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NOTE ON THE SEVENTIETH MEETING
OF THE DEVELOPMENT COMMITTEE

The Joint Ministerial Committee of the Boards of Governors of the World Bank and the Fund on the Transfer of Real Resources to Developing Countries – the Development Committee – held its seventieth meeting on October 2, 2004, in the Preston Auditorium of the World Bank in Washington, D.C. The meeting consisted of a single session, followed by the Chairman’s Dinner for Members on the same day. The Members circulated their statements in advance and these are part of this document; highlights of the Members’ statements were circulated by the Chairman and are also part of this volume. The session started at 2:30 p.m. and ended at 6:00 p.m. The meeting was chaired by Mr. Trevor Manuel, Minister of Finance of South Africa.


With respect to the first item, a note on “Aid Effectiveness and Financing Modalities,” plus a companion background paper have been provided to the Members. This note responds to requests by the Development Committee and the International Monetary and Financial Committee that the Bank and the Fund undertake a comprehensive review of aid effectiveness, absorptive capacity, and results-based measurement mechanisms, while also examining the merits of various options to mobilize the financial resources that are needed over the medium term to make progress towards the Millennium Development Goals (MDGs).

On the second item, “Strengthening the Foundations for Growth and Private Sector Development: Investment Climate and Infrastructure Development,” the paper on “Elements of the Growth Agenda: Investment Climate and Infrastructure” provides a brief overview of recent findings on the quality of the investment climate and policy effort, as well as on infrastructure service provision, which are informing the World Bank Group approach to promote private sector-led growth and job creation. The second paper on “Infrastructure Development: Update on Implementation of the World Bank’s Action Plan” reviews progress made in implementing the Infrastructure Action Plan, which was reviewed by the Development Committee in September 2003.

The third item on “Voice and Participation of Developing and Transition Countries,” was only briefly discussed because of time constraints, and lays out the issues that would need to be addressed to make further significant progress.

The Communiqué (Annex A) was approved during the session and reflects the salient points of this session.
Note of the President of the World Bank, Mr. James D. Wolfensohn, to the Development Committee

Introduction

The 60th anniversary of the founding of the Bank is a time for reflection on how far we have come, and how much further we have to go. But there are also other reasons for such reflection. Development thinking and practice have changed greatly in the last two decades, and in ways that expand the possibilities for much more rapid and sustainable development. In many countries we are already beginning to see the benefits. But the full promise of these changes has not yet been fulfilled, in part because countries have not delivered fully on the commitments made in the new global development partnership. At the same time, the pressure to do better is growing—with modern communications people everywhere realize how much is possible, and ask why there has to continue to be such a gulf in living standards between the world’s poor and rich. We have seen how dissatisfaction with the failure to address this gulf can become a source of insecurities that affect us all. We are already making good progress, but have a historic opportunity to do much better: an opportunity we can and must take.

This marks my tenth year as President of this remarkable institution. Together with Francois Bourguignon, I have prepared a paper on trends in development during this past decade that will be available shortly. I will have more to say about the longer-term development challenges and how we must address them at the Annual Meetings on 3rd October. We will have an opportunity to discuss some of them, and ways of accelerating progress, at our meeting on 2nd October. The first item on the Committee’s agenda is “Aid Effectiveness and Financing Modalities”; as the Committee requested, we have prepared, in collaboration with the IMF, a paper addressing the role and importance of development aid, the new architecture for increasing aid effectiveness, questions of absorptive capacity, and the various proposals that have been put forward on innovative ways of supplementing aid flows, and how work on them could be taken forward. For the second item on your agenda—“Strengthening the Foundations of Growth and Private Sector Development: Investment Climate and Infrastructure Development”—we have prepared a note on the key elements underpinning growth, in particular the importance of a good investment climate and adequate infrastructure provision, and the Bank Group’s approach to supporting development in these areas, with a separate report of progress in implementing the Bank’s infrastructure action plan. The Committee has also received separate background notes on the other agenda items: “Debt and Debt Sustainability”, and “Voice and Participation of Developing and Transition Countries”. I look forward to our discussions and your guidance on all these issues.

In keeping with past practice, in this note I am also reporting on progress and actions on some of the other issues the Committee has considered in the past. We will have opportunities to discuss some of these issues informally at dinner.

I would also like to take this opportunity to welcome Rodrigo de Rato to the helm of the IMF and to his first meeting of the Development Committee. I am confident that working together, we will be able to consolidate and reinforce the strong collaboration between our two institutions that has become central to so much of our work—with both institutions working within our distinct mandates and bringing to the table our complementary expertise as we help countries address issues ranging from financial sector reform to achieving debt sustainability, and as we work closely together in supporting low-income countries within the comprehensive framework of the PRSP initiative.

Global Economy

World growth is projected at 4 percent for 2004, up from 2.6 percent in 2003, and compared with a likely 3.5 percent next year. The global recovery is slowing, but is becoming more evenly spread and
sustainable, even as growth slows in the US, Japan and South Asia and picks up in Europe and Latin America. Growth in developing and transition countries as a whole is likely to reach an all time high of 6 percent in 2004. This reflects boom conditions in China, robust growth in the rest of East Asia, in South Asia especially India, in Europe and Central Asia including strong performance in Russia, as well as the recovery of growth in Latin America. Growth has been less strong in the Middle East and North Africa and in sub-Saharan Africa, although better than recent historical trends.

Looking ahead, one risk is from further upward movements in oil prices, as rising demand and limited spare global production capacity leave prices vulnerable to any temporary disruption to supplies. Another risk stems from the persistent global imbalances, which require, in particular, readjustment of monetary and fiscal policies in the US, and structural reforms to boost growth in Japan, Europe and elsewhere. Heavily indebted and oil-importing developing countries are vulnerable to the combination of rising oil prices and interest rates. Mitigating and managing these risks remain important challenges for us all. The other longer-term challenge is the need to increase growth substantially in the poorest countries, particularly in Africa. On current trends, with global growth averaging 3 percent over the coming years, developing countries as a group will comprise around 60 percent of the global economy in 2030, compared to around 40 percent today (on a PPP basis); but this would still leave Sub-Saharan Africa falling short of the MDG poverty target by 2015.

Accelerating Global Development and Poverty Reduction

The Challenge of Scaling Up

At the last Development Committee meeting we reviewed the sobering assessment of the first Global Monitoring Report that showed that on present trends most MDGs would not be met in most countries. The income poverty goal is likely to be met at the global level; however in sub-Saharan Africa, just eight countries representing 15 percent of the regional population are likely to meet it. There was broad agreement that—as agreed at Monterrey and Johannesburg—efforts needed to be stepped up on many fronts and with mutual accountability if the MDGs are to be met. This agenda encompasses actions by developing countries themselves to strengthen the management of public resources, enhance the effectiveness of service delivery and to strengthen governance at all levels. Equally important are efforts by developed countries to provide increased access to their markets, support for capacity building, debt relief, and substantially increased and more effective aid.

In May 2004, the Bank and the Chinese Government, in cooperation with many partners, organized a conference on Scaling Up Poverty Reduction: A Global Learning Process in Shanghai. I believe that this was one of the most important development conferences in recent history. The conference provided a unique opportunity to learn from the rich and diverse experience of developing countries, to promote South-South learning, and to explore ways in which the ingredients of success at the project, country and global levels can be built upon and adapted to scale up progress on poverty reduction in all parts of the world. The case studies, the field visits and exchange of ideas leading up to and at Shanghai have provided an important body of knowledge to build upon further. The conference also highlighted the importance of continuous and more systematic South-South learning. Accordingly, we are working with a range of partners to disseminate the lessons and replicate this form of learning in all parts of the developing world and to apply the lessons to our own operations.

Another important exercise that the Bank has undertaken this past year is a review of the growth experience in the 1990s.1 This study finds that the growth experience amongst developing countries in the past decade was diverse and unexpected—exceeding the most optimistic forecasts in some cases, and

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1 Economic Growth in the 1990s: Learning from a Decade of Reform.
falling well short of expectations in others. It confirms the importance of fundamental principles for growth: macro-stability, market forces in the allocation of resources, and openness. At the same time, the study underscores that these principles translate into diverse policy and institutional paths, implying that economic policies and policy advice must be country-specific if they are to be effective.

**Aid Effectiveness and Financing Modalities**

As I noted earlier, we will be discussing the role and importance of development aid, ways to increase aid effectiveness, questions of absorptive capacity, and the various proposals that have been put forward on innovative ways of supplementing aid flows, and how work on them could be taken forward. We have prepared a paper in collaboration with the IMF, which discusses these issues at greater length; as you may recall, we discussed some of the same issues at our last meeting. I hope we will all be able to agree that:

- Aid is immensely important for development and meeting the MDGs. While other forms of finance for investment in development may often be larger—flows from exports, remittances, domestic savings, inward investment—aid plays a unique and catalytic role, supporting social investments that otherwise would be difficult to finance, and supporting the policies and institutions important for growth and for attracting other financial flows.

- We have in place a set of agreements on aid alignment and harmonization and a sharper focus on results, which, if implemented, offer a strong prospect of making aid flows more effective, allocating aid better where it will be most effective, aligning it better behind country priorities, giving greater certainty about future commitments, and harmonizing procedures and processes with country systems. This will not be easy, as it involves changes in practices and procedures by many individual donors—but it is too important for us to allow the effort to fail. The 2nd High Level Forum on Harmonization to be held in Paris in March 2005 will be an important opportunity to accelerate, scale up implementation and push more firmly for better aid practices.

