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1. Introduction

Yesterday, in the Interim Committee, we discussed how we might prevent future financial crises through reform of the international financial architecture while introducing a greater sense of priority for the advancement of the most vulnerable in society. Economic growth, nurtured by more stable markets, is critical, but not alone sufficient, to achieving the reduction in poverty worldwide that is the Development Committee’s and the international community’s overriding priority. The challenge of global poverty reduction needs to be built into the heart of a reformed international financial architecture.

2. Growing Global Rift Between Rich and Poor

The unprecedented liberalization of international trade and capital markets over the last 20 years has generated tremendous economic benefits and higher living standards. However, many throughout the developing world have not reaped the benefits of this growth.

On the threshold of the new millennium the ever present gap caused by knowledge and technology threatens to increase existing income disparities. Knowledge-based industries are accounting for an ever-increasing share of global commerce, and technology is playing a vital role in improving productivity.

As we have now come to understand poverty is not just an issue of lack of income, or even of knowledge. Even more fundamentally, it is a product of social and human exclusion, insecurity and inequality. In more prescriptive terms, to overcome poverty we need greater participation, social empowerment and expanded opportunity. For, as we all know, poverty is about people – bettering their lives is what our efforts are all about.

3. The Challenges for Small States

Canada views with particular concern the development challenges faced by the world’s small states. At our meeting in April, we welcomed the World Bank’s joint involvement with the Commonwealth Secretariat in research and policy work to assist small states in a rapidly changing world environment.
The small states in the Caribbean are clearly facing a difficult transition period with the changes to existing trade preferences, the decline in development assistance and the need for increased participation in the global economy.

These changes would be a formidable challenge for any developing economy. But for the small states in the Caribbean, many of whom are highly dependant on a single agricultural commodity and all of whom are at the mercy of potentially devastating hurricanes, these changes can appear overwhelming at times. Their vulnerability to a single event which can have disastrous economic and social effects magnifies the adjustment challenge they face. Small states have a vulnerability that large states do not have. External trade shocks and natural disasters can easily eliminate hard won gains in economic and social development. Their vulnerability is a fundamental differential that must be acknowledged.

Development, trade and finance institutions must recognize the impact of the phase-out of the Lomé preferences on small states and help smooth the transition. Financial and technical assistance, and time are needed in support of small states’ efforts at restructuring their economies to the new external environment. Changes in global trade have made unsustainable some sectors that once accounted for a large portion of small states’ gross domestic product.

A fundamental and comprehensive review of the challenges and opportunities facing small states in this new world environment would be an essential tool for assisting these countries. In fact, such research and policy work would also be helpful to ensure that World Bank involvement in these countries is appropriate, effective and responsive.

The importance of this issue cannot be over-emphasized. The research conclusions and policy prescriptions laid out in the small states paper will be used by international development players to sharpen their interactions in small states over the years to come. Furthermore, and potentially most important, this research will set the stage for small-state participation and treatment within the next round of World Trade Organization (WTO) trade negotiations. As such, it is incumbent on the Bank to undertake a comprehensive and robust economic analysis and ensure that the small states themselves have an active and early role to play in small-state policy development. The small states themselves, after all, are the true experts.
While it is unfortunate that difficulty has been experienced in getting this project off the ground, we are pleased, however, that the Bank is now in the process of putting new arrangements in place to ensure that a comprehensive review of the situation and prospects for small states is completed. We expect that, based on the analysis undertaken in this review, there will be recommendations for appropriate policy responses on the part of the international development and trade communities and the small states themselves.

We look forward to seeing the results of this review by the time of the spring meetings next year. While it is important to move quickly, it is especially important that the Bank and the Commonwealth Secretariat ensure that comprehensive work is done and that adequate consultations take place with small states. This is consistent with the World Bank’s overall approach to an inclusive and participatory development debate in line with the Comprehensive Development Framework.

