turn-around from the period 1995 to 2003, during which the share of bilateral aid going to agriculture and infrastructure halved. Bilateral aid to agriculture fell from US$ 4 billion (9% of the total) in 1995-6 to US$ 2 billion (4%) in 2002-3; infrastructure fell from US$ 12 billion (30%) to under US$ 7 billion (15%) over the same period. There were early signs of a recovery of commitments to each sector in 2004, with bilateral aid to agriculture up to nearly US$ 3 billion (4.5% of the total) and to infrastructure recovering to US$ 12 billion (20%), the latter mainly due to large energy and transport reconstruction projects in Iraq.
Renewing focus on gender equality and women’s empowerment

Addressing inequality is a key dimension of promoting pro-poor growth. The DAC is working closely with the World Bank to accelerate attention to MDG3—to promote gender equality and women’s empowerment. Our collective failure to achieve MDG3 in 2005 has been a wake-up call. Despite our high level statements that we will not reach the other MDGs without MDG3, the reality is that there has been a lack of political will and a lack of investment globally in its achievement. I welcome the World Bank’s commitment to designing an action plan to advance women’s economic empowerment and promote shared growth. In partnership with the Bank, the DAC Network on Gender Equality (GENDERNET) is working with members to galvanise enhanced support for MDG3 and to stimulate fresh thinking and ideas for its implementation. A further meeting will be held in mid-May to consider the first draft of the Bank’s action plan and to share the initial results of the GENDERNET’s mapping exercise to identify bilateral donors’ comparative advantage in specific countries and sectors with a view to harmonising our approaches to scaling up activities and resources.

Clean Energy for Development

The Development Committee discussion of clean energy, development and climate change is timely. There is substantial evidence to suggest that environmental pressures in developing countries are increasing and that these pressures are making it more difficult to achieve development and poverty reduction goals. OECD is working to address these linkages.

On 4 April, Environment and Development Co-operation Ministers and Heads of Agencies met at OECD for the first time since 1991 (see www.oecd.org/epo/cdacmin2006). They formed a strategic alliance. Ministers stressed that environmental protection and resource management are important parts of the development process. Multilateral environmental agreements are critical not just for developed countries, but also for developing countries, which are significantly affected by the problems addressed in those agreements (e.g. climate change, biodiversity loss, and desertification). Developing countries are also key partners in achieving the objectives of such agreements. ODA, managed by OECD countries in conjunction with their developing country partners, and supported by efforts in OECD environmental agencies, can contribute to a stronger development-environment interface.

In order to provide a forceful political impetus and a basis for joint follow-up action, especially in developing countries, Ministers adopted two important documents:

- The Framework for Common Action Around Shared Goals focuses on applying good environmental practices to development planning activities in an ever-wider group of countries and development contexts. It addresses how development assistance programmes could enhance capacity-building for stronger attention to environmental needs. Ministers committed to produce a stock-taking and priority-setting exercise by mid-2007.

- A Declaration on Integrating Climate Change Adaptation into Development Co-operation acknowledges the importance of climate adaptation to poverty reduction efforts in developing countries. A significant part of ODA is currently being directed towards climate-sensitive sectors. The Declaration provides a platform for a wider range of collaborative actions between OECD and developing countries on the challenge of adapting to climate change.

These discussions and documents provide the mandate, incentives, tools and flexibility for the OECD and its members to join in efforts at the global level to integrate climate change adaptation into development co-operation and promote sustainable sources of clean energy.
Aid for Trade

The DAC has worked closely with the OECD Trade Committee in responding to the strong interest of all parties to the Doha negotiations in the aid for trade agenda, which is well described in the Background Report for the Development Committee meeting, and is of course highly relevant to the growth agenda. As custodian of the main international database of aid for trade, we confirm the assessment that such aid has risen significantly in the recent past. The commitments of DAC members to increase overall ODA provide good reason to expect that there will be further “additionality” in the sense of year-on-year increases in aid for trade, though it would be unrealistic to expect “additionality” in the different sense of funding over and above the total ODA levels to which most DAC members have committed themselves over the next few years. However, it is important here as elsewhere to look beyond inputs and spending to real results. The lessons of the Paris Declaration on Aid Effectiveness about the importance of real host country ownership, donor alignment and harmonisation, and a commitment to achieving results within a framework of mutual accountability are as relevant to aid for trade (however defined) as they are elsewhere.

Statement by Mr. Suleiman J. Al-Herbish, Director-General of the OPEC Fund

The Development Committee as usual has before it several timely and critical issues for consideration and discussion. The item that tops the agenda of this 73rd Development Committee - Clean Energy for Development: Towards an Investment Framework - reflects the growing concerns of the global community to secure clean and affordable sources of energy for sustainable development. The OPEC Fund for International Development welcomes this opportunity to jointly explore the course of future action for helping address the energy needs of particularly the poorest members of the developing world, an issue accorded high priority by its member countries, and I would like to congratulate the Committee with its choice of topic.

Although energy in itself is not a basic human need, the energy sector is essential for sustainable development. Energy correlates closely with many poverty indicators through its strong links with employment creation, income, education, health, gender, and the environment, and is vital as such for attainment of almost all Millennium Development Goals (MDGs).

Important gains have been made over the past 25 years in enhancing energy services for the poor, with more than 1 billion in the South obtaining access to electricity and modern fuels. Yet, about 2 billion people around the world still live without clean, secure and affordable sources of energy. Some 2.4 billion people in the developing countries have to rely on traditional biomass fuels for cooking and heating, finding their health threatened by biomass combustion, and 1.6 billion people do not have access to electricity. Without adequate access to clean energy to meet their basic needs and for productive uses, these people will unlikely escape the poverty trap.