- Many developing countries have the capacity to absorb productively significant increases in amounts of aid now. Absorptive capacity varies greatly between countries and sectors, however, and where it is weak, absorptive capacity can often be strengthened quickly and effectively with appropriate outside assistance. Governance, capacity building and an appropriate investment climate are essential.

- The simplest approach to mobilizing higher volumes of aid would be for donors to increase their aid expenditures as recipient countries demonstrate their capacity to implement productive changes.

- Given the political and fiscal constraints in many donor countries to rapid increases in aid expenditures, it is worth exploring further some of the innovative proposals that have been made for financing extra aid flows. The issue of increased grants and additional debt relief are clearly important to the discussion. Global taxes and new forms of voluntary giving could make a contribution. But these are proposals likely to take considerable time to mature, and so offer little prospect of significant increases in aid in the short term.

- It is worth also exploring further—as measures that could potentially be introduced much more quickly—innovative devices for frontloading aid (and aid commitments) in the context of rising aid commitments in future. Of these, the proposed IFF is the most developed
proposal. It is technically feasible so long as there is support from a critical mass of donors. Although it would not work for all donors, there are several adjustments—such as use of an MDB subsidiary as a borrowing platform—that might increase its effectiveness.

- Finally, there are some important things we can do to make aid flows go further, including matching the degree of concessionality better to country needs, for example by blending donor grant aid with MDB loans in supporting MDG-related investments in middle-income countries.

 Achieving Debt Sustainability

A separate note on the HIPC Initiative and on debt sustainability has been circulated to Ministers. Implementation of the HIPC Initiative has progressed, with six additional countries—Guyana, Nicaragua, Niger, Ethiopia, Senegal and Ghana—reaching their completion points since September 2003. HIPC relief committed to the 27 countries that have reached their decision or completion points, together with other debt relief initiatives, represents a two-thirds debt reduction in the overall debt stock of these countries.

The Boards of the Bank and the Fund have agreed to extend the HIPC sunset clause by another two years to end-2006 for countries that are assessed to exceed the HIPC Initiative debt thresholds after application of traditional debt relief mechanisms, based on end-2004 data. This would allow these countries more time to establish the track record that would allow their consideration for HIPC relief.

The Boards will also shortly consider the proposal to operationalize the debt sustainability framework jointly developed by Bank and Fund staff. This framework is expected to guide borrowing and lending decisions by matching the need for financing by low-income countries with their current and prospective debt sustainability. To ensure coherence and avoid duplication of work, the debt sustainability analysis will need to be undertaken in very close collaboration with the Fund. Based on the outcome of ongoing discussions IDA proposes to use this framework to determine the allocation of grants in IDA-14.

Progress And Challenges in Implementing the PRS Approach

The Board has discussed an implementation progress report on the Poverty Reduction Strategy (PRS) approach that takes account of recent evaluations by the Bank’s Operations Evaluation Department (OED) and the IMF’s Independent Evaluation Office (IEO). The PRS approach is now seen as the country-level operational framework for progress towards the MDGs, resulting in many low-income countries paying greater attention to poverty reduction in formulating and implementing their development strategies, while also focusing attention squarely on the specific constraints to more effective development. At end-August 2004, 43 countries had completed full PRSPs, and 23 of them have prepared at least one annual progress report.

Implementation experience has varied with regard to process and content. Overall, countries have made progress in addressing the more straightforward challenges: poverty analysis has been enhanced, the importance of growth and macroeconomic stability is recognized, indicator lists are being rationalized and sectoral coverage is broadening. The challenges that remain are often technically difficult and institutionally complex: the analysis of sources of growth and its distributional impact remains relatively weak and countries have had difficulties in marrying aspirations for the future with resource and capacity constraints of the present. Sustained support from development partners to strengthen countries’ institutional capacity to develop, implement and monitor poverty reduction strategies and to enrich the analysis that underpins them is needed.
The PRS approach was designed to be flexible, with scope for countries to adapt it to their own
domestic processes and country circumstances. However, as the OED evaluation noted, links to domestic
decision-making processes, such as budget preparation, and to representative bodies, such as Parliaments,
have not always been optimal during implementation. Changes are being introduced to allow country
authorities greater flexibility in articulating and implementing their strategies and to reduce the perception
that the process is driven by requirements of the Bretton Woods Institutions. The nature of the Bank/Fund
Joint Staff Assessment (JSA) is being modified to reflect these changes, and the JSA guidelines will be
revised accordingly.

Although some countries have started to use the PRS for more effectively aligning donor
assistance with country priorities, more effort is needed to realize the potential of the PRS as a framework
for the more effective use of aid and mutual accountability. There is still substantial scope for better
aligning aid, and for harmonizing and simplifying donor policies and practices. Increasing aid volumes
and improving the quality of aid to low-income countries implementing sound poverty reduction
strategies are critical to their efforts to achieve the MDGs.

Trade

The agreement on frameworks reached by the WTO General Council in the early hours of August
1 was an important milestone in helping to put the Doha Development Agenda back on track. These
agreements lay the groundwork for significant reform of global agricultural trade, including the future
elimination of all forms of export subsidies, for additional tariff cuts and the reduction or elimination of
non-tariff barriers on non-agricultural goods. WTO members have also agreed to intensify efforts toward
services liberalization and to incorporate trade facilitation in the scope of the negotiations. But the
difficult stretch still lies ahead, and there are important deadlines coming up over the next twelve months
that will require strong political commitment from all members.

The Bank is continuing to provide its fullest support to realizing the potential of the Doha
Development Agenda and helping developing countries tap this potential. At Cancun, we made a
commitment to enhance our support to help our clients in their trade integration strategies and also to
assist them in managing the transition to the environment that would emerge from a successful Doha
Round. Three areas of activity are particularly important in this context: (a) the Trade Facilitation
Initiative, supporting investment and technical assistance (TA) projects to help countries explore the gains
from trade facilitation reforms; (b) program lending to support governments enacting reforms to adjust to
the new incentives in the post-Doha world; and (c) help to countries in developing the analytical capacity
and knowledge needed to anticipate, measure, and provide an adequate policy and budgetary response to
special adjustment costs that result from multilateral liberalization.

The last Trade Progress Report that was discussed by the Board September 2, 2004, focuses on
agricultural trade—its importance for developing countries and the support of the Bank related to the
global agricultural trade negotiations including through research on the impact of agricultural trade on
developing countries, and country level support including for capacity building.

An enhanced program of work is also underway to help developing countries exploit
opportunities from trade. Comprehensive studies on how to improve trade policies and explore trade
opportunities—in the context of the Integrated Framework for Trade Related Technical Assistance—have
been launched in more than 20 low-income countries in the past two years. The World Bank Institute has
also increased its training and capacity building in trade-related activities, promoting 49 learning events
around the world in FY04. Assistance is also being provided to a number of countries seeking WTO
accession. Actual and projected commitments for new trade operations for the period FY04-06 is
estimated to reach US$2.9 billion with trade facilitation projects accounting for $1.2 billion of this total (just in FY04, the World bank’s Board approved 16 new projects with trade facilitation components that amounted to more than $560 million).

A clear message emerging in our country dialogue is that, while there is no substitute for a vibrant multilateral process, the regional, unilateral, and multilateral approaches to trade policy can be complementary if they are handled correctly. In this context there is increasing demand for analysis and advice on how to assess the overlapping or even conflicting options and opportunities. We are undertaking extensive research on regional trade, and regional issues have figured heavily in analysis and dialogue in the Bank’s Regions in both regional flagship reports and country studies, as well as training and capacity building initiatives. The next Global Economic Prospects (GEP05)—to be released in November 2004—will focus on regionalism.

Private Sector Development

The informal meeting that Development Committee Ministers had with private entrepreneurs last Spring confirmed the broad consensus that economic growth led by the private sector is key to sustainable development and poverty reduction. The note prepared for the Committee on the key elements underpinning growth underscores that to be an effective engine of job and income creation, the private sector requires a sound investment climate, appropriate support to micro, small and medium enterprises (MSMEs), and an efficient infrastructure.

Investment Climate and Support for SMEs and Micro-Enterprises

We are intensifying the World Bank group support to investment climate reforms.

- On diagnostic work, the Bank has completed 31 investment climate assessments, has launched firm-level investment surveys in 54 countries in the last three fiscal years and will launch at least another 15 surveys this fiscal year. The new edition of Doing Business in 2005 covers 145 countries, with several new indicators (land titling and registration, inspection systems for construction activity, shareholder rights protection, corporate governance); the 2004 report captured the procedures, time and cost required to solve standard business problems for SMEs. Some 30 countries have now instituted reforms motivated in part by the 2004 report and its benchmarks have been used by IDA, the Millennium Challenge Account and the European Union.

- On reform process, the Doing Business project is now yielding systematic information on good practices for the design of laws and regulations. Work has progressed substantially in the area of micro-finance, where the Consultative Group to Assist the Poor (CGAP) has developed an inventory of good practice. As part of the World Development Report 2005, case studies of reform experiences will highlight options to design reforms and to structure dialogue between the public and private sector.

- Implementation support for investment climate reform is shifting more and more to field-based staff. The World Bank and the IFC are pooling staff resources to help governments in their efforts to support, in particular, business-government dialogue. MSME operations have constituted an important component of the WBG’s operations over the past five years, with approximately $8.65 billion in investments and guarantees in support of MSMEs approved by the World Bank Group. In FY04, the WBG approved over $1.5 billion of new MSME investments. IFC, supported by international donors, will soon propose to combine and expand two existing SME technical assistance facilities into a Middle East and North Africa
Private Enterprise Development Facility which will provide a mix of technical assistance and financial instruments to SMEs, besides support to countries to improve their investment climate.

