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)

SEVENTIETH MEETING
WASHINGTON, DC – OCTOBER 2, 2004

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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

Statement by Mrs. Agnes van Ardenne
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The World Bank and the IMF are celebrating their 60th anniversary this year. When we look back on what these two esteemed institutions have achieved, we cannot fail to be impressed. They have contributed to global development and financial stability by continuously adjusting their modus operandi to changing circumstances. In the development field, they have been at the forefront of the development of the PRSP framework, the discussion on aid effectiveness and the fight against corruption. Although much has been achieved, more must be done.

This statement first deals with the topic on the DC agenda that will not be discussed.

Debt and Debt Sustainability
Our constituency feels that the Fund and the Bank should continue to take the lead on the issues of debt forgiveness and debt sustainability.

Many low and middle-income countries have immediate debt sustainability concerns. As part of the strategy to tackle indebtedness of low-income countries, the HIPC initiative was started. We support a limited extension of the initiative until 2006 because we believe it should remain a temporary instrument. The provision of additional debt relief (*topping up*) would be presumed in cases where debt sustainability prospects have worsened because of exceptional external shocks. Assessments would be made on a case by case basis even though the country is continuing to pursue sound economic and poverty reduction policies. It is important that full funding be provided to finance the costs (as identified by the IFIs) for all eligible countries. We would invite the IMF and the World Bank to identify ways to secure that financing in the context of fair and appropriate burden sharing.

HIPC has been a useful tool for dealing with intolerable debt burdens. However, it is now time to focus on the future and to prevent new debt-related problems. We call on the Fund and the Bank to accelerate the joint development and implementation of a framework for debt sustainability in low-income countries which would determine the concessionality of development assistance from all the development partners, including the regional development banks. The framework should be forward-looking and stop borrowing countries from incurring new, unsustainable debt. It is important for us that the framework honour good policies and practices in the borrowing countries and that it apply not only to the Bank and the Fund but also to all lending institutions.

Although the following topics will be discussed during the Committee's meeting, we wish to make the following points in writing.

Voice and Participation of Developing and Transition Countries
Our constituency welcomes the steps taken by the IMF and the World Bank to strengthen the voice of developing and transition countries. That notwithstanding, there is still room for further measures. Initiatives designed to build capacity so that developing countries can engage in discussions on country programmes and wider policy issues deserve our full support. Similarly,

constituency office capacity and delegation of responsibilities within the Bank to country level might be further enhanced. Another promising option is to increase basic votes in order to strengthen the relative voting power of developing and transition countries.

For capacity building at country level, we would like to emphasise the importance of further reinforcement of the Bank's and the Fund's representation at country level. That will make it possible for both institutions to respond more appropriately to country-specific circumstances, to participate in donor co-ordination and harmonisation under local leadership and to enhance genuine partnerships for development. Although our constituency is not in favour of increasing the institutions' operational budgets, we would consider an additional budget allocation for this purpose, that is, an investment in enhanced effectiveness, which would be subsequently recouped.

We believe that the discussion on giving a voice to developing and transition countries and having them participate should end with this meeting. All options are on the table and we do not see the need to appoint a group of eminent persons as was suggested by the Committee's chairman.

The role of the World Bank in prospective EU member states

A strong Bank and Fund presence is needed in developing countries, but our constituency would also like to see a strong Bank presence in EU accession countries which would benefit from the Bank's experience in assisting previous EU candidates. We recommend that the Bank further explore EU-Bank partnerships there in order to facilitate dialogue with Brussels. The Bank’s involvement could make a great difference when it comes to unemployment and social inclusion.

Growth and Development

Our constituency welcomes a discussion of the factors which lead to economic growth even though the fact that economic growth in itself does not necessarily lead to poverty alleviation should not be overlooked.

A sound investment climate is essential if poverty is to be alleviated. This implies good governance. We wholeheartedly welcome the policy recommendations of the *Doing Business* report and the conclusions of the WDR 2005 A Better Investment Climate for Everyone. Both reports give evidence that deregulation and a better investment climate attract foreign direct investment, lead to economic growth and inclusion of the poor in the economic process. Another area of Bank involvement is the strengthening of national capital and financial markets so as to channelling the funds necessary for economic growth and ensure that credit reaches those with good business plans but without and who currently do not have access to credit. This applies to both developing and transition countries.

Infrastructure is another important growth factor. Our constituency welcomes renewed attention to investment in water and sanitation, roads, ports and railways and information technology and energy. We feel that the Bank should focus more on renewable energy and work seriously to meet its target of at least 20% annual growth of its renewable energy portfolio over the next five years.

In view of the scale of most infrastructure projects, the Bank has a leading role to play. Bank funding will often be complementary to bilateral funding. Developing countries' demand for infrastructure should be key, but the Bank should remain responsible for monitoring its *safeguards*. Bank projects should lead to a better quality of projects, particularly with regard to sustainability and social impact.

The *Extractive Industries Review* the Board of Directors discussed in August is a case in point. We expect the Bank to review its safeguard policies in that area and to further develop its work on revenue management issues. We look forward to the Bank's annual report on its involvement with extractive industries.

Aid effectiveness and financing modalities

Our constituency welcomes the Bank's analysis of aid effectiveness and its focus on good governance. We share the Bank's conclusion that for governments to function properly more is needed in terms of institution building at all levels.

We agree with the Bank's conclusion that programmes geared to each country's specific conditions are more effective. With this in mind, we welcome the Bank's adherence to the Rome Declaration and its involvement in preparing for the 2nd High Level Meeting on Harmonisation in Paris in March 2005. We continue to encourage the Bank to take the lead in harmonisation and alignment efforts at country level – on terms commonly agreed on by local authorities, the Bank and other donors. For the Bank to be successful in this area, we feel that further delegation of responsibilities from headquarters to the country offices is needed. As already mentioned, this will allow the Bank to respond more appropriately to country-specific circumstances.

We also welcome the Bank's and the Fund's Poverty Reduction Strategy Reviews and agree with the main conclusion that PRSPs should be more flexible, better aligned with domestic processes and more operational. We also agree that the Bank and the Fund can do more to support the PRSP process. PRSPs increasingly succeed in operationalising the MDGs at the country level, but we feel that including a chapter on policy options, a clear political commitment of the government involved, and greater stakeholder involvement could enhance the practical value and effectiveness of PRSPs even more.

We urge the Bank and the Fund to ensure that there is follow-up to the recommendations of their own evaluation departments and report on this topic.

Finally, my constituency again calls on all donor countries to increase their levels of ODA. This is the easiest and most straightforward way to fund the Millennium Development Goals and would make discussion of innovative financing mechanisms redundant. As the Secretary-General of the United Nations has said:

"If all donors reached the UN target of 0.7 per cent of GNP, then the search for new sources would become redundant." Innovative Sources of Financing for Development, Note by the Secretary-General, p. 5 (Document a/59/272)

For the time being, most developing countries' needs and absorption capacity warrant a significant increase in aid flows.

The 0.7% of GNP is open to all countries.

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1. Innovative Sources of Financing for Development, Note by the Secretary-General, p. 5 (Document a/59/272)