Problems of energy poverty are compounded by environmental threats emanating from inefficient and environmentally harmful patterns of production, consumption and transportation. The poor - particularly women and children - are disproportionately affected by inadequate access to clean and affordable energy services, and environmental degradation. Even as the MDGs do not specifically highlight the vital role of energy in development, the aim of ensuring environmental sustainability (goal number seven) contains two energy-related performance indicators: gross domestic product per unit of energy use (as proxy for energy efficiency), and carbon dioxide emissions per capita.

Demographic pressures threaten to exacerbate the situation. The world population is projected to expand from some 6.5 billion today to 8 billion by 2030 and 9 billion by 2050. Global energy demand
has been forecast to increase by 60%, from 10.8 billion tons of oil equivalent (toe) to 16.3 billion toe by 2030. The demand for liquified natural gas (LNG) will grow even faster, with the share of gas in world energy demand reaching 24% or 4789 billion cubic meters by 2030, mostly at the expense of coal and nuclear energy. At current trends, 1.4 billion people will still lack access to electricity by 2030, and more than 2.6 billion will still rely on traditional biomass fuels. Nearly 80% of world energy demand growth will be in the developing countries – home for more than three-quarters of humanity - particularly in Asia, and in urban rather than rural areas.

A central challenge confronting the international community is to establish an adequate investment framework that could help meet the forecast robust growth in world energy demand without raising the environmental and human costs. Cumulative investments in energy infrastructure are estimated at some US$17 trillion for the next 25 years, almost half of this (US$8.1 trillion) in developing and transition economies. About US$1.5 trillion of the total will be needed for cumulative infrastructure investment aimed at maintaining and expanding oil and gas production capacities in the Middle East and North Africa (MENA), or US$ 56 billion annually. This amount can realistically be mobilized through a combination of domestic resources and foreign direct investment (FDI), assuming joint international efforts are made to keep oil prices at adequate levels, and to secure a peaceful and stable enabling environment in FDI host countries.

Therefore, there is no reason for concern about a looming “energy security crisis”. Acting collectively through the Organization of Petroleum Exporting Countries (OPEC), our member countries have ensured the security of energy supplies for the past forty years. They remain committed to making timely yet appropriate investments in energy production capacities, technologies, and research to continue safeguard stable and clean energy supplies in the future. Several of our member countries have embarked upon major plans to boost investment in oil upstream production capacity and energy infrastructure to ensure that adequate spare capacity is available to the benefit of the world at large.

Meanwhile, noticeable progress towards cleaner fossil fuel technologies and carbon dioxide capture and storage has allowed oil to become cleaner, safer, more efficient, and more environmentally friendly, in line with the greenhouse gases emission reduction targets envisaged in the February 2005 Kyoto Protocol, and the July 2005 G8 Gleneagles Communiqué and Plan of Action for on Climate Change, Clean Energy, and Sustainable Development. In addition, action has been taken towards mitigating greenhouse gas emissions with the establishment of public-private partnerships for global gas flaring reduction.

In the same vein, it should be noted that Articles 2.3 and 3.14 of the Kyoto Protocol call upon contracting parties to strive to implement policies and measures in such a way as to minimize adverse social, environmental, and economic impacts on other parties, particularly developing countries as specified in Articles 4, paragraphs 8 and 9 of the United Nations Framework Convention on Climate Change (UNFCCC). The latter stipulate that in implementing the commitments alluded to in UNFCCC Article 4, parties shall give full consideration to necessary actions related to funding, insurance, and technology transfer to meet the specific needs and concerns arising from the adverse effects of climate change and/or the impact of the implementation of response measures on developing country parties whose economies are highly dependent on income generated from the production, processing and export and/or consumption of fossil fuels and associated energy-intensive products.

With new players such as China and India coming to the stage, and considering current demographic trends, the importance of energy efficiency cannot be overemphasized. Although significant efficiency gains have already been achieved and important steps were made into the right direction, such as the European Union’s “intelligent energy program”, much remains to be done to arrive at more rational
consumption patterns in both industrialized and developing countries through a combination of government, industry and individual actions.

In parallel, concerted efforts are needed to enhance access to energy services to the poor, particularly in rural areas, while safeguarding the environment. In this light, the OPEC Fund welcomes ongoing efforts to diversify the energy mix by boosting investment in the development of renewable energy sources. Our member countries are giving due consideration to realizing the potential of renewable energy sources such as bio-fuels. However, whereas the role of renewables in the energy mix is expected to gradually increase over time, their overall contribution towards reducing energy poverty and helping meet the expected energy demand of the next 25-30 years is likely to remain small for several reasons:

- First, methods for generating energy using renewable natural resources are not necessarily more cost-effective and accessible as such to the poor. Renewable energy sources have their own limitations, including low energy density and intermittency, and high storage costs. For example, de-centralized renewables-based power systems could enhance access to electricity in rural areas, should the large initial capital costs be offset. In many cases, subsidies for the ‘public good’ component of such energy services will be unavoidable, whether targeted or across the board. This could act as a drain on scarce public resources, compelling governments to balance support for subsidies with other short-term needs and priorities, and market-based solutions;

- Second, the environmental implications of renewables such as bio-fuels are still unknown, and may be incompatible with the goals of sustainable development. The environmental impact of various sources of energy will be further reviewed at the May 2006 UN-sponsored 14th session of the Commission on Sustainable Development (CSD-14). UNCSD-14 aims at accelerating implementation of Agenda 21 and the Johannesburg Plan of Implementation on energy, climate change, air pollution/atmosphere and industrial development emanating from the 2002 World Summit on Sustainable Development, in which the OPEC Fund actively participated.

