Statement by

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on behalf of Australia, Cambodia, Kiribati, Korea (Rep. of), Marshall Islands (Rep. of), Micronesia (Federated States of), Mongolia, New Zealand, Palau (Rep. of), Papua New Guinea, Samoa, Solomon Islands and Vanuatu
We thank the Singaporean authorities for hosting the 2006 annual meetings of the IMF and the World Bank.

**Developing Country Growth Continues Robustly**

Developing countries’ GDP growth continued remarkably strongly since we last met, despite headwinds from the maturing of the global business cycle and from commodity price increases that have disadvantaged some developing countries, but greatly advantaged others.

*Picking up the stragglers*

Even as forecast GDP growth to 2008 slows slightly, developing countries are expected to continue to grow at about twice the rate of high-income countries. Even excluding China and India, forecast growth rates in other developing countries are still almost twice as high as in developed countries. Aid increases and debt forgiveness are contributing to this growth, particularly in Sub-Saharan Africa. But some historically slow-growing, low-income countries such as those of the Pacific are not matching the best of the developing world’s growth performances.

We consider improving aid effectiveness to be a key challenge for the international community as aid flows are scaled up. In this regard, implementing the Paris Declaration principles should be of primary concern, as donor and recipient signatories strive to reach the targets outlined by 2010. We support the World Bank and IMF’s ongoing efforts to increase the impact of aid and debt relief flows.

As performance-based aid allocations favor developing countries with stronger institutions and policies, it is a growing challenge for donors (including the World Bank) to find more effective ways of engaging those countries left behind. The World Bank has been at the forefront of international analytical and policy work on the best means of promoting development in these slow growing and often fragile states. But greater attention is needed to applying this analytical and policy work to the Bank’s operations, particularly through overhauling staff incentives to encourage the best staff to work in fragile states.

**World Bank Group performance**

We appreciate steady progress in some areas of modernization and reform in the Bank Group over the last year.

- The Group’s budget processes, and their relation to medium-term strategies, are generally strengthening.
- The IBRD’s investment lending continues its recent growth with no deterioration in development quality, reflecting the Bank’s return to its important role in infrastructure financing.
- IDA disbursements have grown to deploy donors’ large funding increases in the IDA14 replenishment.
- IFC’s profitability continues at very strong levels, with continuing good development impact, and net income from both IBRD and IFC has contributed to IDA funding. We consider IFC’s current phase of strong growth warrants caution to ensure it maintains its strategic focus on development impact in frontier economies around the world, not only in Africa. IFC should maintain its unique focus on, and comparative advantage in, stimulating private sector development, and avoid being drawn into grants and transfers to other non-core IFC objectives.

*Avoiding a ‘lend and forgive’ cycle*

The Multilateral Debt Relief Initiative has already delivered almost $30 billion in forgiveness of IMF, African Development Bank and World Bank credits to post-completion point Heavily Indebted Poor
Countries (HIPC), lowering their debt stocks by about 90% and providing the resources to strengthen progress against poverty. Ultimate total costs of this initiative have risen to an estimated $63 billion. IDA donors in our country grouping have contributed their share of these costs.

We urge the Bank and the IMF to be proactive in dealing with debt management and sustainability issues. We are concerned that a significant proportion of post-completion point HIPC’s are already showing worrisomely high levels of indebtedness again. The Bank and Fund should devote much more attention to these danger signals; both concessional and non-concessional lending should be considered in addressing debt sustainability, in order to avoid a ‘lend and forgive’ cycle. At present, no one part of the World Bank Group has responsibility for ensuring that debt management capacity in borrowing countries is being built to manage future debt more wisely.

**Strengthening Bank Group work in Governance and Anticorruption**

We support the Bank Group’s outline of how it intends to engage more proactively to reduce corruption in the misuse of Bank Group funds, and to help development partners strengthen governance and thereby help reduce corruption more broadly. For the Bank, these are not ends in themselves: they are a means to the Bank’s core objective of accelerating poverty reduction through improving aid effectiveness.

- Our constituency’s bilateral donors are committed to these objectives in their own aid programs, and are committed to sharing experience with the Bank Group in this difficult area, that requires transparent processes and accountability for decisions.

- Our constituency’s developing member countries are committed to making progress in their own institutions and policies. They seek the Bank’s constructive assistance to help local ‘checks and balances’ institutions develop and, in the event of instances of corruption, to help in marshalling evidence and facilitating prosecutions. We urge improved Bank processes in identifying problems in ways which advance reforms, rather than swamping fragile local institutions.

One benefit of dialogue with the Bank’s shareholders in the development of the Bank’s governance and anticorruption policies, is the strong message from all that the Bank Group must stay constructively engaged in all developing countries, even those where weak governance and/or high corruption may make lending and traditional forms of aid less effective and sometimes inappropriate. As President Wolfowitz noted at the 2006 Spring meeting of the Development Committee, interruption of Bank engagement can only be a stop-gap response while better forms of assistance are devised. The Bank must remain present ‘on the ground’ and explore ways to make progress against poverty through identifying ways to deliver resources that reduce poverty and build local administrative and accountability mechanisms, while avoiding fiduciary problems in weak governance environments. It must identify those aspects of government that are performing most strongly, and deliver timely, useful analytical and advisory work that can help build consensus for reforms. We welcome the draft policy’s reaffirmation of the Bank principles of non-engagement in the political affairs of its member states.