But without a conducive environment and efficient markets, lending focused on MSMEs can only have a limited impact. The WBG continues to support legal and regulatory reforms that improve the investment climate, provides support to institutional strengthening, including with programs assisting countries in the formulation of financial sector policies that facilitate MSMEs’ access to commercial banks finance, and supports the development of credit bureau capacity.

The World Bank Group and CGAP—a consortium housed in the World Bank and composed of 28 bilateral, multilateral and private donors to promote microfinance—have continued to facilitate access to microfinance for individuals and micro-enterprises, in particular through providing technical services to a diverse range of financial service providers, the reduction of barriers for bank lending, building the industry architecture, promoting innovative linkages between banks and micro-finance institutions, and assistance to developing countries to improve their legal and institutional frameworks. At the Sea Island Summit in June, the G8 endorsed the Key Principles of Microfinance developed by CGAP and called upon CGAP to continue to lead global initiatives to further the development of financial systems that serve poor people. In addition, CGAP is preparing a proposal for a CGAP Middle East and North Africa initiative to support policy reforms that will stimulate the expansion of microfinance and access to financial services in the region.

Support for Extractive Industries

Three years ago, the World Bank Group initiated a comprehensive review of the developmental impact of its extractive industry investments. Independent economic reviews found that our projects have a strong track record of positive economic impacts—tax revenue, jobs, technology transfer, and the introduction of higher environmental and social standards—but that we can also do a better job by making the process more inclusive, and by ensuring more transparent revenue management.

The World Bank Group is therefore establishing a higher bar for performance. To ensure shared understanding of developmental goals, we will develop more explicit ways of measuring how these projects impact poor people, agree with stakeholders on indicators before a project is approved, and use them to track progress. To ensure transparency of project proceeds, we will immediately begin requiring disclosure of revenue figures for all new major projects, and we are already working with several countries, such as Nigeria, Azerbaijan, and Kyrgyzstan, through the Extractive Industries Transparency Initiative. To ensure governments of poor nations are offered cleaner energy alternatives, we will increase our lending toward natural gas and have set a target growth rate of 20 percent annually in our energy efficiency and renewable energy investments, averaged over the next five years. To protect the interests of local people directly affected by extractive industry investments, we will only support projects where affected communities, including indigenous peoples, are engaged through meaningful consultation leading to broad community support. We believe that even though extractive industries projects comprise less than 5% of our overall lending portfolio, they will continue to be important for the economies of many desperately poor nations, at a time when 1.6 billion people in poor nations still do not have electricity, and 2.3 billion depend on traditional biomass fuels.
IFC

IFC continued to deliver strong financial results in FY04, with $4.75 billion in investment commitments for its own account, representing a doubling of its commitments since FY00, a 23% increase over FY03, and a better sectoral and geographical balance, led by stronger growth in commitments in Sub-Saharan African, East Asia, and some countries in Europe. These direct commercial investments were augmented by $880 million in loan syndications and an expansion of IFC and donor-funded concessional finance to $90 million. IFC also invested US$171 million and mobilized a further US$528 million through structured finance transactions. Highlights include the first securitization of non-performing assets in Latin America, and the first structured municipal bond in South Africa.

To further increase its flexibility and client responsiveness, IFC continues to shift staff to field-based operations and expand its business model beyond project finance. Local capital market development, through an increased emphasis on local currency financing and structured finance transactions, has become an area of growth and innovation, and is considered essential to the broader role IFC foresees in municipal finance and housing finance. IFC now provides a wider range of financial products and services such as trade finance, corporate finance, and, in select cases, acquisition finance, as well as advice on international standards in corporate governance, and environmental and social standards. This capacity has proven particularly helpful to IFC clients looking for "South-to-South" growth opportunities, i.e., from one developing region or country into another. For frontier sectors and countries, where basic capacity and expertise for smaller enterprises is often lacking, IFC has instituted a funding formula to stabilize support and planning for its growing network of more than a dozen donor-supported project development facilities. IFC’s role as a conduit for expertise and global best practice is also steadily increasing in areas such as corporate governance, supply-chain linkages, HIV/AIDS prevention, energy efficiency, renewable energy, and carbon emissions trading credits. In addition, some twenty-four major commercial banks have now adopted IFC’s environmental and social standards for project finance via the "Equator Principles" process; IFC is in the process of consultations to update these global standards in order to further expand its development impact.

MIGA

With foreign direct investment (FDI) falling for the second successive year in 2003, the operating environment for the political risk insurance industry has remained challenging. Over the past fiscal year, ended June 30th 2004, MIGA issued guarantees for 35 projects, representing $1.1bn of new coverage; 16 of the projects supported were in conflict-affected countries and 14 were for small and medium enterprises. Demand for MIGA’s technical assistance continued to increase over the fiscal year, as host countries sought to promote themselves more aggressively amid the difficult FDI environment. Over the fiscal year, MIGA engaged in 65 technical assistance activities, of which 35 were in IDA-eligible countries.

Recognizing the linkage between MIGA’s technical assistance activities, which help governments attract and sustain FDI, and its guarantees products, in which investments are executed, the agency under the new leadership of Yukiko Omura is now organizationally structured to provide an integrated and complementary service to clients. MIGA is also implementing a comprehensive risk management framework, which, through more efficient allocation of capital and use of risk mitigation instruments, will optimize MIGA’s risk bearing capacity. Closer collaboration within the World Bank Group will also enable the agency to leverage its resources, both internally and through the Bank’s network of field offices. These changes will better equip MIGA to open for business in frontier markets, adapt to market demands and increase its development impact. A recent example of MIGA’s collaborative and innovative approach has been the establishment of a guarantee facility for investors in Afghanistan of up to $60 million, in which MIGA, along with the ADB and other private insurance partners, provided the insurance
capacity for the facility to provide a six-fold leverage of a $5 million IDA credit and a $5 million soft loan from the ADB.

**Remittances**

Workers’ remittances to developing countries have been identified as an important and stable source of external finance. They reached an estimated $93 billion in 2003, from $88 billion in 2002, and are the second-largest financial flow to developing countries after foreign direct investment. The Bank has developed an integrated work program on the links between international migration and poverty reduction as part of a wider development perspective in which remittances play a major part. To improve understanding of the determinants of remittances and to create a supportive environment to enhance their development impact, the Bank is stepping up its work in the following areas:

- Improving remittances data and knowledge management, since a large share of remittances goes unrecorded, and official statistics underestimate the actual size of remittance flows – perhaps by more than 50%;
- Reducing the costs of transfers, by designing and implementing policies to reduce transaction costs of remittances and help recipient countries improve the efficiency of the formal financial infrastructure;
- Investigating the development impact of remittances at the macroeconomic and microeconomic levels, so as to make policy recommendations to countries that can further enhance that impact, and
- Developing a framework that enhances the integrity of money transfers in formal and informal systems.

**Infrastructure Investment**

Low- and middle-income countries have massive needs for infrastructure spending to support growth and the MDGs. Current estimates point to financing needs of about 7% of GDP for all developing countries—for both new investment and maintenance expenditures—and as much as 9% of low-income countries’ GDP. Comparing past actual investment and new investment and maintenance rates (on average about 3.5% of GDP in all developing countries) to projected requirements indicates that the need is potentially double the actual current level of financing for infrastructure.

The update provided to the Committee on progress in implementing the Infrastructure Action Plan presents the key challenges going forward. The World Bank Group is engaging along the entire public-private spectrum for infrastructure financing and service provision. The Bank has eased some internal constraints on the use of guarantees to enable a scaling-up of their use. Other risk mitigation applications are being considered in the areas of regulatory risk (to support privatization transactions) and in the development of local currency debt instruments. The Bank is working with the IMF to help countries address the issue of easing fiscal space constraints for infrastructure investments. It will also continue to improve its product mix to stimulate infrastructure investments to increase attractiveness to middle-income countries. The Bank committed about $6.5 billion in new infrastructure lending in FY04, an increase of $1.1 billion over FY03. This is significantly greater than the commitments made in the Infrastructure Action Plan, and this level of additional delivery is expected to be maintained in FY05.
Meeting the MDGs for Human Development

Health. Our focus is on building sustainable country health services. The recently inaugurated High Level Forum (HLF) on the health MDGs—coordinated by the Bank and WHO—brings together donors, developing countries, international technical agencies, charitable foundations, and other partners to fight malnutrition, child mortality, maternal mortality, and communicable diseases, by addressing deficiencies in health systems. In many cases there are too few health professionals, poor access to drugs and other medicines, and poor service delivery. The next meeting of the HLF will take place in Abuja in December 2004 to review progress on this urgent agenda. Addressing these issues in countries requires resources to be made available through PRSs and budget allocations, matched by stronger efforts by donors to align and harmonize their assistance as recommended by the HLF. In middle-income countries, new impetus must be found to deal with rapidly growing health issues such as cardiovascular diseases, diabetes, and cancer. There is also growing awareness, underlined by the sudden, deadly appearance of SARS in 2003, that disease control and associated risk factors do not stop at borders, and require global cooperation and the attention of the international institutions.

Communicable diseases. The Bank was actively involved in the XVth International AIDS Conference in Bangkok in July 2004—Access For All. The conference called for much stronger commitment and involvement by political leaders and senior policy makers to widen access to national programs offering prevention, care, and treatment services. It also appealed for sustainable financing for these programs, and effective partnerships among a large global and national coalition of partners from UNAIDS to community-based organizations. The Conference also stressed the need to build robust health systems capable of fighting not only HIV/AIDS but also TB and other infectious diseases, in collaboration with the private sector (from pharmaceutical companies to private providers). The Bank strongly supports comprehensive approaches such as these, both at the operational level with commitments of over $1 billion, and also at the global level, with contributions made for the procurement of antiretroviral treatment, economic analysis, and global monitoring. Disbursements through the Multi-country HIV/AIDS Action Plan (MAP) for Africa for example, are now running at 85-90 percent of targets, or roughly $170 million per year. MAPs have funded over 20,000 civil society sub-projects, of which over 15,000 were to local community-based organizations, disbursing over $70 million in direct sub-grants and for capacity assistance. We are also stepping up our work with key partners in malaria control to curb a disease with devastating human and economic effects, particularly in Sub-Saharan Africa.

