Statement by

Mr. Sung-Jin Kim
Deputy Minister for International Affairs
Ministry of Finance and Economy
Republic of Korea

On behalf of Australia, Cambodia, Kiribati, Republic of Korea, Republic of Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Republic of Palau, Papua New Guinea, Samoa, Solomon Islands and Vanuatu
Statement by

Mr. Sung Jin Kim
Deputy Minister for International Affairs
Ministry of Finance and Economy
Republic of Korea

on behalf of Australia, Cambodia, Kiribati, Republic of Korea, Republic of Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Republic of Palau, Papua New Guinea, Samoa, Solomon Islands and Vanuatu

Introduction

It is heartening that in 2006, GDP growth further accelerated to about 6% in both low income countries and middle income countries, far outstripping the growth of just under 3% in high income countries. Per capita incomes in the developing world grew strongly and the incidence of poverty continued to fall. Even the absolute numbers in poverty are now falling, notwithstanding population growth. Sub-Saharan Africa’s growth is also strong, and its acceleration started with domestic policy reforms before the recent surge in commodity prices, which has certainly also assisted growth in commodity exporting countries.

The acceleration in economic growth in most developing countries has been led by extraordinary growth in trade. Sub-Saharan African exports grew at 30% in 2006, and developing countries’ exports by 22%. Industrialized countries exports grew by 12%, still well above the global 1995-2004 average of 8%.

The implications are clear. Beating poverty will be greatly assisted if we can continue robust economic growth, assisted by further trade liberalization. Both rich and poor have an enormous stake in a successful completion of the Doha round.

Constituency developments

The tragic loss of life in the Solomon Islands in this month’s tsunami is a powerful reminder that the poor, particularly in fragile states, remain especially vulnerable to natural disasters. We appreciate the Bank’s offers to contribute to the overall reconstruction effort. The costs of disasters are compounded by poor infrastructure and limitations to government responses imposed by delicate fiscal positions. Potentially, there could be great benefits, throughout the Pacific, Indian Ocean and the Atlantic, of a broader version of the World Bank’s recently initiated catastrophe risk insurance in the Caribbean. Such innovative insurance, together with better disaster planning, can greatly help governments’ timely response to catastrophe. We look forward to reviewing the impact of this scheme in the Caribbean and the soundness of its underlying financial structure as a step towards it possible wider application.
The Bank is now well advanced in consultations with the Mongolian and Papua New Guinean authorities towards the preparations of Country Assistance Strategies, and we urge steady progress towards these desirable frameworks for the Bank’s contribution to the Governments’ priorities in development.

As the Global Monitoring Report 2007 notes, Cambodia has made notable progress against HIV/AIDS, TB incidence and in preventing Malaria. Well-designed and randomized evaluation of improvements in health service delivery show how countries can deliver on the quality objectives that underlie the MDGs, not just the form of the quantitative goals. Cambodia’s macroeconomic stability and adherence to core labour standards have helped its important garment sector withstand the rigors of transition to a ‘post quota’ world and the intensification of Chinese export competition with the latter’s entry to World Trade Organization membership.

‘Quality’ of MDG progress

There can be no doubt that inadequate data and insufficient attention to the quality of outcomes can compromise progress towards the MDGs. For example, rapid increases of enrollments in primary education have occurred in parallel with weak or deteriorating quality of education outcomes. But better data and quality standards are not objectives in themselves, but means to the national ends of improving delivery performance, and thereby improving citizens’ welfare. Better data and quality standards are most important when they are deployed as national tools of monitoring and accountability between governments and their citizens. We would therefore urge that the Bank’s further work on improving data and introducing quality measurements be founded in nationally-owned, affordable processes rather than additional globally-mandated standards that may be inappropriate to local conditions and insufficiently ‘owned’ by the authorities that have to make them work.

Fragile states

Fragile states demand greater attention from the international community generally and the World Bank in particular. Fragile states comprise one-fifth of the population of low-income countries and an estimated one-third of the extremely poor. The Global Monitoring Report 2007 powerfully illustrates the extent to which fragile states lag in progress towards the MDGs. The export performance of the 35 fragile states identified in the Global Monitoring Report 2007 has remained very weak, and their economic growth rates continue to languish below rates of population growth. 80% of the states classified as ‘fragile’ in 1980 remain in that category today, locked in extreme poverty by a combination of weak institutions, poor policies, corruption, and often, conflict or post-conflict failures of the rule of law. Increasingly, our focus must turn to how to help them better; they are now the most significant group of countries most likely to fail to achieve all the MDGs.

The World Bank, working with others such as the OECD, has developed a sound policy platform for fragile states and is gradually reflecting the policy framework in some operations. But progress has been too slow and too inconsistent - the Bank must now rapidly accelerate its efforts, in partnership with the UN system and other donors.
Fragile states have a limited capacity to absorb additional donor financing and we are not calling for a marked increase in Bank lending. We do, however, call for a marked increase in effective engagement. This constituency, and the East Asia and Pacific region, contains more fragile states than any others outside Sub-Saharan Africa. We have first-hand experience of the vital need for a strong ‘on-the-ground’ presence given the fundamental importance of building functioning and effective political and bureaucratic institutions. The traditional “mission model” of the Bank simply will not work. The Independent Evaluation Group has found that achieving development impact in fragile states requires higher levels of country knowledge, which can only be achieved with a sustained in-country presence. The Bank must also improve the relevance of its analytic work and be more proactive in promoting the Principles of the Paris Declaration. Fragile states can not afford to expend limited capacity struggling with convoluted Bank reports and incoherent donor approaches.

