DEVELOPMENT COMMITTEE

(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)

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For the first time in the history of humankind, if there is collective international will, the goal of putting an end to absolute poverty appears to be within our grasp. The tools that science and technology have placed at our disposal makes the achievement of this hitherto unattainable goal easier. Global wealth and prosperity are at an unprecedented peak. All that is required is an action program to which there is firm commitment of all nations.

Prevention and resolution of international financial crises

2. The development experience of the past half decade has conclusively demonstrated the imperative of crisis prevention. While a certain amount of volatility in growth rates is inevitable in a market system, the sudden, and in many cases, irrational reversals of investor confidence and private capital flows has had devastating effects on the poor. The international community has an obligation to put in place mechanisms to address this critical issue. Further, if even after all efforts, a crisis does hit an economy, we must have effective mechanisms for the quick, orderly and effective resolution of the problem.

3. The two factors that developing countries are particularly vulnerable to are international capital flows and the excessive volatility of oil prices. The world economy seems to have pulled back from the precipice of recession. However, emerging economies will be particularly hit hard by a sharp spike in energy prices. While developing countries require to build up their capacity in risk management, there is also a need to strengthen global institutional arrangements to put in place a stable price mechanism. This would protect the interests of both oil exporters and importers.

Resources for development priorities

4. The thrust areas in most developing countries are education, health, housing, irrigation and infrastructure. The financing for development will play a crucial role in the elimination of global poverty. Monterrey has pushed international development assistance and partnership back on center-stage. It has clearly established a new consensus on the mutually- supportive roles that the different actors must play. These are important achievements and we must build on them.

From volatility to sustainability

5. We must increase the transfer of real resources to developing countries. While we welcome the recent additional commitments made by the EU, US and Canada, this clearly falls well short of the required $50 billion additionality estimated by the High Level Panel. We hope that enhanced ODA flows are increasingly channeled through multilateral rather than bilateral channels. It is disturbing to note that official aid flows declined by 3.4% in 2001. The sharp fall in IBRD lending commitments from $22.2 billion in 1999 to $10.5 in 2001 has to be reversed. We hope that IDA Deputies will quickly agree on a substantially enhanced IDA 13 Replenishment. This will be crucial in achieving the Millennium Development Goals.

6. We note with great concern the reduced private capital flows to developing countries. Commercial bank lending to developing countries in 2001 dropped to 75% of the 2000 figure. International equity placements by developing countries fell by 72% in 2001. Foreign Direct

Investment (FDI) flows to developing countries remain highly uneven. The shares of global FDI flows to developing countries was cut by half by the East Asian crisis of 1997. While this increasingly heightens the requirement for emerging markets to develop and nurture an environment conducive to private investment, concerted international effort is required for putting into place an appropriate Private Sector Involvement (PSI) framework. There is also a requirement to build up synergistic public private partnerships for the financing for development. These steps should ultimately lead to a sound and sustainable international financial architecture.

Development effectiveness

7. The experience of the last half-century of development has shown us that there is no fixed set of policies and institutions that will guarantee results. Each country has its own unique set of circumstances and problems that it must deal with. While the international community can help in facilitating solutions, development partners must avoid the tendency to be prescriptive. In this regard, we welcome the recent review of the PRSP approach. PRSPs are to be recognized as a means to an end. We believe valuable lessons have emerged that will strengthen country ownership and capacity for effective poverty reduction.

8. The primacy of democratically elected institutions in the development process at all levels of government need to be respected. While the participation of civil society in the development process is very important this should be done in partnership with representative institutions. This will lead to increased accountability, transparency, credibility and ownership. We must avoid creating parallel structures that bypass representative institutions. This reduces their credibility. The resulting distortions have undesirable economic and social costs.

Capacity building

9. The process of country ownership would be greatly strengthened if more resources are put into capacity building. The World Bank needs to strengthen the capacity within developing countries themselves to undertake such analytical work. This may be more time-consuming but would probably be much more productive. Many developing countries have already developed significant capacity to undertake research and analytical work. The Bank should use these institutions and the expertise available in a more extensive manner. This would help not only in appreciating local situations better, but also in realistic projections of the needs and priorities of developing countries. The World Bank's funding of the CGIAR initiative is an indicator of how effective this can be. Not only has it led to an increase in the scale and spread of the "green revolution", it has strengthened capacities in developing countries leading to sustained poverty reduction.