Education. The Education For All (EFA) Fast-Track Initiative (FTI) is designed to restore momentum towards the goal of universal primary education by 2015. Since its launch in 2000, EFA has promoted faster policy reforms, improved donor coordination and mobilized additional external aid, particularly among the twelve FTI endorsed countries. Ten of the twelve FTI countries received 30 percent additional funding in the first year of the Initiative. To support this effort, the World Bank has more than doubled its new lending for basic education in IDA countries over the past four years, from $300 million in FY00 to $800 million (total education lending has grown from $880 million to $2 billion). Enrolment growth has most increased in countries with the lowest coverage, particularly in Africa, and the number of countries on track to reach the Education MDG has increased by 10 percent; but that is still too few. Following a meeting in Oslo in November 2003, all partners agreed to expand FTI to all eligible low-income countries and to launch a Bank-managed catalytic Fund with total commitments of $250 million over four years and an initial allocation of $35 million in 2004, to support countries with good policies but insufficient donor support. However, important challenges remain, including the need for additional financing, greater donor harmonization and, most importantly, stronger public sector management capabilities and accountability within countries. It is now clear that success in primary and secondary education depends on effective investments in early childhood development and pre-school education. The Bank has accordingly stepped up its policy work and support for early
childhood development (ECD). The Bank has lent $730 million for 13 free standing ECD projects in 11 countries, and an additional $370 million for ECD components in 38 social sector projects in 26 countries. In addition to accelerating progress toward universal primary education, the Bank is committed to helping countries acquire the advanced skills they need to compete in global markets with advisory services and lending.

**Combating Money Laundering and Terrorist Financing (AML/CTF)**

In March 2004, the Board decided that Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) should become a regular part of the Bank’s work. Following this decision the Bank is undertaking several money laundering and terrorist financing assessments this year as part of the joint Bank/Fund Financial Sector Assessment Program (FSAP). We are continuing to provide AML/CFT technical assistance to client countries through individual country TA programs, regional programs and raising awareness through Global Dialogues sponsored by the World Bank Institute. Finally, the Bank is developing a comprehensive AML/CFT e-learning course for client countries, which will be available via the Bank’s mainframe using the Internet:

- Following the revision of the FATF 40 + 8 Recommendations, which were endorsed by the Board in March 2004, the World Bank, IMF and Financial Action Task Force (FATF) will conduct assessor training workshops on the revised global methodology. Training began in September 2004 with Bank and Fund staff and representatives from the FATF-Style Regional Bodies (FSRBs);

- The Bank has supported two initiatives to create new FATF-Style Regional Bodies (FSRBs) in the Middle East and North Africa (MENA) region and in the Central Asia (CA) region. The MENA FSRB will be officially launched at a Ministerial meeting in November. We anticipate that the CA FSRB, which has been spearheaded by the Russian Federation to support AML/CFT efforts of Russian-speaking FSU countries, will also be launched later this year;

- The Bank and the United Nations are partnering to provide an AML/CFT expert to work directly with national authorities in Central Asia for two years to help develop and establish AML/CFT regimes;

- The Bank has revised its *Reference Guide to Anti-Money Laundering and Combating the Financing of Terrorism*, to incorporate the new FATF recommendations and methodology for assessments and will publish versions in Arabic, Chinese, French, Russian, Spanish, and English. There has been for the *Reference Guide* from our client countries. The IMF together with the Bank has also recently published a handbook entitled *Financial Intelligence Units – An Overview*.

**Strengthening the Bank’s effectiveness, efficiency and governance**

With your help and support, we will continue to work to ensure the World Bank Group is a major and effective participant in global efforts to accelerate development and poverty reduction and meet the MDGs. To this end we will:

- Continue our efforts to work closely with other multinational and national development partners. Since Marrakech, inter-agency mechanisms such as an MDB Working Group and the OECD/DAC Joint Venture on Managing for Development Results have been established
to foster an effective global partnership. In particular, there is strong collaboration and momentum on all aspects of this work between the MDBs. We know that by working together we can achieve so much more than we can by working in separate boxes, and I believe that there is now much broader acceptance of this than there was even a few years ago;

- Continue to be ready to respond to new development challenges when they arise—as we are doing, for example, in supporting global efforts to assist reconstruction in Afghanistan and Iraq. We must also be ready to respond to the challenges of harnessing the contribution of young people to development and incorporating their aspirations into development priorities; to address the concerns of the 400 million disabled people in developing countries; and to continue to contribute to the progressive realization of human rights through our poverty alleviation efforts;

- Strengthen our support for low-income countries, through a more effective and well-funded IDA and strengthen our support for middle-income countries by implementing our agreed action plan and strengthening our collaboration with development partners;

- Continue, with the support of member countries and the Board, to seek to strengthen the governance of our own institution; and

- Above all, continue in our efforts to make the Bank a more effective and efficient organization, operating with a clear link between budget plans and performance and results, so that we can meet all these challenges within budget constraints.

IDA

After the rest of us have finished our work at these Annual Meetings, IDA Deputies will meet in Washington to continue their discussions on the 14th replenishment of IDA resources. They met in Hanoi in early July to consider an ambitious package to further strengthen IDA's performance-based, country-driven support for development. In particular, in IDA14, IDA will further develop its ability to target and track key development outcome indicators. It will systematically deal with the issue of debt sustainability in IDA countries, building on joint Bank/Fund work, and provide an analytical basis for its extension of grant financing. We also expect to move forward with public disclosure of the performance judgments on which IDA bases its resource allocations.

But the most important challenge we all face in this IDA replenishment directly reflects the challenge facing the world as a whole—whether we can increase effective development assistance to meet the Millennium Development Goals. We have proposed a significantly increased replenishment in IDA14, carefully built up using country-by-country assessments of development needs, performance and absorptive capacity. I was heartened to hear that there was widespread agreement among the Deputies in Hanoi that our proposal is a good reflection both of needs and capacity in low-income countries. I know that it will be difficult for some donors to finance their share of what is needed, which includes the pay-as-you-go HIPC-related costs of IDA's debt relief during the IDA14 period. But I hope, for the sake of the poorest countries, that it is a challenge we can successfully meet together. There is nothing more important on the development agenda than a successful IDA14 replenishment.
Support for MICs

At the same time we are acting to enhance the Bank’s support for development in middle-income countries (MICs, defined as IBRD-eligible countries). Faster and more sustained growth and poverty reduction in these countries, which are home to over 70 percent of the developing world’s poor people, is essential for achieving global development goals. Following discussions with the Executive Directors in March, we have revised and started implementing the Management Action Plan for Enhancing Bank Support to MICs. The plan focuses on increasing the Bank’s responsiveness to clients’ demand for high quality lending, risk management products, and knowledge services—based on our unique combination of global expertise, range of products and services, attractive financial terms, and ability to catalyze the support of partners and the private sector. We have made progress on a number of initiatives:

- We have taken steps to strengthen our ability to respond flexibly and effectively to the needs of MICs. This includes developing for eventual approval by Executive Directors a program of 8-12 pilot operations that will rely on countries’ own safeguard systems where they are considered equivalent to the Bank’s safeguard policies, i.e., where the countries’ relevant rules and procedures are designed to achieve the objectives and adhere to the operational principles of these policies.

- The Bank is also giving enhanced attention to particularly disadvantaged groups in MICs. One example is the steps we are taking with regard to the Roma people in Central Europe. In the Czech Republic it is estimated that more than 70 percent of Roma children do not complete basic education. Life expectancy of the Roma people is 10-15 years less than the majority population. The Bank has been engaged in raising the profile of these issues and helping governments to take concrete steps to close the gaps.

- The Bank already offers MICs a number of risk management products—such as interest and currency hedges and a deferred drawdown option for development policy lending—that enable clients to use their IBRD portfolio to manage risk associated with foreign debt. We have piloted and are now mainstreaming a systematic effort to promote the use of such products. The recent Board approval of two local currency loans to Mexico has led other countries to express strong interest in local currency direct lending from the Bank.

- We have begun discussions with bilateral donors and other development partners on ways to strengthen our collaboration in supporting MICs. Areas of potential cooperation include collaboration in meeting country needs for advice and other forms of technical assistance, and combining donor grant resources with IBRD loans in support of social and MDG related investments in MICs.

Voice and Participation of Developing and Transition Countries

Discussions continue between shareholders on how to make progress on the interlinked set of issues involved in strengthening the voice of developing and transition countries in the governance of the Bretton Woods Institutions. You have received reports from the two Boards. These and related issues are important, and I hope that in time the Board will reach agreement and it will be possible to agree on a satisfactory package of measures that will help strengthen the governance of the Bank.
Bank’s Operational Budget, Organizational Effectiveness and Strategic Directions

Meanwhile, at Management level we are taking steps to improve the Bank’s organizational effectiveness. Even with a clear sense of purpose and a robust strategy, we face an implementation challenge. We have to make the most—get the maximum development impact—out of the limited resources at our disposal. We have had a series of very productive discussions with our Board during the course of this year and are now in the midst of an effort to improve the way in which we manage our budget: enhancing the link between budget planning and the setting of strategic priorities, making explicit trade-offs and measuring performance. A key element of the package we have discussed with the Board is moving to a multi-year budget framework to manage the use of resources in a flexible, disciplined way while providing the medium-term continuity that many of our activities requires. Another key element is the pursuit of efficiencies: the demands on the Bank continue to grow at a much more rapid pace than our budget. Meeting these demands while maintaining budget discipline will require performance management tools that support a strong, dynamic sense of priorities and the willingness to face the required trade-offs and improve cost-effectiveness in all our activities. Success in this difficult effort will depend crucially on our ability to make efficiency gains throughout the institution so that more resources can be devoted to delivering client services. To get the maximum impact on countries and on global issues from the resources at our disposal, I have established a Bank-wide Task Force on Enhancing Organizational Effectiveness. The Task Force will produce—in the next few weeks—a set of proposals for Management consideration designed to shift staff and other resources towards direct client services and to improve our responsiveness to country clients and in addressing priority global issues.