4. Heavily Indebted Poor Countries: Poverty Reduction – The Aim

In the heavily indebted poor countries (HIPCs), excessive debt has aggravated economic and social problems, preventing them from making significant inroads on poverty reduction. Crushing debt service burdens have left precious few spare resources to devote to health and education targeted to better the lives of their citizens.

Ireland has strongly supported both the initial HIPC Initiative and, particularly, its recently announced enhancement. Ireland has stressed that the underlying aim of the initiative – that of freeing the most heavily indebted poorest countries from the burden of the unpayable element of their debt – must never be lost sight of in its implementation. These countries must be offered a definitive exit from the debt treadmill that is seriously undermining their development. Moreover, all the resources available to the countries concerned should be directed towards improving growth and reducing poverty. In this context, the enhanced initiative must be fully financed and the funding should be fully additional. The impact of the initiative should be carefully monitored and we should not balk at any further enhancements that may be required for these aims to be achieved.

At the Group of Seven (G-7) Summit this year, Canada pressed for faster and more generous debt relief for more countries and further action on poverty reduction. Canada fully endorses the two significant outcomes of the Summit: enhanced debt relief and an enhanced framework for poverty reduction. Debt relief under the new
initiative will more than double. Combined with relief under current mechanisms and forgiveness of aid-related claims, this could release significant resources for poverty reduction programs.

To achieve this goal we support developing a clear and implementable poverty action framework. The enhanced framework for poverty reduction must fully use the resources made available by debt relief. It will require a sustained and committed operational collaboration between the Bretton Woods Institutions in working with borrower governments. We recognize that this will fundamentally challenge many old habits and attitudes.

We believe this new partnership should be rooted in four key elements: 1) a broad-based participatory process; 2) improved transparency and accountability for government; 3) an understanding that poverty is multidimensional; and 4) not least, a reminder that sustained poverty reduction is impossible without “quality” economic growth where benefits are widely shared.

The new Poverty Reduction Strategies, in bringing together various strains of development best practices, and engaging wide civil society involvement, hold the promise of faster poverty reduction and sustainable and equitable growth. Inside the Bretton Woods Institutions, we must have a new synergy around this tripartite agenda by mainstreaming poverty reduction with Country Assistance Strategies, Policy Framework Papers and the Enhanced Structural Adjustment Facility.

We agree this Strategy should not become a moving set of goalposts. We should see poverty reduction as replacing, not adding, old conditionalities. Specifically, we would hope to see future fiscal frameworks that seek to create and expand the opportunity for increased social expenditures.

Ensuring that the HIPC Initiative is adequately financed is an important priority. While significant progress has been made to date in identifying financing, much more needs to be done. We would urge the international financial institutions to redouble their efforts to identify resources for this purpose. For its part, Canada has fully paid in the $40 million it committed to the HIPC Trust Fund and has also pledged some $24 million from its refund on the International Monetary Fund’s Second Special Contingent Account (SCA-2). Furthermore, Canada will continue to explore options for additional contributions to the HIPC trust funds.

Canada recognized the burden that new debt would represent for HIPCs and so, in addition to forgiving all its Official Development Assistance (ODA) loans from
HIPCs, Canada now provides all its bilateral ODA on a grant-only basis. To prevent debt crises from becoming a recurring problem for developing countries, Canada also calls on lenders to adopt more transparent lending practices.

Canada’s Export Development Corporation has already taken steps to increase the transparency of its lending operations in developing countries, including making available a country by country breakdown of its loans. Canada calls on other creditors to join in developing common standards in this regard to help prevent future debt crisis.

5. Need for a Change in the Culture of Development

Expanding the HIPC Initiative by itself, however, will not be sufficient to meet the challenge of poverty reduction. The HIPC Initiative can only form one element of what must be a much broader attack on global poverty.