We welcome the commitments in the recent report ‘Strengthening the World Bank’s rapid response and long-term engagement in fragile states’, particularly the pledge to increase staff presence in those states by 30 over the next year, within its ‘zero real growth’ budget constraint. We call for management to focus on ensuring implementation of the full range of recommendations in the report. But the report’s recommendations must be seen as just the start of improved engagement. Further action is needed, particularly in enhancing staff presence in fragile states across all regions, including in Sub-Saharan Africa, the Caribbean, Central Asia and the Pacific. The number of Bank staff based in fragile states will remain very low relative to other Bank clients with much higher domestic capacities, even after the additional 30 staff are mobilised.

Senior Bank management has an obligation to ensure a clear and consistent message is sent to staff that fragile states are a priority, including through allocating adequate resources in forthcoming Bank Group budgets. We believe that Bank management should propose options for how to systematically measure results and success in fragile states, taking into account both the poor applicability of the generic results framework and the desire to minimize the reporting burden on fragile states themselves. Governors should have a dedicated opportunity to discuss this, perhaps at the 2008 Spring Meetings.

**Gender**

We welcome the focus on gender at the Development Committee. MDG3 on gender is all too often neglected by both governments and donors. The *Global Monitoring Report 2007* presents a strong case for why progress towards gender equality is so critical for sustained development. Improving gender equality speeds poverty reduction and growth through the effects on child and family welfare and through women’s greater labour force participation, productivity, and earnings.

Despite the Bank’s improved analysis and its rhetoric on the importance of gender, we question whether this is having sufficient impact on Bank operations. The Gender Action Plan launched last year was a very modest plan and has suffered from a lack of profile.
The *Global Monitoring Report 2007*’s section on promoting gender equality through the work of the international financial institutions themselves is particularly weak. As a matter of priority, World Bank management should detail how the gender action plan will be effectively implemented over the coming year, ensuring that it dovetails with international agreements and initiatives in this area. The Bank must be accountable for moving beyond “abstract mainstreaming” of gender equality issues. Gender equality mainstreaming must be embedded more effectively in programs; the focus on gender equality outcomes must strengthened in program and project implementation; and monitoring efforts for both existing and new indicators must be improved.

**Official Development Assistance trends and the aid ‘architecture’**

Donors are only willing to write off excessive debt overhangs once, and it is of course natural that the valuable contribution of Multilateral Debt Relief Initiative and recent round of bilateral debt forgiveness to the surge of aid in 2005 and 2006 will soon pass from measured aid volumes. But why has the determination of many donors to double aid over a relatively short period not increased other (i.e. non-debt-relief) forms of ODA in 2006? The numbers suggest it is a contraction in other forms of ODA to Sub-Saharan Africa that has limited global ODA growth. One prominent problem is that 19 of the world’s 35 fragile states are in Africa, and their weak institutions, policies and governance limit their ability to quickly absorb intended strong growth in aid. In these instances considerable assistance is nonetheless provided by the international community in the form of addressing immediate humanitarian and security needs.

The context for international development has changed dramatically over the past decade. Non-aid flows, particularly through private investment, remittances and philanthropic foundations, have increasingly been recognised as being important. The proliferation of aid channels through the vertical funds, private foundations, and more recently emerging donors have provided welcome additional resources, but increased the challenge of coordination. Technological changes have also empowered individual philanthropy, such as through direct sponsorship of families and provision of funds to microfinance institutions for on-lending to specific small businesses and entrepreneurs. Through all these changes, the Bank’s share of global development expenditure has declined dramatically. The Bank should take stock of its role in the international development community to ensure it is positioned for maximum development impact, and propose its path forward in a clear statement of its strategy and envisioned role.

We believe a focus on issues of clear comparative advantage for the Bank is essential. We see key areas of comparative advantage for the Bank as: key growth-related sectors including infrastructure, the productive sectors (such as agriculture and forestry); and the financial sector; strengthening governance, health and education systems; a narrow set of global public good issues including energy and climate change; analytical work at a country, regional and global level on development challenges; and promotion of the Paris Declaration principles to help improve the development effectiveness of all donors. Aid fragmentation is only a feature of the multiplicity of public and private donor agencies, however. The Bank must also urgently review and rationalize its own fragmentation, transaction cost, coordination lapses and waste across affiliates of the Bank Group, trust funds, and special purpose vehicles.
A lack of focus will not only waste Bank resources in areas where others have greater expertise; it will leave the Bank with insufficient resources relative to total flows to have a significant impact in any area. The need for focus is particularly important in consideration of the Bank’s involvement in global public goods. Where other agencies have a clear mandate, the Bank should be willing to ‘play second fiddle’ or exit altogether.