Harmonization

10. Harmonization is linked to the issue of capacity building and development effectiveness. We need to look at harmonization from the point of view of reducing transaction costs and time. Common procurement, accounting, social and environmental assessment procedures would be in the interest of both donors and recipients. Developing countries gain from the adoption of more efficient procedures. However, we would like clarity in the way the process plays out at the

country level. Harmonization between donors should not deprive recipient countries the choice of policies and instruments. National priorities must lay down the framework not only for development strategies, but also in deciding the nature, extent and location of collaboration with development partners. This would strengthen the principle of 'selectivity' that development institutions including the World Bank are increasingly utilizing in their choice of interventions.

Market access

11. The Bank's analytical work on trade should help improve the prospects of the successful implementation of the Doha Development Agenda. Industrialized countries form 80% of the market for goods produced by developing countries. The denial of market access and the continuance of high protection in labor-intensive sectors by developed countries has to be reversed. These are the areas in which poor countries have the greatest comparative advantage and which have the greatest potential for poverty reduction e.g. agriculture and labor-intensive manufactures like textiles and clothing.

12. It is not just tariffs and quotas that come in the way of such access. The high degree of agricultural subsidies in rich countries (more than a billion dollars a day) dwarf ODA flows six times over. These are huge impediments to improving the prospects of poverty reduction. Increased recourse to anti-dumping and safeguard measures are hardly conducive to trade liberalization. Therefore, while the developing countries, particularly those with diversified economies are facing the pain of opening up, tangible measures are required to be taken by the developed countries to strengthen the incentives for these efforts.

Performance based allocations

13. Recent trends in higher allocation of aid and concessional finance to those who use them better are a welcome development. This positively impacts on development effectiveness and also sends the right signal to developing countries. We need to continue the focus of lending on good performers and make sure that resources flow to the poor. Poor people, irrespective of where they are, must be at the center of the Bank's financing.

Education for Dynamic Economies

14. 125 million children all over the world are today not enrolled in primary school. Two-thirds of them are girls - that is one in five children are out of school. Many more drop out of school before learning how to read, write, or do simple sums. They will join the ranks of nearly one billion illiterate adults in the world. In a rapidly globalizing world, the costs of excluding so many from the economic and political opportunities associated with education are rising sharply, and threaten growing instability.

15. India has made substantial progress in elementary education in the past decade. Free and compulsory education to all children up to the age fourteen is now a constitutionally guaranteed fundamental right. Literacy has recorded an impressive jump of 13 percentage points from 52 in 1991 to 65 in 2001. The increase of literacy rates among males and females are 11 and 14 percentage points respectively. It is heartening to observe that the gap in males and females

literacy rates has decreased from 28.84 percent in 1991 to 21.70 percent in 2001. For the first time since independence the absolute number of illiterates have shown a decline, by about 32 million during 1991-2001. This fall among males was 21.45 million and 10.51 million among females. In the last budget we have increased the outlay for primary education by about 30% ($ 1 billion).

16. The Millennium Development Goals and subsequent deliberations have set before us very specific benchmarks towards achieving Education for All. We commend the increased focus on gender and completion rates. We must look at the long-term sustainability of quality education. The Bank's work with countries at national and sub-national levels in stabilizing the macroeconomic situation through structural adjustment operations and its work on Public Expenditure Reviews will play an important role in increasing domestic resource availability for education, and in its improved utilization. At the same time, donors should step up their assistance in line with improved policy environments to budget the resource gap.

HIPC

17. We are happy to note that as many as 26 countries are now benefiting from the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative. A broad consensus is rapidly evolving around the various issues concerning this innovative instrument of poverty reduction.

18. The experience from the implementation of the Initiative are, however, not uniform. Fewer countries than expected reached their decision point and fewer still, their completion point. The external debt sustainability outlook of many countries have worsened even as the process of delivering relief under the Initiative is on-going. The sharp decline in prices of commodity exports has often belied debt sustainability projections. The net effect of relief already delivered on poverty reducing social-sector spending is also far from clear. Faster delivery of debt relief remains a continuing concern.