Long before this exercise in developing the Bank’s own governance an anticorruption policies, we have pointed to the need for better Bank performance in engaging in fragile states, which by definition are weak governance environments that have limited capacities to manage traditional forms of aid. We urge the application of these new governance and anticorruption policies to be conceived in a resourcing framework that improves the Bank’s engagement in fragile states.

We endorse the use of country assistance or partnership strategies to identify transparently alternative engagement options in the event of different country developments in governance and corruption. While we hope for the development over time of better objective indicators of governance and corruption trends,
we believe judgments will always be required, and welcome the explicit role envisaged under the new policy for Bank Board approval of any change in mode or volumes of aid in country engagement.

It is a desirable aspect of the new policies that the Bank’s Department of Institutional Integrity will play a more proactive role. Transparent Bank governance of the Department and close partnership between the Department and the country authorities are desirable to maintain confidence in the Department’s operations, which are often necessarily based on confidential information. Moreover, management needs to ensure that actions derived from the Department’s findings are embedded in a sensible Bank strategy at the country level to advance the cause of reform, not a scattergun approach which overwhelms the limited corrective capacities of fragile national prosecutorial and judicial institutions.

**Strengthening Engagement with IBRD Partner Countries**

Our constituency includes both lower-middle-income and upper-middle-income IBRD-eligible countries, and IBRD/IDA blend counties. They are often small countries, in which the Bank’s high ‘flagfall costs’ make for particular challenges to effective Bank engagement. Moreover, all our members have an interest in how the IBRD’s business model evolves, as IBRD performance affects cost recovery from, and income transfers to IDA borrowers, and the Bank Group’s overall development effectiveness.

We welcome the Bank’s consideration of challenges confronting its traditional business model from the greater access of creditworthy middle income countries to private capital markets, the recent and prospective ‘graduations’ from IBRD ranks of important borrowers, and the greater diversity of demands for the Bank’s policy, financial and knowledge services. IBRD reforms could also increase synergies with the services to the private sector of the International Finance Corporation and the Multilateral Investment Guarantee Agency.

While the paper for the Development Committee is very broad-brush and in some ways unsatisfying in its lack of time-bound commitments to prompt, specific actions, we think it proposes some sensible principles that we heartily endorse. Key among them in our view are:

- the move to price IBRD lending more transparently;
- greater use of country systems, without compromising prudential or other standards;
- the imperative of reducing the non-financial costs of doing business with the Bank;
- a cautious and demand-driven approach to sub-national lending;
- the great need to focus and better link the Bank’s research work to operational knowledge and lending services;
- the proposal to better focus, unbundle and separately price operational knowledge services for those countries that seek only those services;
- the better prioritization of work on global public goods (where in our view the Bank needs to become much more selective, as further discussed below in the field of energy); and
- the effort to seek more synergies with the IFC and MIGA.

We attach special importance to urgent action to better focus Bank research and expert services, which presently account for 60% of the Bank’s $2 billion per annum administrative budget. Research needs to be linked better with timely, practical knowledge services that help countries with ‘how to reform’, not high-level generalities about ‘what to reform’. Analytical and advisory work needs to be relevant and flexible, particularly in low-income countries that face capacity constraints.

Many of the objectives listed above have been long-identified by shareholders, and the paper itself adds little to their implementation. The task now is to move promptly to specify time-bound implementation in
a management action plan and report progress to the Board in the remainder of this calendar year. We need to see substantial progress on all these fronts by the 2007 Annual Meetings.

We believe acting on the foregoing principles will set in train evolutions within the Bank Group whose full implications cannot at present be precisely foreseen. The IBRD exists to put itself out of a job, and transparent pricing and unbundling of lending and better-focused services, together with the quality of those services, will strongly influence the future demand for the IBRD’s product lines.

**An Investment Framework for Clean Energy and Development**

The progress report to this meeting considerably develops the ideas last presented to the Spring Development Committee meeting. We urge the Bank Group to proceed speedily to implement the ideas for Pillar 1 (to advance access to modern energy) and Pillar 3 (to facilitate adaptation to global warming). Both these roles are core to the Bank’s business, and areas of its comparative advantage.

- We welcome the paper’s acknowledgement that improved energy access depends critically on energy sector policy reform to allow private investment to take up economic opportunities. In stressing the imperative for energy access, the Bank should drive home that reasonable growth prospects for the poor cannot rest on apparently easy but illusory options using small scale renewables, but without the capacity to meet the very large energy requirements for development.

- Adaptation to warming is of particular concern to the small Pacific states of this constituency, and an exploratory Global Environment Facility program underway in Kiribati since May 2003 is now advancing into the investment phase.