The GMR poses challenging questions in identifying that no country has a fully-funded medium-term expenditure framework to meet the MDGs. When considering this area of aid architecture, we must also recall our mutual commitments under the Monterrey Consensus. We should not focus on one particular means of assistance, such as IDA grants, in mobilizing the financing for development which will assist countries to reach their MDGs. Instead a range of tools and instruments is required including aid for trade, debt relief, FDI, remittances, as well as domestic savings and tax mobilization. A comprehensive approach is required to mobilize domestic and external finance, spend efficiently and effectively, and report results to taxpayers and stakeholders.

**Africa Action Plan**

We welcome the revisions to the Plan that improve its focus on results, and on 8 key ‘flagship’ areas of work.

The Africa Action Plan is a plan for all Africa, so it is important that the Plan encourages Bank engagement not only with good performers, but also in situations where relationships may be difficult and performance falls short of what may have been hoped for.

In particular, we welcome the Plan’s approach to strengthening governance and institutional capacity to help address the large regional shortfalls in the gender, maternal and child health and mortality Millennium Development Goals. We also stress the importance of the Bank taking actions, through the Plan, that support longer-term issues of sustainable development. We welcome the Plan’s sharper focus on the productive sectors of the African economies, such as in raising agricultural productivity, and expanding and upgrading road networks and transit corridors. We also consider the existence of a well functioning financial sector as fundamental to the sustainable development of the private sector as well as mobilizing domestic resources and would have wanted more of these important issues to be reflected in the Plan.

We appreciate that the revised Plan is moving in the right direction, although we would encourage even greater focus in the Plan. As the Plan continues to be implemented, we look forward to reports and actions that clearly demonstrate of the Plan’s additional contribution to accelerating development in Africa. Demonstration of results requires the Plan to include measures that are both achievable and attributable to the Plan’s implementation.

**Poverty reduction, energy use, forestry and climate change**
Present poverty levels carry with them enormous disease and mortality burdens, here and now, and with certainty. Each year, preventable or curable diseases kill some 10 million children; about 2 million people die of tuberculosis; about 2 million die from respiratory consequences of reliance on biomass fuels; 1 million die from malaria, and 0.5 million women die in childbirth.1

The economic growth that will finance the health and education systems to reduce these deaths rests heavily on increasing access to modern energy. As developing countries increase their energy consumption, their share of global greenhouse gas emissions will rise from 30% today to over 50% by 2020. No national, regional or international, approach to global greenhouse gas emissions can succeed without including the developing economies.

Almost 20 per cent of global greenhouse gas emissions come from clearing the world's forests - second only to emissions from burning fossil fuels to produce electricity, and more than all of the world's emissions from transport. Deforestation arises disproportionately in developing countries, and from fragile states with currently poor growth prospects, weak governance and limited capacity to control illegal deforestation. Fragile states have only about 8% of forests, but give rise to almost 30% of deforestation.

If the world could halve the rate of global deforestation, we could reduce greenhouse gas emissions by three billion tonnes a year - about ten times the emissions reductions that will be achieved during the first commitment period of the Kyoto Protocol. Effective, mutually beneficial ways to avoid such deforestation must be developed as a matter of urgency, balancing the pressing environmental imperatives with growth and development objectives. We call on the Bank to play its part, with its partners, in building an effective forestry strategy that rewards avoided deforestation in developing countries.

**Governance structures and leadership of the Bretton Woods Institutions**

The effectiveness and legitimacy of the IMF and World Bank must be enhanced through comprehensive governance reform and strategic policy review.

We are strongly committed to the successful completion of a comprehensive set of IMF reforms under the second stage of the process announced at the Singapore meetings last year, and delivered within the timeframes agreed by IMF Governors. We agree that it is sensible, as proposed in the background paper to this meeting, for the Word Bank Group to continue considering its own reforms, with a first phase of measures to help build momentum, and a second phase that would address more challenging structural options for which it may be possible to build consensus. In this context we would urge that all parties explore a consensus that realistically reflects the changing world around us. There should be further development of the issues at Management and Executive Board level before a package is brought forward for consideration by Governors.

---

1 Not all these numbers can be summed – eg some of the estimated total deaths from malaria are also counted in the 10 million childhood deaths.
We agree that second phase options should be developed in parallel to those at the Fund and take account of the consensus already taking shape there. The Bank has some catching up to do, including in setting a framework for consideration of capital share options. The aim should be to secure simultaneous governmental/parliamentary approvals for necessary amendments of the Bank’s and Fund’s articles, although not at the cost of timeliness or a good outcome.

We believe that the selection of senior management of the IMF and World Bank should be based on merit and ensure broad representation of all member countries. Our Chair will continue to push for rapid movement towards merit-based selection of the IMF Managing Director and the World Bank President.

Finally, we welcome the report of the External Review Committee on World Bank-IMF collaboration. We look forward to concrete proposals from President Wolfowitz and Managing Director de Rato to promote improvements in the ‘culture of collaboration’ between the two institutions.