DEVELOPMENT COMMITTEE
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of the
Boards of Governors of the Bank and the Fund
On the
Transfer of Real Resources to Developing Countries)

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Statement by

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Representing the constituency consisting of Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Republic of Macedonia, Moldova, The Netherlands, Romania, and Ukraine

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

Priorities for developing countries

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

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

Priorities for international organisations

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

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

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

Priorities for developed countries

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

MDG 8 reporting

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

Financing

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

Trade

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

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

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

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

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

Education for all

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

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

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

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

Long term debt sustainability

A manageable debt burden is a precondition for lasting economic growth and socio-economic development. The HIPC initiative has made a valuable contribution to lowering the debt burden of many low-income countries (LICs). The next step is to prevent unsustainable debt levels and debt distress from re-emerging. I therefore welcome the proposed framework for long-term debt sustainability in low-income countries, which incorporates key principles: focusing on levels of external and domestic debt, country-specific indicative thresholds, risk mitigation, diversification, and debt management capacity building. New concessional resources should be allocated on the basis of countries' policies and in support of the MDGs, while taking into account a country's repayment capacity. Sustainable debt levels as defined by debt sustainability analyses (DSAs) should be the determining factor for the modality of financing offered to LICs, including the size of grants, and will thus be a crucial factor in determining the size of the grant window under IDA14.

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

Bank lending to middle-income countries

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

The voice of developing and transition countries

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