Therefore, fossil fuels (oil, gas and coal), will remain the most stable, safe, reliable and cost-effective source of energy for development for the next two-and-a-half decades, meeting 85% of the projected increase in primary energy demand. With some 70% of total proven world oil reserves and 40% of world gas reserves, there is little doubt that the MENA region – an area of low-cost production - will continue to be the world’s “energy safety valve” as the main supplier of secure and cost-effective sources of energy. The ongoing producer-consumer dialogue under the auspices of the Riyadh-based International Energy Forum aims at facilitating the debate on energy-related matters as to enhance future market stability and transparency.

The strong links between energy poverty and attainment of the MDGs suggest a need for closer synergy between the energy sector and other sectors and for allotment of a greater portion of official development assistance (ODA) to energy. While ODA rose to 0.33% of Development Assistance Committee member’s combined gross national income in 2005, it remains entirely insufficient to finance the investments required to meet the expected rise in world energy demand. Furthermore, ODA flows to energy fell back substantially since the early 1990s, with the share of energy in total ODA committed by sector dropping to a mere 3.3% in 2004. Clearly, there is a need to reverse this trend, and to complement ODA with investment from public and private sources as well as innovative financing mechanisms if we are to win the uphill battle against persistent energy poverty through integrated approaches.
An early example of such innovative mechanisms of financing for development is the OPEC Fund, which celebrated its 30th Anniversary this year. Over the past thirty years, the Fund committed some US$8 billion to environmentally-friendly and ecologically-safe projects in 119 countries worldwide, taking a double dividend approach by linking clean energy to the MDGs and poverty in all its dimensions. Almost one fifth or 18.6% of our cumulative public sector lending has been channelled to reducing energy poverty in particularly the poorest countries, and the poorest segments of their societies by integrating the principles of sustainable development as expressed in Agenda 21 into tailor-made projects and programs at national and community levels. Special attention has been paid to enhancing access to modern energy services for the poor through investment in infrastructure and reform and development of the power sector, including rural electrification, hydro-power, and promotion of energy conservation measures. Efforts are also ongoing to develop the role of local entrepreneurs in providing energy services under new business models as part of the Fund’s separate Private Sector Facility.

In addition, the OPEC Fund extended 45 grants totaling US$18.3 million to strengthen the capacity of national and local authorities to plan and implement environmentally sound and integrated energy poverty reduction policies and strategies. Activities included support to help meet the basic electricity needs of rural communities in an efficient, cost-effective and reliable manner through the definition of decentralized rural electrification systems. The Fund’s grant support also helped fight energy poverty by incorporating renewable energy and energy efficiency policies and strategies into national poverty reduction programs, including solar water-heating systems, wind-pumping for meeting rural water requirements, hydro-power, and biomass gasification technologies. By linking partners through pilot projects that help the poor build sustainable livelihoods, and by supplying remote villages with electricity and renewable forms of energy, we have contributed to saving the forests and minimizing the use of wood as a fuel. This assistance has been provided in conjunction with grant support aimed at enhancing energy conservation and efficiency, and at building environmental capacity in related areas.

There is no silver bullet solution to the inter-related problems of energy, poverty, and environmental degradation. Nonetheless, the extensive experience of the OPEC Fund and other agencies has provided useful lessons on how to raise the level of energy services available to the poor in order to allow them to meet their basic needs, and, ultimately, achieve acceptable levels of sustainable development through an appropriate mix of fossil fuels and renewable sources of energy. Armed with three decades of experience in energy for sustainable development, the Fund stands ready to continue to help fight energy poverty in partnership and co-financing with other development financing institutions, sister institutions, and all other relevant stakeholders at the global, national, and community levels.

Statement by Mr. José Antonio Ocampo, Under-Secretary-General for Economic and Social Affairs, United Nations

The Renewed Impulse of Development Cooperation

We are at a point in history when the conjunction of political intentions and economic performance provides unique positive support for improvements in our approach to development. Governments in developing countries have taken concrete steps to improve governance, fight corruption and pursue more balanced macro policies to support expansion of the private business sector. Developed countries have increased their aid commitments and agreed on important steps to improve aid effectiveness. A buoyant global economy affords the necessary latitude for countries to take steps to improve the common good.

Indeed, this combination of positive political and economic conditions suggests an opportunity to concentrate more on long-term structural changes of developing countries. Yet these political intentions
must be solidified into concrete actions and the stability of the underlying global economy must be assured if they are both to have a lasting impact on the prospects for sustained improvement in the welfare of the developing world.

**Political Support Produces Advances in Aid and Debt Relief**

The 2005 World Summit provided renewed political momentum for the development goals agreed in the UN Global Conferences and Summits of the 1990s and early 2000s, including the Millennium Development Goals (MDGs). Official development assistance increased substantially in 2005, and many countries have made longer-term commitments, including pledges by many countries that have not yet done so to meet the 0.7 per cent goal by 2015 or earlier. This increased aid will have an enhanced impact because the final decisions on monitoring the Paris Declaration provide the groundwork for real improvements in aid effectiveness and alignment with countries’ development objectives. The completion of the Multilateral Debt Relief Initiative (MDRI) has also released resources for a number of HIPC- and some non-HIPC countries. The MDRI opens the way to make debt relief broader and more equitably distributed across both countries and lenders.

Further action will be necessary to maintain this momentum. The partial debt relief granted through MDRI provides no guarantee that the beneficiaries will not have to take on additional debt in order to finance development goals that, through their domestic planning processes, they have chosen to pursue. Because the MDRI was completed after the new “forward looking” approach to debt sustainability, the threshold parameters of the latter will need to be reviewed to ensure their applicability and efficiency in assessing the amount of new borrowing that can be undertaken without countries embarking on a new round of “lend and forgive”. Substantially more grants will likely be required, and this will mean stepping up bilateral aid commitments.

The increased aid commitments made in the run-up to the 2005 World Summit must be enacted in future government budget decisions and thus may compete with other domestic and international commitments, as well as with the need to preserve developed countries’ fiscal balances. This will be even more difficult given the large proportion of the aid increases that have resulted from debt relief. MDRI relief was meant to be additional to official assistance not be counted as part of the announced increases in aid commitments.