We share the Bank’s conclusion that these two core missions can be met through use of the Bank’s existing financing mechanisms, including the existing Global Environment Facility, which has potential for further development as needed.

**Transition to a lower carbon economy**

Pillar 2 of the paper deals with mitigation of global warming through transition to a low-carbon economy. Mitigation challenges have to be solved cooperatively in a development-friendly manner, and with respect for countries’ individual circumstances and priorities.

The Bank examination of its possible role in these issues, called for at the Gleneagles G8 meeting, had yielded useful insights. We conclude that mitigation has to move beyond existing cap-and-trade approaches under the Kyoto Protocol, which do not engage large current emitters and large fast-growing developing economies that are contributing most of the growth in emissions. The UN Framework Convention on Climate Change (UNFCCC) should be the forum for devising the regulatory foundation for future global approaches. It can draw on insights from the regional carbon markets now in existence, the market experiments to improve carbon market efficiency in price discovery (such as those of the Brazilian Mercantile and Futures Exchange), and initiatives such as the Asia-Pacific Partnership for Clean Development and Climate (whose members account for around 50% of the world's greenhouse gas emissions, energy consumption, GDP and population).

*Carbon market development is not the Bank’s comparative advantage*

We consider work done to date on possible new World Bank financing options such as the Clean Energy Financing Vehicle (CEVF) and the Clean Energy Support Fund (CESF) has revealed sufficient problems to suggest that these particular ideas should not be progressed further.
- The Bank has no comparative advantage in this area, relative to the UNFCCC and to private sector and regional carbon market experiments.
- There would be large but unquantifiable financial risks to the Bank from buying carbon credits without a global framework that would underpin the value over time of such credits; the $10 billion-plus shareholders’ contribution that is envisaged could be quickly dissipated if carbon permits did not trade in future at the values the Bank anticipates.
- The Bank’s ideas would seem to be poor value to developing countries, which would do better to sell carbon credits direct, rather than repaying soft World Bank loans and using the Bank as a middleman in carbon trading.
- A significant role for the Bank as a carbon purchaser and trader would create conflicts of interests with the Bank’s core strategic development policy advice and lending roles.

So we urge the Bank to halt work on CEFV and CESF in the light of the issues revealed by work to date, and focus on its comparative advantage and core responsibilities in improving access to clean energy (which can include carbon mitigation aspects) and in assisting adaptation.

**Education Fast Track Initiative**

From our constituency, several countries are interested in joining the Education for All Fast Track Initiative (FTI), and our donor economies are also leading contributors to educational funding in the Pacific. We welcome the evidence that the Initiative has improved developing country ownership and donor coordination around effective education programs. We regard the evidence of increased primary education access as less convincing of progress, as there are signs of very poor educational quality, and the objective should be improving educational outcomes, not improving enrollments as an end in themselves. Moreover the FTI participants are not, as a group, showing any clear improvement in the sustainability of education access improvements from domestic revenues. We urge donors and developing countries to work to improve the FTI so that it focuses less on educational inputs, and more on sustainable educational outcomes. In the experience of constituency members, this will clearly include improving the quality of key inputs such as teacher training, curricula, school materials and educational facilities. These members also note the flow-through impact of improved primary school completion ratios on the demand for secondary schooling.

**Doha Development Agenda and Aid for Trade**

We deplore the suspension of negotiations in the Doha Development Round. Freer trade in goods and services is particularly important for developing countries. They need to import and export more freely to generate income growth, to service responsible foreign borrowings, and to help turn the financial flows from increased aid volumes and the forgiveness of excessive debts under the Multilateral Debt Relief Initiative into real resources. The upsurge in inflationary pressures in sub-Saharan Africa identified in the Bank’s economic outlook is a warning sign of the issues involved here. The negotiations need to be restarted as soon as possible, and without backsliding in the liberalization offers made so far.

In the meantime, countries can make unilateral protection reductions, which have historically accounted for most trade liberalization, and which most benefit the liberalizing countries themselves. High-quality, comprehensive, WTO-consistent regional or bilateral trade agreements can also help the path to more efficient international specialization.

We appreciate the steady growth in, and better organization of, aid for trade. While not a substitute for trade liberalization, it is a valuable complement to it in strengthening the capacities of developing countries to take advantage of trade opportunities. Regional aid for trade has a role to play in facilitating
cooperation in regional trade infrastructure, both ‘hard’ infrastructure such as transport investments and coordination and ‘soft’ infrastructure such as common customs systems. Nor are these issues only for Africa: the Pacific and the Mekong offer opportunities for Bank initiatives.

While collective action and coordination problems can complicate regional cooperation, we believe these challenges should be met by improving the regional facilities in IDA, and lowering the costs of doing business with the Bank, such that preparation costs for grants or credits to neighboring countries can be lowered.

**Voice and representation**

These meetings mark an important stage in improving the representation and voice of developing countries, particularly the most underrepresented, fast-growing countries. We look forward to the process for quota reform reported at these meetings of the IMFC being completed as scheduled, and the corresponding issues in World Bank governance and participation also being addressed.