Conclusion

We continue to make progress on many fronts. With what we now know about the ingredients for successful development, and the commitments we have all made and the partnership we launched at Monterrey, there is a unique opportunity to make much more rapid progress toward poverty reduction and the MDGs, perhaps better than at any time in the past. I think we can now identify a quite concrete program on the basis of the papers prepared for the Committee and work and progress in other areas.

- First, we have to sustain and further broaden the foundations for growth if we are to meet the MDGs. This encompasses many elements, but two areas that are key and where the Bank has stepped up its efforts enormously are the investment climate and infrastructure. I hope that the Committee will support the action plans laid out on both fronts.

- Second, although not explicitly on the agenda, we can welcome the agreement reached by the WTO General Council on the frameworks for negotiations on the Doha Round and strongly reaffirm our support and commitment for translating the frameworks into real results.

- Third, I hope we will give political impetus to translating the agreed framework for improving aid effectiveness through harmonization and alignment, and focus on results, into concrete actions on the ground, using the Paris Forum next Spring as a milestone.

- Fourth, the Bank and the donor community need to increase and make more effective their efforts to help developing countries build capacity and address specific constraints to absorptive capacity. This can only be done country by country, but the PRS process provides a way to make our effort more ambitious and more coherent.
Fifth, I hope that the delivery of aid commitments will remain on track, and that more countries will increase their future commitments, and that this will translate in 2005 and 2006 into large and measurable increases in real resources for poor countries with sound policies and large requirements to meet the MDGs.

Sixth, I hope that the Committee will agree that even though the international finance facility is not an appropriate instrument for all donors, there is merit in exploring how to develop a frontloading proposal on the lines of an IFF concretely, as a complement to increasing aid commitments. In this I believe that there is much merit in ensuring close alignment and synergy between such a facility and the Bank’s instruments, especially IDA.

Seventh, I hope that the Committee will similarly will also welcome the proposal to explore the potential for increasing leverage though blending aid with other flows including MDB lending.

Eighth, I hope that we can also agree that the Bank should stay engaged in the discussions on global taxes and voluntary contributions.

Ninth, I hope that we will conclude on an agreed and implementable approach on debt sustainability and on grants, and that we will be able to implement this approach in the context of IDA14.

Finally, there are also challenges of moving forward on specific priorities on the MDG agenda—on EFA, on health, on HIV/AIDS, on water—where in addition to financing, a major challenge is strengthening country capacity for service delivery.

The review next September of the Millennium Summit goals will be an important opportunity to take stock of progress, as will the Committee’s own review in the Spring on the basis of the next Global Monitoring Report. We have a formidable but achievable agenda. I hope at our meeting we can have a frank discussion of the challenges we face and practical steps we have to take to meet them.
Statement by the Managing Director of the International Monetary Fund, Mr. Rodrigo de Rato, to the Development Committee

Introduction

The recovery in global growth provides a good opportunity for addressing medium-term challenges that will have an impact on future prospects for growth, employment, and poverty reduction. Ambitious actions by Fund member countries will be needed to correct global imbalances among the major economies, remove structural impediments to growth and prepare for changing demographics through forward-looking fiscal consolidation. Also, it is important to help ensure that some countries are not left behind in realizing the benefits of globalization. All development partners must do their utmost to help low-income countries make significant progress in achieving the Millennium Development Goals, including by moving decisively to liberalize trade in the Doha Development Round.

The Fund Executive Board will discuss the strategic direction of the Fund in the coming months, and will report on the results at the time of the Spring Meetings in 2005. In this statement, I shall summarize the Fund’s assessment of the world economic outlook and explain in more detail the Fund’s efforts to review, refine and strengthen its activities, including its efforts to increase the effectiveness of its surveillance, promote global financial stability, prevent crises, reinforce capacity building, and to support its low-income membership and their development partners in the international community’s cooperative efforts to promote growth and reduce poverty, and meet the MDGs.

Global Environment and Policy Response

Overall Outlook and Policy Response

The global recovery remains solid, with global growth reaching its highest rate in nearly 30 years. This has reflected strong growth in industrial countries, and rapid expansion in emerging markets, notably in China. Growth has been underpinned by accommodative macroeconomic policies, rising corporate profitability, and the wealth effects from rising equity markets and housing prices. Consistent with the upside risk identified in the last World Economic Outlook, projections for global growth this year have been revised upward from 4.6 percent to 4.9 percent. In 2005, growth is expected to moderate somewhat due to narrowing of output gaps, withdrawal of accommodative macroeconomic policies and higher oil prices. As a result, global growth projections have been revised downward slightly, from 4.4 percent to 4.3 percent.

After falling to unusually low levels in mid-2003, inflation has picked up somewhat in all regions, reflecting a combination of stronger growth and higher commodity prices. The risk of higher inflation appears moderate in most countries and regions, given substantial excess capacity; moderate wage settlements relative to productivity growth; strong corporate profitability; and reasonably well-anchored inflationary expectations. Financial market developments have been dominated by changing expectations about the pace and timing of monetary tightening in the United States. To date, market adjustment to the rise in long-run interest rates has been orderly. The biggest impact has been in emerging markets where new issuance of bonds has slowed. Global growth in the second quarter of this year fell below expectations, indicating a “soft patch” in the recovery, particularly in the United States, and prompting expectations of a slower pace of monetary tightening.

The risks to the outlook have shifted to the downside, reflecting uncertainty in the oil market and slower-than-expected growth in some major countries in the second quarter of this year. With spare

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2 World Economic Outlook: Prospects and Policy Issues (EBS/04/114, Supplement 1, 8/31/04).
productive capacity at historical lows, the oil market remains vulnerable to shocks and speculative pressure. Similarly, the second quarter growth figures may be an early indication that the expected slowdown in the pace of global growth may be sooner than anticipated. Another risk is that if inflationary pressures were to prove stronger than expected, it might necessitate a sharper-than-expected increase in interest rates although this would be tempered by the downside risks to the growth outlook. The most significant impact of a sharp rise in interest rates would be its effect on housing markets. In any case, an inevitable transition toward higher interest rates will need to be managed through solid communication to ensure that nascent inflationary pressures are contained—including those stemming from second-round effects of higher oil prices—while facilitating economic recovery and orderly adjustment in financial markets.

The current expansion continues to provide an opportunity to address medium-term vulnerabilities by:

- addressing global imbalances, including through medium-term fiscal consolidation in the United States to increase domestic savings, structural reform in the Euro Area and Japan to increase domestic demand and growth potential, and steps toward greater exchange rate flexibility in Asia;
- stepping up the pace of structural reform more generally so that countries can increase their resilience to shocks and have more flexibility to take advantage of the opportunities provided by globalization and the information technology revolution;
- promoting competitiveness through opening markets via trade liberalization under the Doha Round, building on progress in Geneva this summer; and
- strengthening medium-term fiscal positions in both industrialized and developing countries to address, among other things, changing demographics.

Regional Outlooks

While the recovery has become increasingly broad-based, it is still driven strongly by particular regions. The expansion continues to be led by the United States. While business investment remains strong, consumption could slow down further as the impetus from past macroeconomic policy stimulus and mortgage refinancing abate. A measured pace of tightening of monetary policy in the United States is likely to be appropriate. Planned short-term fiscal consolidation is appropriate, but medium-term fiscal objectives should be more ambitious in order to boost domestic savings. The 2004 forecast for the Euro Area has been revised significantly upward, but will remain strongly dependent upon external demand. With underlying inflationary pressure moderate, monetary policy in the Euro Area should remain accommodative until a self-sustaining upturn in domestic demand materializes. In Japan, the upturn has been strong amid signs that deflation and financial and corporate sector weaknesses are easing. The current monetary stance should be maintained until deflationary expectations are clearly dispelled, while the upturn provides a favorable environment for budgetary savings and further reform in the corporate and banking sectors.

There has also been a strong rebound in activity in emerging markets.

- Emerging Asia has experienced continued robust growth, reflecting the combined influence of the global upturn, accommodative macroeconomic policies, and vigorous domestic demand growth. In varying degrees, countries may wish to consider gradual monetary
tightening, which should be accompanied by greater exchange rate flexibility. While regional growth should slow somewhat in the coming months, it should remain solid, although much will depend on developments in China.

- In *Latin America*, the recovery has been supported by more robust external demand, sound macroeconomic policies, improved confidence, and higher commodity prices. High external financing requirements remain an important vulnerability that should be neutralized by reducing public debt ratios.

- *Transition countries’* growth has been quite strong, and in some countries there may be a need in the near term to guard against overheating. For the medium term, countries need to continue structural reforms to further improve investment climates and fully develop the institutions that are needed in market-based economies.