Further, while important steps have been taken to reduce the share of tied aid, a high proportion of official assistance is comprised of emergency relief or other special purpose or project specific aid. Consequently, that assistance cannot benefit fully from the new commitments on effectiveness and alignment, nor can it serve as a source of support for expenditures required to meet the MDGs and other development goals. Indeed, the amount of aid that can be directed by recipient governments to nationally defined objectives has increased hardly at all since Monterrey. As emphasized in the UN’s 2005 *World Economic and Social Survey*, an important implication of the evolving new approach to aid is that it should be increasingly channelled through the budgets of recipient countries—particularly to enable the full application of the principles of ownership and alignment. This means, in turn, that the proportion of aid so channelled should become a specific target of international assistance.

**The 2005 World Summit and the UN Global Partnership for Development**

The 2005 World Summit also set our development efforts in a broader context. The changes that have taken place in international affairs since the Millennium Conference highlight the inter-related nature of peace and security, human rights, and economic and social development. The efforts to achieve the MDGs must be rooted, in turn, in the Global Development Partnership between developed and developing countries achieved by the International Conference on Financing for Development at
Monterrey. As the World Summit Outcome suggests, enduring progress will also require integration of the MDGs with the wider array of development goals generated by the UN Summits and Conferences, which together constitute the UN Development Agenda.

Key to success on this front will be increased coordination amongst all parts of the UN System, and especially between the UN and the Specialised Agencies. An excellent example is the need for a coherent approach to achieving economic improvements in developing countries and ensuring that they are compatible with environmental sustainability.

Political Intentions Still Fall Short of Results in Making Trade an Engine of Development

For many countries the challenge to meet the internationally agreed development goals has been limited not by the availability of domestic resources, but by an external constraint. The first UN Conference on Trade and Development noted the need to reform the international trading system so that it could support measures by developing countries to overcome this constraint by building up a domestic industrial export sector. The most recent UNCTAD Conference has again pointed up the need to provide developing countries with the policy space required to undertake the measures in the area of trade that will enable them to earn the external resources needed for their development. While the Aid for Trade initiative takes an important step in this direction, it should be seen not as a substitute but as a complement to assistance efforts in other areas.

In the area of trade, political intentions seem to have fallen short, specifically in the hope for an ambitious, development friendly Doha round. This is somewhat surprising, given the recent continued expansion of the global economy and global trade. We can only urge negotiators to recognize that a round that increases developing countries’ benefits from trade will only benefit all participants in the global trading system.

National strategies and the Search for Fiscal Space

The World Summit also brought renewed attention to the importance of countries taking responsibility for their own development through fuller mobilization of their own resources. The agreement to formulate national development strategies (NDS) by the end of 2006 aims to expand the focus of domestic policy discussions to include the internationally agreed development goals. This could help to ensure that those discussions concentrate on fundamental factors that underpin long-term development and on any trade offs between different economic and social goals and the policies to achieve them. Because most of the goals require medium-term expenditure planning, they will also require medium-term financing; for developing countries, this would have to include more stable and more predictable aid from donors. The NDS thus provide not a new system for development planning but, rather, a constructive framework for all countries to work out required actions and objective indicators of anticipated results—and one that may also be used by donors to measure aid effectiveness.

Mobilizing Domestic Resources

For most developing countries the most underutilised resource is the domestic labour force. This shows clearly in the increasing flows of migrant labour and the rising importance of remittances in many countries’ external finances. Most of the MDGs amount to investments in human capital directed toward improving labour’s productive potential. Yet, without policies to ensure that it is productively employed, that potential will not provide any increase in economic welfare. While policies to ensure a domestic environment supportive of private sector initiative are necessary, they may not be sufficient to ensure full utilization of domestic resources. The Summit Outcome thus seeks to bring employment and growth back to the forefront of the domestic policy agenda so that opportunity can replace frustration and resignation.
The Importance of Fiscal Policy Space in a new Development Paradigm

The importance of positive growth and employment policies can be easily seen in the progress in reducing poverty levels made by rapidly growing developing countries such as India and China. Indeed, most of the progress in reducing poverty is due to the rapid growth of private sector employment in rapidly growing developing countries.

Fiscal and trade policies play a central role in supporting growth and industrial transformation. This suggests that we need urgently to expand the objectives of fiscal policy from maintaining price stability and government solvency to include promoting a higher and more stable expansion of domestic demand. An important first step in this process is the recognition that the recent emphasis on fiscal solvency and macro stability may have been detrimental to developing countries’ growth performance. Another essential step is the consideration of the concept of “fiscal space” in the discussion of more public support for infrastructure investment. In many developing countries, maintaining fiscal balance has meant that increased social expenditures to support MDGs had to be balanced by reduced economic infrastructure investment. This is a short-sighted policy, for it directly undercuts the full potential benefits of meeting the MDGs.

As the paper on fiscal space prepared for the Development Committee concludes, the ability to increase government investment depends on a careful analysis of demand conditions, absorptive capacity, short-term financing constraints and medium term public debt dynamics, as well as trade-offs with other types of expenditure. Nonetheless, the definition of fiscal space proposed therein—as the increase in expenditure that can be undertaken without impairing the ability to service debt—seems unnecessarily biased against the introduction of growth as a legitimate objective of fiscal policy. It appears to overlook some important development aspects of the problem.