Collectively, we have a good sense of the key causes of poverty and where our efforts should be directed. Investment in people and basic social services such as health and education underpins our poverty reduction strategies, and rightly so. In this regard the education of women, in particular girls, is important. Because educating women means educating families. This should form the cornerstone of our efforts in education—expanding opportunity to all segments of our societies.

We need to recognize as well that all too often families and individuals are poor because they are ill. Relatively modest investments in healthcare and pharmaceutical research targeted at the diseases of the poor could potentially yield enormous dividends.

An important step in improving development assistance performance is to overcome a prevailing view in the developed world that its own path to development can be easily transferred to the world’s poorest countries. As has been argued recently, developing countries cannot be seen as simply poor rich countries. Developing countries have their own unique sets of challenges, and many approaches tried and tested in the developed world do not travel well to countries with much different socio-economic conditions and cultural backgrounds.

At a time when resources are limited, more thought has to be given to how we can make development assistance funds work better. Building capacity to develop and use knowledge and technology is part of the solution, and the Canadian
International Development Agency (CIDA) and other Official Development Assistance agencies are increasingly pursuing this goal by focusing their efforts on pairing the skills and expertise of their partners in both developing and developed countries. For their part, the multilateral development banks need to carefully consider how technical cooperation funding might be best leveraged to build on local strengths.

There is also a strong consensus that effective economic policies on the ground, reinforced by transparent and committed governance and institutional structures, are key to efforts to implement poverty-reducing programs. In countries where governance is strong a radical shift is needed in the culture of development. One that places the developing country – its government and its people – in the driver’s seat. Under this approach, donors, both multilateral and bilateral, will work with them in a more equal and open partnership with governments and local stakeholders. Multilateral development banks would play more of a project facilitation and financing coordination role. This will require a real shift in the attitudes of development assistance professionals.

We are encouraged that steps in this direction are being taken by various players, with leadership emanating from the World Bank through its proposal for a more holistic approach to development under a Comprehensive Development Framework (CDF). The CDF is designed to put developing country borrowers at the centre of defining a socially attuned, sustainable development path. Donors – multilateral and bilateral – will work with them in a new, more equal and open partnership. We are particularly encouraged that the Bank’s new enhanced poverty reduction framework is seen as central to the CDF approach.

However, the shift in development thinking must go further. Experience has shown that to be truly effective, development assistance needs to be targeted to countries whose governments pursue good policies and which are committed to developing and maintaining strong institutions. With proper policies underpinning a good economic and political environment, development assistance can translate into poverty reduction and an improvement in social conditions. Governance has been a dominant theme of development assistance work over the last few years and it must remain at the top of the policy agenda. In fact, good governance has become the essential building block for solid gains in poverty reduction and effective development assistance. Continued stress on better civil and corporate governance is key to consolidating the sound institutions that are necessary not only to make development cooperation more effective, but to promote a better environment for the private sector entrepreneurial initiative that underpins growth.
Effective multilateral institutions must be a strong pillar of our development assistance efforts. We, as shareholders, have looked to the Bank to play a significant role in addressing the emerging markets financial crises over the last two years and we, therefore, have to acknowledge that this has created pressures on the institution. Canada remains open to supporting a capital increase for the International Bank for Reconstruction and Development as an option for reinforcing the institution’s lending capacity. However, our support for this option would be predicated on a strong link between Bank lending and development effectiveness as well as performance on governance issues.

6. Enhancing Small States and Developing Country Participation in the Multilateral Trading System

Small states and developing countries account for roughly one-fifth of world trade. However, many still lack the institutional capacity to be effective participants in international trade negotiations or even to meet their commitments under existing multilateral arrangements. We welcome, therefore, the Bank’s efforts to assist them in overcoming the institutional constraints that hinder realization of the enormous gains from participating in the multilateral trading system. In particular, we commend the Bank for its work under the WTO 2000 program and the Integrated Framework for Least Developed Countries. These initiatives, which help build institutional capacity and train policy-makers involved in trade negotiations, will strengthen the voice of developing countries. We would encourage the Bank to develop a much closer partnership with the WTO, as their collaboration will be instrumental in achieving the integration of developing countries into the multilateral trading system.