- In the *Middle East*, the contribution to growth from higher oil production and prices will abate as production reaches capacity levels. However, the region will still benefit from non-oil global expansion and potential trade liberalization. In particular, given the high unemployment rate in the region, it will be critical to accelerate broad-based reforms to enhance the investment climate with a view to putting the countries on a sustainable high-growth path.

In *sub-Saharan Africa*, the outlook continues to improve, supported by broader and deeper macroeconomic stability, higher commodity prices, lower external debt burdens, liberalization of trade, and improved security situations in some countries. The needed reform effort, however, still remains challenging and while most countries continue to make important improvements, including on governance, on current trends they are likely to fall significantly short of meeting the Millennium Development Goals. The promotion of private investment, development of infrastructure, deepening of institutional reform and the reduction of government involvement in the economy remain key policy challenges.

The Fund’s Efforts to Improve Surveillance and Global Financial Stability

In its 2004 biennial review of surveillance, the Fund reaffirmed the strong foundations of the existing framework, while endorsing specific measures to improve the focus and content of surveillance. In addition, more attention will be given to enhancing the quality of policy dialogue with surveillance country authorities, to communicating the Fund’s policy messages to a broader range of domestic stakeholders, and to measuring the overall effectiveness of Fund surveillance, including through “monitorable objectives” against which outcomes can be assessed. Specific measures include:

- Better integration of country-level, regional and global surveillance to improve analysis of global and regional spillovers;

- More clarity and candor in the treatment of exchange rate issues, with a clear identification of *de facto* exchange rate regimes, more systematic assessment of external competitiveness, and more discussion of the policy dialogue between Fund staff and country authorities on exchange rate issues;

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3 *Biennial Review of the Implementation of the Fund’s Surveillance and of the 1977 Surveillance Decision* (SM/04/212, 7/2/04), and *The Acting Chairman’s Summing Up* (SUR/04/80, 8/2/04).
• More continuous and effective surveillance of financial sectors;

• Further refinement of the analytical framework for vulnerability assessments;

• More focus on growth issues and their links with macroeconomic sustainability, and building resilience to external shocks;

• Continued attention to ensuring that surveillance in member countries with Fund-supported programs gives a fresh and broader perspective;

• Increased use of the “balance sheet approach”—which emphasizes not only the level of debt, but also its maturity and currency structure and the transmission of shocks across sectors—to help identify and reduce vulnerabilities and improve liquidity management.4

The Fund continues to support timely and effective resolution of crises through encouraging the use of collective action clauses in sovereign debt issuances, and encouraging development of a Code of Conduct, as well as supporting members’ efforts to undertake policy reforms to bring debt and debt-service burdens to levels consistent with medium-term sustainability. A recent progress report explains various initiatives related to the orderly resolution of financial crises, and notes some recent cases of implementation of the lending into arrears policy. The Fund has also begun to explore the design of a possible signaling instrument to meet members’ demands for higher frequency policy monitoring outside of formal Fund arrangements.

Supporting Low-Income Member Countries

The Role of the Fund in Low-Income Member Countries

The Fund has an important long-term role to play in helping its low-income members establish and maintain macroeconomic and financial stability, which is essential to foster durable growth and poverty reduction consistent with progress toward the Millennium Development Goals. The operational framework for the Fund’s involvement continues to be the Poverty Reduction Strategy (PRS) approach at the country level, in the context of an overall cooperative approach with other development partners to implement the Monterrey Consensus.

These principles guiding Fund involvement have remained fundamentally unchanged in recent years, but the institution is continuing to work to strengthen its engagement. To this end, a Committee on Low-Income Country Work was recently established, chaired by the First Deputy Managing Director. The Committee has prepared a Statement on the Role of the Fund in Low-Income Countries which lays out the basic framework for Fund involvement with its low-income membership. The statement reaffirms that low-income countries must take the lead in their own reform efforts, and that the Fund should focus on supporting the macroeconomic policy reforms needed to achieve high growth and poverty reduction over the medium term, through policy advice, capacity building and, as appropriate, financial assistance. The statement will be further refined, as progress is made in clarifying the Fund’s modes of engagement.

Refining the Poverty Reduction Strategy Approach

The Poverty Reduction Strategy approach recognizes the importance of a more country-driven growth and poverty reduction strategy, which is imbedded in a country’s domestic processes and can

serve as a basis for international support. Forty-two (42) member countries are now implementing full poverty reduction strategies, and 23 of these have completed at least 1 annual progress report. While experience with the PRS approach has been generally viewed as positive so far, the recent Independent Evaluation Office (IEO) review of the PRS approach and the recent progress report on PRS implementation by Fund and Bank staff identified a number of areas for improvement. These include getting the right balance between ownership and external involvement; broader domestic participation in the development and monitoring of the strategy, especially its macroeconomic framework; strengthening the analysis of the sources of growth and its distributural impacts; linking ambitious objectives for the future with existing resource and capacity constraints; and strategies that give a better guide to the operational decisions needed for implementation.

In response to the IEO and staff findings, the Fund Executive Board will discuss proposals for improving the Fund’s involvement in the PRS approach later this year. In the meantime, the Fund and Bank Executive Boards have agreed to eliminate the requirement that a Joint Staff Assessment (JSA) explicitly state that a PRSP constitutes a suitable basis for the provision of concessional assistance, and rename it the Joint Staff Advisory Note (JSAN). Subsequent Board discussions’ annual progress reports (APR) would be limited to cases where the APR elaborates a major shift in the country’s strategy. These changes are intended to reduce the perception of too much influence by the Bretton Woods institutions and encourage more candid and helpful staff assessments. Nonetheless, an explicit link between the PRSP and Fund and Bank financing activities will be maintained, and programs will be required to incorporate measures to address the weaknesses identified in poverty reduction strategies. A more comprehensive review of progress, challenges, and good practice of the PRS approach will be undertaken in advance of the 2005 Annual Meetings.

Strengthening the Foundations for Growth

The Fund’s contribution to strengthening the foundations of growth is through its macroeconomic policy advice, technical assistance, and financial assistance. A wide range of efforts is underway to strengthen the Fund’s capacity to meet its low-income members’ needs:

- The Fund is working to strengthen the analytical framework for policy advice to its low-income member countries by more extensive analysis of the sources of growth and the links between growth and poverty reduction. A review of PRGF program design will focus specifically on the role of institutions and good governance in supporting growth, macroeconomic policies beyond the stabilization phase, and good management of large aid inflows. Also, the Fund is seeking to incorporate more frequently available poverty and social impact analysis (PSIA) in PRGF program design, and has formed a group in the Fiscal Affairs Department to assist country teams in this regard.

- The Fund’s technical assistance targets country-specific capacity-building needs, including better mechanisms for governance, regulatory structures and institutions, and developing in-country capacity to formulate and implement good macroeconomic policies. There is work underway to review the experience with delivery of Fund technical assistance to ensure that it is both effective and efficient.

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5 IEO Evaluation Report on PRSPs and the PRGF (SM/04/277, 7/7/04) and The Acting Chair’s Summing Up (BUFF/04/142, 7/27/04); and Poverty Reduction Strategy Papers—Progress in Implementation (SM/04/292, 8/19/04) and The Acting Chair’s Summing Up (BUFF/04/175, 9/10/04).
Recent Executive Board discussions have considered alternative lending instruments and policies for the Fund’s financial assistance to its low-income membership.

Later this year, building on the discussions of the biennial review of surveillance, the Executive Board will consider how best to address the needs of low-income members when Fund financial assistance is not critical to ensuring that the country’s balance of payments needs are met. The discussions will center on how best to provide regularly macroeconomic advice and the signals sought by donors from the Fund to assure them that the macroeconomic policies of the country provide a sound basis for their aid.

**Debt and Debt Sustainability**

Implementation of the enhanced HIPC Initiative has continued, as outlined in the recent progress report prepared by Bank and Fund staff. Of the 27 HIPCs that have reached their decision points, 14 countries have also reached their completion points and received irrevocable debt relief of US$17.5 billion in NPV terms. The Fund’s disbursement of debt relief at completion points, together with disbursed interim relief, already accounts for just over 70 percent of the total amount that the Fund has committed to the enhanced HIPC Initiative. These savings have resulted in a significant increase in poverty-reducing spending, particularly in the areas of health and education.

Eleven (11) HIPCs have not yet reached their decision points, reflecting problems with conflict or substantial external arrears. [The Executive Boards of the Fund and World Bank have extended the HIPC sunset clause by another two years to end-2006, to provide the opportunity for the remaining countries to establish a track record that would allow their consideration for HIPC relief. However, eligibility for participation in the Initiative will be limited to those countries that would qualify on the basis of end-2004 debt burden data.]

Looking forward, all approaches that hold out the prospect of reinforcing debt sustainability for low-income members should be explored—including deeper debt relief and increased grant financing—taking careful account of issues of equity between low-income members; the linkage between forms of financing and policy incentives, and how such operations might be financed. The Fund and Bank are continuing to work together to refine a broader debt sustainability framework for low-income member countries, which uses country-specific debt sustainability thresholds, based on the strength of policies and institutions, and projections subjected to a variety of standardized stress tests. This new framework should help ensure that countries’ large financing needs to make progress toward the MDGs will be provided on terms that will not lead to an unsustainable build-up of debt. To this end, the framework is designed to minimize the possibility of such an outcome by signaling to low-income borrowers and creditors the appropriate financing terms that will keep debt indicators at manageable levels. Implementation of the framework will require close collaboration between the Fund and the World Bank, and modalities have been defined to support a consistent assessment of debt sustainability by the two institutions. The framework should result in more emphasis on signaling to a member country and donors.

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6 Enhanced HIPC Initiative—Status of Implementation (SM/04/300, 8/23/04), and The Acting Chair’s Summing Up (BUFF/04/171, 9/8/04).