The paper suggests, for example, that the use of fiscal policy to offset a cyclical downturn should be avoided if it threatens government solvency. But this seems to disregard the important lessons learned from the elimination of the US deficit in the last half of the 1990s and the explosion of the Argentine deficit in 2000-2001: that growth creates fiscal solvency and not vice versa. Comparison of the recent performance of the US, Japan and the EU also indicates little evidence to support the paper’s main contention that government solvency and macro stability are preconditions for long-term growth. A greater role for countercyclical fiscal policy should be seen as contributing to solvency and supporting a more sustained mobilization of domestic resources. And if a structural or full employment budget balance is used to define the appropriate measure of fiscal space, the linkages between fiscal policy and domestic resource utilization become obvious.

Disappointingly, the paper also found little scope for adopting a fiscal target based on the government’s current fiscal balance, excluding capital expenditures, and more particularly on the structural current balance. Differential treatment of capital and current account expenditures is not only good accounting policy, it is good economic policy. This is implicit in the “golden rule” approach to fiscal balance already implemented in some developed countries. Such a separation would concentrate countercyclical spending on infrastructure expenditures that contribute to productivity and solvency. Finally, the determination of fiscal space for direct government investment should not be distorted by failure to report transparently in government budgets the liabilities created by implicit government guarantees for public-private partnerships. A structural “golden rule” mixed with a target on government public sector debt, including the liabilities associated with public-private partnerships, would meet the counter-cyclical objective of fiscal policy, promote growth and avoid unduly discriminating against public sector investment in favour of public-private partnerships.
I noted above the need for increased coordination raised by the broader approach to development proposed at the Global Summit. I am thus encouraged that the Development Committee’s discussion of the MDGs will go beyond the limited environmental goals of the Millennium Declaration to take up the important issue of providing sources of clean energy capable to support long-term expansion of developing countries. All these issues should be considered within the context of Agenda 21, preserving in particular the principle of common but differentiated responsibility. The forthcoming Commission on Sustainable Development offers an opportunity to further understandings and commitments dealing with the interlinked issues of energy, climate change, industrial development and air pollution.

The paper on “Clean Energy and Development” prepared for this Committee represents a valuable contribution to these discussions. The financing gap is wide, amounting to an estimated $80 billion a year for electricity. While the paper emphasizes the importance of the investment climate to attract greater private sector energy financing and of tariff reform to generate greater cash flow by energy suppliers, it gives less attention to the question of how to tackle the problems of providing modern energy services to the many people too poor to pay for them.

The paper alludes to a potential “double dividend” to be earned from providing cleaner energy—promoting more vigorous economic growth while reducing our “environmental footprint”. It understandably focuses on the energy needs of the biggest, most dynamic economies, which pose the greatest challenge for controlling greenhouse gas emissions and the widest scope for technology cooperation. Yet we must not lose sight of the urgent energy needs of the poor, especially in rural areas of the developing world. Significant “double dividends” can be reaped, for example, when households switch from traditional biomass to cleaner cooking and heating fuels, and when villages are electrified. The reality is that the basic energy needs of these poor communities could be met with only a modest increment to global greenhouse gas emissions.

With respect to the suggestions for future work on financing mechanisms made in the paper, it will be important to ensure that they are consistent with strengthening existing mechanisms such as the Global Environment Fund. In that regard, I see important benefits from closer cooperation with the Commission on Sustainable Development, which enjoys strong and active participation by developing countries, as well as the ability to examine the issues in a holistic manner that fosters new partnerships and initiatives aimed at capturing and equitably sharing the “double dividends” from concerted action on clean energy and sustainable development.
NOTICE OF MEETING

The 73rd meeting of the Development Committee will be held on Sunday, April 23, 2006, commencing at 9:00 a.m. in the Preston Auditorium, The World Bank Main Complex, Washington, D.C.

PROVISIONAL AGENDA

I. Clean Energy and Development: Towards an Investment Framework
II. Global Monitoring Report 2006: Strengthening Mutual Accountability – Aid, Trade and Governance

Background Reports:

III. Fiscal Policy for Growth and Development: An Interim Report
IV. Trade Progress Report – The Doha Development Agenda and Aid for Trade: Hong Kong and Beyond
V. Heavily Indebted Poor Countries (HIPC) Initiative: List of Ring-Fenced Countries Potentially Eligible under the Initiative

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1 The President of the World Bank and the Managing Director of the Fund will each provide a note/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 1:00 p.m. The session will be followed by a Chairman’s Luncheon for Members (1:00 p.m. – 2:45 p.m.) in Room MC13-121 of the World Bank Main Complex.
Washington, DC, April 23, 2006

DEVELOPMENT COMMITTEE COMMUNIQUÉ

1. Following the important commitments made last year to increase the quantity, quality and effective use of resources for development, we reviewed progress towards the Millennium Development Goals (MDGs) based on an assessment in the third annual Global Monitoring Report. We reaffirmed the principle of mutual accountability of developing countries, developed countries, and the international financial institutions for making progress on this agenda, focusing on aid, trade and governance. We also discussed clean energy and development, an issue that requires as a priority the attention of global policy makers.

2. We welcomed recent progress made in reducing income poverty, reflecting both a favorable global economic environment and improved economic management in many countries. We are encouraged that growth in Sub-Saharan Africa exceeded 5% for the third consecutive year. We recognized that progress is uneven and insufficient, particularly in Sub-Saharan Africa and in some regions of middle income countries (MICs). There are also signs of better progress towards the human development MDGs. Yet, on current trends many developing countries will fail to meet the MDGs, in particular those related to human development. Achieving rapid, sustained, and shared growth will require further actions to improve the business climate, access to infrastructure, enhanced market access and trade opportunities as well as measures to address issues of equity, including gender equity.

