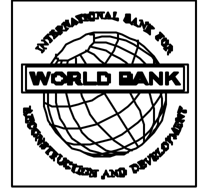
DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)



SEVENTY-THIRD MEETING
WASHINGTON, D.C.— APRIL 23, 2006

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Statement by

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Minister of Finance and Privatization
Kingdom of Morocco

On behalf of Afghanistan, Algeria, Ghana, the Islamic Republic of Iran, Morocco, Pakistan, and Tunisia

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 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.

I. 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.

II. 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 Gleaneagles 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.

III. 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.

IV. 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.

V. 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.