7 Ethiopia, Ghana, Niger, and Senegal reached the completion point since end-March 2004.

8 Debt Sustainability in Low-Income Countries—Proposal for an Operational Framework and Policy Implications (SM/04/27, 2/3/04), and Debt Sustainability in Low-Income Countries—Further Considerations on an Operational Framework and Policy Implications (SM/04/318, 9/10/04).
of a need to shift to more grants when there is a strong likelihood of debt distress. Similarly, PRGF program design will also incorporate an explicit focus on debt sustainability.

Aid Effectiveness and Financing Modalities

Increased aid flows will create opportunities for achieving the MDGs, as well as challenges. Coordination of financing for the MDGs figures prominently on the international agenda, especially over the next year as the international community prepares for the United Nations Summit on the Millennium Development Goals to be held in September 2005. In this context, Fund staff presented a paper, prepared jointly with the World Bank, at an Executive Board seminar in September, which reaffirms that more aid is needed to help accelerate progress toward the MDGs, and considers several proposals for mobilizing increased aid.9

The most effective way to increase development assistance would be for countries to increase their ODA contributions. If the international community is unable to achieve sufficient increased ODA through current avenues, any alternative financing mechanisms should increase total development aid, rather than simply crowding out contributions from current sources. The Fund sees a potential role for some of the alternative mechanisms proposed to increase aid volumes, although many operational details, including some legal issues, remain to be worked out before any of these proposals could be implemented. Further consideration of the International Finance Facility (IFF) is merited, as are proposals for global taxes, but these could not be operational in the near future.

Aid absorption constraints can be partly addressed by increasing harmonization and coordination in aid practices and delivery among donors and with the recipient countries, using vehicles such as the PRSP as a platform. Appropriate targeting and sequencing of aid, to remove bottlenecks and to build on previous reforms and investments, is another important component. Policy reform and more effective management of public resources by developing countries are also needed, as is a greater commitment to reforming international trade.

The Fund is looking closely at ways of helping developing countries manage higher aid inflows, including consideration of how to adjust macroeconomic policies to cope with large aid disbursements. Fund policy advice and technical assistance is also directed at helping countries increase their absorptive capacity for aid. The Fund also participates actively in the work of the OECD-DAC and the multilateral development banks’ roundtables to promote the harmonization and simplification of donor procedures and practices, and the alignment of their support with recipient country priorities. These efforts will be important for enhancing the overall effectiveness of aid delivery, as multiple and overlapping conditions for aid delivery, including diverse analytical and reporting requirements, impose high administrative costs on recipient countries and can contribute to difficulties in meeting financing conditions and to unpredictability in aid flows.

Doha Negotiations and the Trade Integration Mechanism

The August 1 agreement on a framework for negotiations and extension of the Doha Round is a necessary step for keeping the negotiations on track. However, there is little time to waste and strong political commitment is now required to ensure that the Round can deliver liberalization that is commensurate with the challenge to promote global growth and development. The Fund remains committed to provide support in its areas of competence, including through stepped-up surveillance of the systemic impact of trade policies in the major countries, technical assistance for customs and tariff reforms, and research on issues of importance in the Doha Round, especially for developing countries.

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9 Aid Effectiveness, and Financing Modalities (SM/04/329, 9/22/04).
Earlier this year, the Fund established the Trade Integration Mechanism (TIM), designed to address low-income country concerns that global trade liberalization might worsen their competitive positions in export markets or their food terms of trade. The TIM is not a new facility, but a policy designed to increase the predictability of resources available under existing facilities. While balance of payments shortfalls are unlikely to be large for most countries, the TIM is expected to create a modest increase in IMF financing.

- In July, augmentation of access under Bangladesh’s PRGF arrangement was approved in accordance with the TIM to address balance of payments pressures stemming from the forthcoming expiration of WTO textile quotas. Discussions have also been underway with some other members.

Voice and Participation of Developing Countries and Countries in Transition

The Fund continues to monitor closely the adequacy of Fund resources, and is considering measures to improve the distribution of quotas and voting power in the context of the Thirteenth General Review of Quotas. The Fund’s Executive Board has discussed a package of measures that, in the context of the next general quota increase, would involve:

- a general quota increase with a relatively large selective element allocated by means of a new quota formula;
- ad hoc quota increases aimed at addressing the most out-of-line cases; and
- an increase in basic votes aimed at correcting the erosion of the voting power of the smallest members.

However, in view of the Fund’s satisfactory liquidity position, it has been recognized that there is no need for a quota increase at present. Also, the required majority for an amendment of the Articles of Agreement to increase basic votes does not exist. A status report has been provided to the IMFC and DC on quotas, voice and representation. It notes that significant further progress on these issues will require a broader consensus among the Fund’s shareholders.

Progress has been made in improving the administrative capacity of Executive Director’s offices, especially those representing developing and transition countries, including additional staffing in the offices of the largest constituencies, and facilitating closer communication with capitals.

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10 Draft Report of the Executive Board to the International Monetary and Financial Committee on Quotas, Voice and Representation (SM/04/324, 9/16/94, and Rev.1)
Highlights of Ministerial Statements

Statement by Mr. Trevor Manuel, Chairman of the Development Committee, Minister of Finance of South Africa

Strengthening the Foundations for Growth and Private Sector Development: Investment Climate and Infrastructure Development

The approach of the 60th anniversary of the Bretton Woods institutions and the 5th year since the establishment of the Millennium Development Goals provides an opportunity to take a fresh look at the enduring problems of development. Since the establishment of these institutions, the development paradigm has changed considerably, with poverty reduction at the center of the global development agenda and comprehensive approaches broadly shared by governments and multilateral institutions. Ministers generally welcome the reports prepared by the Bank Group and the IMF, which document both significant progress and huge challenges remaining before the promise embodied in the Monterrey Consensus and the MDGs can be fulfilled.

The Growth Agenda: Investment Climate

Many ministers recognize that achievement of the MDGs are impossible without significantly increasing economic growth in developing countries, and welcome the high priority placed on improving the investment climate and private sector development, which are essential to achieving economic growth, comprehensive development, and poverty reduction.

Many ministers commend the Bank for its work on improving its diagnostic tools to better assess the factors constituting the investment climate. They stress that improving the investment climate must be a clear priority for developing countries, since the costs associated with inadequate regulatory frameworks, insufficient infrastructure, corruption, and the lack of security in contract enforcement hamper productivity and growth. They underline the importance of job creation as a means for the poor to break out of poverty.

Many ministers emphasize that any comprehensive strategy to strengthen growth should also address equity, an important element of the growth agenda that can itself contribute to higher growth rates. Improving the policy and regulatory environment, strengthening governance and the rule of law, opening up the trading environment, and developing the financial sector are indispensable in improving the investment climate.

Many ministers stress the Bank’s wealth of expertise in helping countries address barriers to domestic and foreign investment. They urge continued attention to the lessons of country experience on how to deal with the complex issues involved. They applaud the Bank Group’s continued support to clients in implementing their investment climate reform agendas as a way to enhance private sector development. They welcome the Grassroots Business Initiative, the “Doing Business” project as unique source of objective information on the investment climate, and practical work on public-private partnerships to provide accessible, efficient infrastructure services. They urge the Bank Group to continue to support analytic work on the sources growth in developing countries and on the linkages between policies and poverty-related outcomes. A number of ministers stress the importance of social and environmental safeguards as an integral part of the Bank’s support to private sector development.
Trade Liberalization

Many ministers stress the great potential for substantially increasing growth in developing countries if progress is made in liberalizing trade in goods and services. The most important prerequisite is improved market access for developing countries and the creation of a fair world trade regime. They stress their firm commitment to the successful outcome of the Doha Round, a crucial element of the investment climate with much potential to promote growth and poverty reduction. They encourage the Bank and the Fund to continue their support for mainstreaming trade-related issues through the PRSP process and in their operations.

Infrastructure Development: Update on Implementing the World Bank’s Infrastructure Action Plan

Many ministers emphasize the crucial importance of infrastructure development to the achievement of the MDGs, particularly the targets in health, water, sanitation, education, and gender. They note that infrastructure facilities provide the physical means for the poor to participate in development, including entering into markets and obtaining relevant information. Developing countries’ infrastructure needs are huge. They call attention to the huge shortfall in infrastructure funding in developing countries, and urge the Bank Group to make infrastructure a high priority in the current IDA-14 replenishment negotiations. They commend the Bank Group’s progress in implementing the Infrastructure Action Plan (IAP) and look forward to its resulting in more and better infrastructure investments where they are most needed. They are pleased to note that the Bank Group has scaled up its contribution to the funding gap in infrastructure financing and begun to rebuild its lending portfolio and infrastructure knowledge base while adopting a more realistic approach to the respective roles of the public and private sectors in infrastructure financing. A number of ministers particularly welcome the Bank’s engagement with NEPAD in a regional approach to infrastructure investment in Africa.

The links between infrastructure investment, growth, and poverty reduction need to be further explored. Further study is also needed on how to recover the cost of infrastructure projects, including the use of subsidies to promote private sector participation without risking fiscal sustainability. Many ministers call for deeper analysis of these issues and discussions with policy makers, operators, and users on the delivery and financing of infrastructure services. They urge the Bank Group to explore further the possibilities of maximizing its impact through guarantees, sub-sovereign financing, the use of local currencies, and public-private partnerships.

Governance

Good governance, respect for the rule of law, and anti-corruption measures are crucial for sustaining growth and investment. They welcome the Bank’s efforts to fight corruption and urge it to further strengthen its effort in this area.