Let there be no doubt, globalization is here to stay. However, its continued success rests on an ever-expanding group of winners. The global trading environment must encompass the dreams and aspirations of all nations – including the small developing nations. The agenda must provide scope that increases opportunity and growth for all. Effective transition, pacing and sequencing for smaller and less developed nations will be imperative for the success of achieving further trade liberalization. It is in our interest to not only see that this happens, but to ensure that the global agenda going forward fully takes into account the need for all countries to see free trade as a benefit, not a cost, to their people.
7. Development Challenges for the New Millennium

We enter the new millennium with disturbingly high levels of poverty. The shift in development assistance culture to a locally based approach, reinforced by strong commitment on the part of both governments and development assistance providers, has great potential to improve the performance of poverty reduction programs. Governments, multilateral institutions, non-governmental organizations and the private sector need to work together to build an enabling socio-economic environment, including a supportive physical and human infrastructure that will provide the poor with the ability to better their lives.

We need to focus our collective efforts on:

- Improving Governance: More technical assistance and investment is needed to support the strengthening of the social, legal and financial infrastructure in poor countries; this is not only critical for improving the effectiveness of development assistance, it is essential to attract investment. However, we must promote state and civil institutions that give greater voice and responsibility to those governed. It is effective public participation that will ultimately guarantee success by fostering a collective culture of good governance.

- Building Human Capital: Investment in education and health is perhaps the most important factor in overcoming poverty. Educating women and girls, and investing in research to address illnesses of the poor should be our priorities.

- Ensuring Social Stability: Poverty reduction is both good economics and good politics and must be at the heart of economic and social development strategies. It is essential that the poor are protected during cyclical economic downturns through the development and maintenance of adequate social safety nets. While this may well require transfers from multilateral institutions and development assistance agencies, more critically, we need to foster good social policies and to build strong institutions to develop and administer social safety nets.

- Promoting Means to Help the Poor Better Their Lives: Experience has borne out that micro-credit institutions and small businesses, often centred on families, can be an important engine of economic growth in developing countries. Much more can be done to foster the development of these businesses. The work of the Consultative Group to Assist the Poorest, for
example, has demonstrated that micro- and small-credit programs are integral to supporting the growth of the small business sector among the world’s poorest.

- Improving Knowledge Infrastructure: If the knowledge gap is to be narrowed and technology is to be used to foster development, in parallel with investment in education, development assistance agencies need to support investments in communications and other segments of the knowledge infrastructure. This is an area where there is strong potential for partnerships between the public and private sectors. Currently, incentives for promoting private sector interest in developing the physical and human infrastructure necessary to extend knowledge-based development to the world’s poorest regions are simply not strong enough.

8. Conclusions – Looking Forward

In this age of globalization two compelling realities – the growing interdependence of national economies and the increasing pressures to respect political and cultural diversity – are at the heart of our efforts internationally. Ensuring economic and social opportunities for all is a major challenge of globalization. The fact is, global market growth does not automatically, or equally, raise everyone’s standard of living. The global community, guided by a common set of values – the sharing of risks and benefits as well as social and economic opportunities, the pooling of resources and the respect for diversity – offers a future of opportunities in a world of change and in a time of promise. With the world becoming more integrated and interdependent, the need for such values has become more compelling than ever. The fact is, the best balance sheets in the world will mean nothing unless they can be translated into better lives for people and their families. The best international architecture in the world will achieve little unless it results in an increasing standard of living for everyone, especially those who are often left unheard.

The challenge we now face is to help globalization work, not only for governments, not only for corporations, but especially for people and their families, no matter where they live. And that means sparing no effort to ensure that the quality of growth in economies is matched by the quality of life in our societies.