Statement by

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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
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 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
An 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 are 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.