3. We welcomed the rising trend in the volume of official development assistance (ODA), not only from the OECD Development Assistance Committee members, but also from non-DAC countries. We called on all donors to fully implement the commitments they have made for substantial increases in aid volumes. We urged those donors that have not done so to make concrete efforts towards the target of 0.7 percent of GNI as ODA in accordance with their commitments. We noted progress made on the International Finance Facility for immunization and on Advance Market Commitments for vaccines, increased support for an airline ticket solidarity levy and its implementation by several countries, and continuing
work on the scope for greater use of blending arrangements. We noted the key role of the World Bank and the IMF in helping countries ensure that increases in aid volumes can be absorbed effectively, consistent with macro-economic stability and growth objectives. We welcomed creation of the Exogenous Shocks Facility and Policy Support Instrument at the Fund, both of which help improve its flexibility in engaging with low-income countries. We also noted the rising trend of net private flows to developing countries, including remittances.

4. We called for rapid progress in implementing the framework agreed in the Paris Declaration for enhancing aid effectiveness through improved modalities and a stronger focus on results. Developing countries need to strengthen their management of financial resources, and improve their domestic resource mobilization as well as governance and delivery of basic services. Donors and other partners need to improve the quality of aid, modalities of aid delivery to reduce volatility, achieve greater predictability, and provide stronger alignment with national poverty reduction strategies. To this end, we encouraged donors where possible to move towards multiyear plans and commitments, and to be ready to finance recurrent costs where sector policies are sound and fiduciary conditions are adequate. We asked the World Bank and other partners to intensify their coordination at the country level, particularly in strengthening health systems and improving access to good quality education, to reduce transaction costs and to help increase absorptive capacity. We emphasized the importance of universal access to primary education and sustained support for good quality education plans, and the key role the Education for All - Fast Track Initiative could play in all qualifying low income countries. We called on donors to fill the current financing gap. We asked for a progress report on Education for All by our next meeting. We encouraged the Bank to implement the proposal to hold annual Results and Resources Consultative Groups in its Africa Action Plan. We also emphasized the need for the multilateral development banks (MDBs) to strengthen their results orientation, so as to contribute better to improved country outcomes. We look forward to the first World Bank report on results monitoring and systems to strengthen both country and institutional incentives and assure learning from results. In this context, we urged all MDBs and all donors to step up support for strengthening statistical and related institutional capacity in partner countries.

5. We noted the importance of continued development progress in MICs and emerging market countries, and asked the Bank to refine and enhance its engagement strategy with these countries by our next meeting, taking into account their contributions to poverty reduction and global public goods, access to market financing, and remaining development challenges.

6. Promoting good governance, including fighting corruption, and mutual accountability are essential to efforts to achieve the MDGs. We agreed on the need for efforts to improve governance in all countries, to help build effective states with strong national systems and to work together on implementing global initiatives to improve governance, increase transparency and build demand for good governance at the country level in a way that strengthens ownership. The Bank and Fund should play a full supporting role. We asked the Bank to further develop disaggregated and actionable indicators in areas such as quality of public financial management, and procurement practices. We noted the diagnosis in the Global Monitoring Report that a significant level of corruption is a symptom of poor
governance. Building on work over the last decade, we called on the Bank to lay out a broad strategy, to be discussed at our next meeting, for helping member countries strengthen governance and deepen the fight against corruption, working closely with the Fund, other multilateral development banks and the membership, to ensure a coherent, fair and effective approach. This strategy should lead to clear guidelines for operations.

7. We welcomed the progress made in implementing the Multilateral Debt Relief Initiative (MDRI) in the Fund, the International Development Association (IDA), and the African Development Fund, and, in particular, cancellation by the IMF of the MDRI debt of the first 19 countries, and, in the Bank, the approval of the required Resolution by the IDA Governors leading to final agreement on the Initiative. We urged donor countries to secure their financing commitments to achieve full compensation of IDA's foregone reflows and to ensure that this initiative is truly additional to existing commitments. We called on the Bank and the Fund in consultation with the membership to bring forward proposals to further refine the debt sustainability framework for low-income countries to support growth and avoid accumulation of unsustainable debt, and, in this context, to further elaborate and implement an effective approach to deal with the issue of "free-riding" where non-concessional lenders may indirectly obtain financial gain from IDA's grants and debt forgiveness. We called for participation of all export credit agencies, IFIs, and other official creditors, in such an approach and encouraged them to use the debt sustainability framework in their lending decisions. We also noted the final list of potentially eligible countries for the HIPC initiative and the initial cost estimate of debt relief for these countries.

8. Implementation of the Doha Development Agenda is a critical complement to other efforts to increase growth and reduce global poverty. After modest progress at the Hong Kong ministerial meeting in December 2005, we urged all WTO members to step up their efforts to reach a successful conclusion to the Doha Round by the end of this year. We welcomed a significant increase in donor commitments for aid for trade, and creation of a task force in the WTO to make recommendations on how to operationalize aid for trade, recognizing that this is a complement not a substitute for a successful Doha Round. We asked the Bank and the Fund to further examine cross-country and regional aid for trade needs by our next meeting and deepen their work to integrate trade-related needs into their support for country programs. We also asked the Bank and the Fund to continue their global advocacy on trade and development.

9. The global community faces a major challenge in securing affordable and cost-effective energy supplies to underpin economic growth and poverty reduction while preserving the environment. These need not be conflicting goals. We recognized lack of access to energy as an acute problem in many low income countries. We agreed to explore ways to help developing countries enhance their access to affordable, sustainable and reliable modern energy services over the long term, while paying attention to local and global environmental considerations. We also urged them to do so through policy reform to attract domestic and international investment in clean and efficient energy services. We also noted that adaptation to climate change for poor countries is a critical development issue. We reaffirmed our commitment to the goals of the United Nations Framework Convention on Climate Change. We found broad support for the Bank’s approach in addressing 1) developing country energy
needs and access to energy services, 2) efforts to control greenhouse gas emissions, and 3) helping developing countries adapt to climate risks, and the two track work program. We asked the Bank to review, in close coordination with other partners, existing financial instruments, taking into account the role of the private sector; and to explore the potential value of new financial instruments to accelerate investment in clean, sustainable, cost effective and efficient energy; so as to report on progress towards an investment framework by our next meeting. We urged member countries of the Global Environment Facility to conclude the fourth replenishment negotiation as soon as possible.