19. Several HIPCs have experienced difficulties in effectively utilizing the resources released under the Initiative. We appreciate that a broad agreement has been reached on the need for greater flexibility in cases where debt sustainability has been seriously impaired by unforeseen exogenous factors. We would advocate greater flexibility in respect of post-conflict countries, countries with large displaced populations and such other cases of hardship. We would also strongly urge continuous and close monitoring of debt statistics, even after countries have attained their completion point, to ensure that they do not slide back into unsustainable debt. Public expenditure review in HIPCs will have to focus more sharply on tracking core poverty-reducing expenditure to adjudge the effectiveness and development impact of the Initiative. It is also very important that HIPC relief remains an additionality and is not offset by reduction in other aid flows.

20. I am pleased to announce that India has decided to participate in the HIPC initiative. We have decided to cancel the bilateral debt owed to us by HIPCs. We will also extend all possible assistance to facilitate a dialogue between commercial creditors and the HIPC countries.

Anti Money Laundering Action Plan and Fighting Terrorist Financing

21. We appreciate that the Bank and the Fund have pooled their resources towards the task of combating money laundering and financing of terrorism in furtherance of the mandate given by this Committee in its last meeting. We commend the efforts of the Bank to develop a methodology, jointly with the Fund. We should initiate cooperative action at the global level. Given its mandate and core competencies, the Bank can utilize its expertise in the area of diagnostic and capacity building work to equip national governments with the knowledge and capacity to combat those who threaten the integrity of financial systems and security of nations.

22. We welcome the proposal to accelerate Offshore Financial Center assessments and to incorporate safeguards against money laundering and terrorism financing in Financial Sector Assessment Programs (FSAPs). We do not, however, agree with the proposal to introduce anti-money laundering and combating financing of terrorism into CASs and the PRSPs as this has the danger of diverting attention from the core objective of poverty reduction. Further, since there are no CASs or PRSPs for non-borrowing countries, these processes are of no help vis-à-vis the world's largest financial markets where trillions of dollars worth of transfers of funds take place each day and which are becoming increasingly vulnerable to abuse. We fully agree with the Bank's position that issues relating to enforcement and implementation of national legislation are clearly beyond the Bank's mandate.

Allocation of the Bank's income

21. The Bank clearly does not have the resources to do all that we want it to do. It should, therefore, concentrate on interventions that have the maximum value addition. The Bank's country strategies must be directed at those sectors that have the greatest potential for poverty reduction and institutional development. Mechanisms need to be developed to lower the overall borrowing costs. In this regard, innovative financing mechanisms that combine loans and credits from multilaterals with grants from bilateral donors to reduce the overall cost to borrowers are a step in the right direction.

22. There is a need for some rethinking on the transfers from the Bank's net income to initiatives like HIPC and IDA. These initiatives, while clearly welcome in themselves, should be funded on a transparent and additional basis. IBRD's net income should be used to reduce its borrowing costs.

Restoring the Bank's Capital Adequacy

23. As a result of the increased integration of financial markets, business cycles will be increasingly globally synchronized. This is a good time to consider the issue of the Bank's ability to play a significant counter cyclical role. The Bank does not have sufficient reserves to support lending if two or three of its largest borrowers go into default? This failure to meet its own capital adequacy stress test raises considerable disquiet and needs the attention of shareholders. In the aftermath of the Asian crisis, this issue was studied in depth but was not followed-up. The Bank's Equity to Loans ratio remains under pre-1997 levels in 2002. Shareholders must take

action to restore the Bank's risk-bearing capacity. The Bank is a development cooperative. All members of this cooperative should contribute to shoring up its capital base.

Conclusion

24. The international development community must resolutely focus on the prevention of international financial crises and the quick and effective resolution of crises when they hit a country. Adequate resources for the financing for development, in particular, for education, health, housing, irrigation and infrastructure should be ensured. Developed economies must ensure market access to the exports of developing countries. They should also ensure reduction and eventual elimination of unsustainable agricultural subsidies. Multilateral and bilateral partners must also focus their attention on capacity building in less developed countries, to enable them to make effective use of enhanced resources for development and increased market access. Finally, the international community must unite in combating the financing of terrorism

25. The Development Committee is the forum which can review and carry forward the development compact that was arrived at Monterrey. This compact has shown us that developed and developing countries can come to a broad agreement on how to move ahead with the essential task of poverty reduction. The Bank must continue to work with developing countries as we go about improving our policy environments, governance institutions and investing in empowering our people.