10. Avian Influenza poses a major risk for all countries but more particularly for developing countries. We called for continued coordination and planning by countries and agencies at the international and regional levels and, within countries, continued coordination across relevant ministries. We also welcomed the Bank’s rapid operational response under the Global Program for Avian Influenza.

11. We welcomed the interim report on how fiscal policy can best support long term growth, and its emphasis on specific country experiences. We look forward to the final report in early 2007.

12. We noted the creation of the External Review Committee to review various aspects of Bank-Fund collaboration, and look forward to considering its findings and recommendations. We ask the Bank and Fund to ensure that their institutional responsibilities continue to cover all the critical issues relating to reaching the MDGs within their mandates.

13. We welcomed the discussion of quota and voice issues in the Fund, and confirmed our intention to continue our discussions with a view to building the necessary political consensus on the voice issue in the Bank.

14. We welcomed the new Chairman Alberto Carrasquilla. We thanked Zia Qureshi for his services as Interim Executive Secretary to the Committee and welcomed the appointment of Kiyoshi Kodera as new Executive Secretary.

15. The Committee’s next meeting is scheduled for September 18, 2006 in Singapore.
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 23, 2006
Washington, DC, United States

CONSTITUENCY LIST
## DEVELOPMENT COMMITTEE
April 23, 2006
Washington, D.C.

Alberto Carrasquilla Barrera, Chairman
Paul Wolfowitz, President, World Bank
Rodrigo de Rato, Managing Director, International Monetary Fund

Kiyoshi Kodera, Executive Secretary

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| Ibrahim Al-Assaf *(attending)*  
Minister of Finance  
Saudi Arabia  
*Alternate Member*  
Hamad Al-Sayari  
Governor for the Saudi Arabian Monetary Agency | Yahya Abdullah Alyahya (Bank)  
Sulaiman M. Al-Turki (Fund) | Saudi Arabia | 1 |
| Ahmed bin Mohammed Al Khalifa *(attending)*  
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.)* *(attending)*  
Secretary of State for International Development  
United Kingdom  
*Alternate Member*  
Gordon Brown  
Chancellor of the Exchequer | Tom Scholar (Bank and Fund) | United Kingdom | 3 |
| Bohoun Bouabré *(attending)*  
Minister of State, Minister of Planning and Development  
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 Príncipe, Senegal, Somalia (informally), Togo | 4 |
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<td>Azerbaijan, Serbia &amp; Montenegro, Kyrgyz Republic, Poland, Switzerland, Tajikistan, Turkmenistan, Uzbekistan</td>
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<td>Marcel Massé <em>(Bank)</em></td>
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<td>Robert Greenhill <em>(attending)</em></td>
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<tr>
<td>Nelson Merentes Diaz <em>(not attending)</em></td>
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<tr>
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<tr>
<td><em>Temporary Alternate Member</em></td>
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<tr>
<td>Ricardo Conde <em>(attending)</em></td>
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<tr>
<td>Senior Advisor to the Executive Director</td>
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<tr>
<td>Duck-Soo Han <em>(not attending)</em></td>
<td>Joong-Kyong Choi (Bank)</td>
<td>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</td>
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<tr>
<td>Deputy Prime Minister and Minister of Finance</td>
<td>Jong Nam Oh (Fund)</td>
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<tr>
<td>Tae-Shin Kwon <em>(attending)</em></td>
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<td>Vice Minister</td>
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<tr>
<td>Eero Heinaluoma <em>(attending)</em></td>
<td>Thorsteinn Ingolfsson (Bank)</td>
<td>Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden</td>
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<tr>
<td>Minister of Finance</td>
<td>Tuomas Saarenheimo (Fund)</td>
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<tr>
<td>Ms. Sri Mulyani Indrawati <em>(attending)</em></td>
<td>Mr. Herwidayatmo (Bank)</td>
<td>Brunei Darussalam, Fiji, Indonesia, Lao People’s Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Vietnam</td>
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<tr>
<td>Minister of Finance</td>
<td>Hooi Eng Phang (Fund)</td>
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<td>Jin Renqing <em>(not attending)</em></td>
<td>ZOU Jiayi (Ms) (Bank)</td>
<td>China</td>
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<tr>
<td>Minister of Finance</td>
<td>WANG Xiaoyi (Fund)</td>
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<tr>
<td>Li Yong <em>(attending)</em></td>
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<td>Vice-Minister of Finance</td>
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<tr>
<td>Aleksei Kudrin <em>(attending)</em></td>
<td>Alexey G. Kvasov (Bank)</td>
<td>Russian Federation</td>
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<tr>
<td>Minister of Finance</td>
<td>Aleksei V. Mozhin (Fund)</td>
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<tr>
<td>Members</td>
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<td>Countries</td>
<td>Group</td>
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| Guido Mantega *(attending)*  
Minister of Finance  
Brazil                                                                 | Otaviano Canuto  
(Bank)  
Eduardo Loyo  
(Fund)                                      | Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Panama, Philippines, Suriname, Trinidad and Tobago | 15    |
| Trevor Manuel *(attending)*  
Minister of Finance  
*South Africa*                                                          | 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 *(attending)*  
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    |
| Didier Reynders *(attending)*  
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 | 18    |
| John W. Snow *(not attending)*  
Secretary of the Treasury  
United States                                                           | Robert Holland  
(ED)  
(Bank)  
Nancy P. Jacklin  
(Fund)                                      | United States                                           | 19    |
| Clay Lowery *(attending)*  
Assistant Secretary                                                        | Kennedy Peel *(attending)*  
Deputy Assistant Secretary                                                                                 |                                                     |       |
| Josette S. Shiner  
Under Secretary for Economic, Business and Agricultural Affairs  
Department of State                                                | Yoshih Okubo  
(Bank)  
Shigeo Kashiwagi  
(Fund)                                      | Japan                                                   | 20    |
| Sadakazu Tanigaki *(not attending)*  
Minister of Finance  
Japan                                                                  |                                                   |                                                     |       |
| *Alternate Member*  
Hiroshi Watanabe *(attending)*  
Vice Minister of Finance for International Affairs  
Ministry of Finance                                                |                                                   |                                                     |       |
<table>
<thead>
<tr>
<th>Members</th>
<th>Executive Directors</th>
<th>Countries</th>
<th>Group</th>
</tr>
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</table>
| **Giulio Tremonti** *(not attending)*  
Minister of the Economy & Finance  
Italy  
*Alternate Member*  
**Mario Draghi** *(attending)*  
Governor, Bank of Italy | Biagio Bossone  
(Bank)  
Arrigo Sadun  
(Fund) | Albania, Greece, Italy, Malta, Portugal, San Marino, Timor-Leste | 21 |
| **Heidemarie Wieczorek-Zeul** *(attending)*  
Federal Minister for Economic Cooperation and Development  
*Alternate Member*  
**Thomas Mirow**  
State Secretary  
Federal Ministry of Finance | Eckhard Deutscher  
(Bank)  
Karlheinz Bischofberger  
(Fund) | Germany | 22 |
| **Gerrit Zalm** *(not attending)*  
Minister of Finance  
The Netherlands  
*Alternate Member*  
**Agnes van Ardenne** *(attending)*  
Minister for Development Cooperation  
Ministry of Foreign Affairs  
The Netherlands | Jan Willem van der Kaaij  
(Bank)  
Jeroen Kremers  
(Fund) | Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, former Yugoslav Republic of Macedonia, Moldova, Netherlands, Romania, Ukraine | 23 |
| **Fernando Zavala Lombardi** *(attending)*  
Minister of Economy and Finance  
Peru | Jaime Quijandria  
(Bank)  
Héctor Torres  
(Fund) | Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay | 24 |
<table>
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<tr>
<th>Organization</th>
<th>Representative</th>
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<tbody>
<tr>
<td>African Development Bank</td>
<td>Mr. Donald Kaberuka, President</td>
</tr>
<tr>
<td>Arab Bank for Economic Development in Africa</td>
<td>Mr. Medhat S. Lotfy, Director General</td>
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<tr>
<td>Arab Fund for Economic and Social Development</td>
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<tr>
<td>Arab Monetary Fund</td>
<td>Dr. Jassim Al-Mannai, Dir General, Chairman of the Board</td>
</tr>
<tr>
<td>Asian Development Bank</td>
<td>Mr. C. Lawrence Greenwood, Jr., Vice President for Operations</td>
</tr>
<tr>
<td>Commonwealth Secretariat</td>
<td>Mr. Winston Cox, Deputy Secretary General</td>
</tr>
<tr>
<td>Cooperation Council for the Arab States of the Gulf</td>
<td><strong>Not attending</strong></td>
</tr>
<tr>
<td>Council of Europe Development Bank</td>
<td>Mr. Apolonio Ruiz Ligero, Vice Governor</td>
</tr>
<tr>
<td>Development Assistance Committee</td>
<td>Mr. Richard Manning, Chairman</td>
</tr>
<tr>
<td>European Bank for Reconstruction &amp; Development</td>
<td>Mr. Erik Berglof, Chief Economist</td>
</tr>
<tr>
<td>European Commission</td>
<td>Mr. Louis Michel, Commissioner for Development and Humanitarian Affairs</td>
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<tr>
<td>European Investment Bank</td>
<td>Mr. Jean-Louis Biancarelli, Director Gen, Ops outside Europe</td>
</tr>
<tr>
<td>Food and Agriculture Organization</td>
<td>Mr. John J. Ziolkowski, Director, Liaison Office for North America</td>
</tr>
<tr>
<td>Inter-American Development Bank</td>
<td>Mr. Ciro de Falco, Executive Vice President</td>
</tr>
<tr>
<td>International Fund for Agricultural Development</td>
<td>Mr. Lennart Båge, President</td>
</tr>
<tr>
<td>International Labour Organisation</td>
<td>Mr. Duncan Campbell, Director, International Policy Group</td>
</tr>
<tr>
<td>Islamic Development Bank</td>
<td>Mr. Amadou Boubacar Cisse, Vice President, Operations</td>
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<tr>
<td>Nordic Development Fund</td>
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<td>Nordic Investment Bank</td>
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<tr>
<td>OPEC Fund for International Development</td>
<td><strong>Not attending</strong></td>
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<tr>
<td>Organization for Economic Co-operation and Dev</td>
<td>Mr. Michael Roeskau, Director, Development Cooperation Directorate</td>
</tr>
<tr>
<td>United Nations</td>
<td>Mr. Jose Antonio Ocampo, Under Secretary General for Economic Social Affairs</td>
</tr>
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</table>
| United Nations Conference on Trade and Development (UNCTAD)| Mr. Dirk Jan Bruinsma, Deputy -Secretary General  
MR. Heiner Flassbeck, Officer-in-Charge of the Globalization & Development Strategies |
| United Nations Development Programme (UNDP)               | Mr. Michael Marek, Director, UNDP Washington Office                           |
| West African Development Bank                            | Mr. Issa Coulibaly, Acting President                                          |
| World Health Organization                                | Mr. Xavier Leus, Director                                                    |
| World Trade Organization                                 | Mrs. Valentine Rugwabiza, Deputy Director General  
MR. Richard Eglin, Director, Trade and Finance Division |