Fiscal Space

Finding fiscal space for productive investments in social and physical infrastructure remains a challenge for most low-income countries. Many ministers welcome the Bank’s and the Fund’s plans to further explore the issue of fiscal space for infrastructure projects in order to treat these expenditures within developing countries’ budgets. They urge the Bank and the fund to accelerate the technical work in this area in the context of medium-term development objectives.
Aid Effectiveness and Financing Modalities

Many ministers note the emergence of a stronger aid framework, manifested by better policy environments in many developing and transition countries, stronger macroeconomic policies, more focus on poverty reduction based on country-driven strategies, a closer link between aid and good performance, and stronger alignment with country policies and programs. Still, performance on aid delivery has been disappointing. Even developing countries with good policies will not have adequate resource to undertake infrastructure investment and social spending necessary to achieve growth and poverty reduction. They note that improving aid effectiveness can make a significant contribution to increasing the resources available for development and poverty reduction, citing better donor coordination and harmonization, greater use of country systems, alignment of aid to poverty reduction strategies, increasing the policy and regulatory environment, increasing absorptive capacity, strengthening good governance and public institutions, and better monitoring, measuring, and managing for results as some of the ways that aid effectiveness can be improved.

Increasing ODA

Many ministers believe that the volume of ODA has to be increased dramatically and made more predictable and flexible if developing countries are to achieve the MDGs. They note that while some donor countries have reached the 0.7 percent of GNI target and some others have committed to a timetable for doing so, aggregate ODA is still only 0.23 % of GNI, lower than in early 1990s and far less than what is needed by developing countries to carry out structural adjustment and promote social development. They urge the international community to marshal the political will to scale up aid flows in line with the Monterrey Consensus; they also caution, however, that this scaling up should not substitute for the more important goal that sustained economic growth and sound economic policies will bring about a steady stream of additional resources. They call on developing countries to put in place the appropriate policy frameworks that will enable them to use these and other resources effectively.

Absorptive Capacity

Many ministers welcome the analysis of absorptive capacity issues, which identifies enhanced absorptive capacity as a key condition for reaching the MDGs. While many developing and transition countries have significantly improved their absorptive capacity and are well placed to make effective use of substantially increased donor contributions, others encounter significant constraints to absorbing additional aid. Enhancing absorptive capacity depends on a closer integration of donor contributions into low-income countries’ own development programs. Careful attention should be paid to capacity building in project design and public sector management. They ask the Bank Group and the IMF to support this effort. At the same time, they stress that the need to strengthen absorptive capacity should not be used as an excuse for holding up aid mobilization.

Harmonization Agenda

Many ministers noted that improved donor collaboration and harmonization as a prerequisite for improved aid effectiveness. They urge development partners to expedite the process of harmonization, clearly delineating their respective mandates and comparative advantages, further aligning donor assistance with national strategies and country systems, and simplifying procedures and policies. They call on the Bank to increase its role in promoting harmonization efforts at the country level.
Financing Modalities

Many ministers note that mobilizing larger and more predictable increases in resources to support development programs remains a pressing challenge. They welcome the Bank’s thorough analysis of innovative financing modalities that may help mobilize additional resources to achieve the MDG and support the need to explore them further, although they caution that many of these proposals have not succeeded in generating political consensus. Some ministers add that pursuing alternative modalities should not divert attention from previous commitments.

International Financing Facility

A number of Ministers welcome the International Financing Facility (IFF), with its mechanism designed to frontload and increase the predictability of aid flows, as a technically feasible option enabling the frontloading of aid disbursements to help reach the MDGs. They urge further work on the steps ahead to implement it, particularly fiscal transparency, governance, legal restrictions, and disbursement mechanisms. Other Ministers, however, caution that their governments’ legal and budgetary systems do not allow them to make multi-year political commitments and that this facility could lead to a financing gap in “normal” ODA following 2015. Instead, they call for more focused efforts to reach agreement on replenishment negotiations as scheduled.

Global Taxation Mechanisms

Many ministers appreciate the analysis of the various global tax mechanisms to mobilize additional external financing, which they say could put the financing of poverty reduction and the provision of global public goods on a sound and more stable basis. Some ministers see global taxes as a solution to the risk of an emerging ODA gap after 2015. Others caution, however, although some of the proposed mechanisms have attractive features, they would take time to implement, and are plagued with technical complexities, lack accountability mechanisms, and do not currently enjoy sufficient political support to move forward on them.

Remittances

Many ministers note that remittances of foreign workers to their home countries are as large as ODA flows despite the significant restrictions to the movement of labor across national borders. They call for additional measures to facilitate remittance flows to help families and small businesses and maximize poverty-reduction impact, including lowering the cost of remittance services through competition and designing and funding projects aimed at increasing access and minimizing barriers to competitive remittance services.

Reducing Agricultural Subsidies

Some ministers call for reducing spending on agricultural subsidies in developed countries as an alternative to new financing and global tax mechanisms. The expected reduction in cash payments to agriculture from the treasuries of OECD countries, implied in the Doha Round, could be channeled to aid developing countries. Competition in international agricultural markets would be favored, allowing poor farmers to obtain a fair price for their harvests, creating employment, and enabling a better allocation of global resources.
IDA 14 Replenishment

Ministers see the IDA 14 replenishment as an important opportunity and a useful and pragmatic way to channel increased resources to developing countries. IDA is a crucial instrument, which serves as the cornerstone of the development process, when its technical capacity and policy underpinning of its programs are harnessed to build a country-owned, performance-based, and demand-driven approach. Since the IDA 14 replenishment will be critical to financing the MDGs, they urge all participating countries to support a replenishment level that allows IDA to maintain its share of the ODA required for reaching the MDGs. They note that debt sustainability analysis is a promising criterion for identifying appropriate IDA grant envelopes. Some ministers call on the Bank to renew the commitment made three years ago by IDA to direct half of IDA resources to support African development.

Use of Country Systems

Several ministers call for greater reliance on country systems and implementation capacity, setting up fewer parallel structures and systems for project implementation as a means to reduce the cost of doing business and enhance capacity building, increase transparency, and promote country ownership of the development assistance process.

The Challenge of Africa

While recognizing the progress made by IDA and IFC in improving the effectiveness of their assistance programs to the private sector in Sub-Saharan Africa, many ministers stress that more needs to be done for the two institutions to make a significant contribution to Africa’s growth and development. They call on IDA and IFC to implement their joint initiative for promoting micro, small, and medium-sized enterprises and on MIGA to formulate an engagement strategy for the region.

Status of Implementation of The HIPC Initiative and Further Considerations of an Operational Framework for Debt Sustainability in Low-Income Countries

A number of ministers note that for most countries, HIPC debt relief has not been sufficient to solve the problems of excessive debt burdens sustainably, and further debt relief will be required. Many ministers welcome the progress in the development of the proposed Bank-Fund Debt Sustainability Framework for Low-Income Countries, which would ensure that the financing needs of low-income countries are met on terms that will not impose unsustainable debt burdens. They emphasize the importance of close Bank-Fund coordination in implementing the framework and harmonizing their procedures on the preparation of debt sustainability analyses.

Some ministers suggest that the international community should consider more options to break the “lend-and-forgive” cycle, including significantly increasing grants and debt relief. Employing grants and debt relief together would give the poorest countries the chance to reach the MDGs without adding to their debt burdens. They suggest using the IDA 14 replenishment negotiations as an opportunity to discuss the merits of these objectives.

HIPC Initiative

Many ministers support the extension of the sunset clause, which will give 11 countries most affected by conflict until 2006 to initiate the HIPC process, although some of them caution against the possibility of moral hazard and urge the international community to adhere to the December 31, 200 deadline for including new members into the initiative. They urge all creditors to participate in HIPC relief efforts and all donors to increase substantially their contribution to the HIPC Trust fund to secure
the additionality of the HIPC Initiative. They call for careful attention to prudent and sustainable management of borrowing on the part of developing countries and of lending by development partners. Some Ministers call for more attention to be given to non-HIPC low-income countries whose debt stress levels continue to undermine their effort toward achieving the MDGs.

**Voice and Participation of Developing and Transition Countries**

Many ministers welcome the progress report on the voice agenda and stress the importance of continuing efforts to enhance the voice and participation of developing countries. They note the important progress made on practical reforms, such as improvements in the capacity of developing country constituency offices; the establishment of the Analytical Trust fund; decentralization, which has resulted in improved policy dialogue on PRSP processes; and PRSPs themselves, which provide an important instrument for enhancing the voice of developing countries. They call for further progress, including the amount of say that developing countries have in determining development strategies, programs, and projects; whether decentralization leads to better understanding of country positions and views; enhancements that might be expected from improving capacity of countries to articulate and promote their positions; and structural issues, especially voting power in the two institutions.

**Structural Issues**

Several ministers support an increase in basic votes to enhance the voting power of developing countries. They regret that more progress was not made in the past year and stress the need for continued discussions in the Boards of the Bank and the Fund. Some other Ministers, however, believe that enhancing voice and participation should not be limited to issues of voting structure and capital stock, but rather should extend to enhancing country ownership of development strategies and granting developing countries greater say in the preparation and implementation of country assistance strategies.

Some ministers believe that the increased weight of developing countries in the world economy should be properly reflected through the IMF quota and the Bank’s share allocation, while others believe that the Bank should discuss these issues in parallel with the quota review of the IMF. Some ministers stress the need to consider how the Bank’s governance structure should evolve with the world economy, while others maintain that the priority should be on finding mechanisms to establish developing countries’ true development priorities.
Prepared Statements Circulated by Members

Statement by Mr. Ibrahim Al-Assaf, Minister of Finance, Saudi Arabia

It is now evident that a strong global economic recovery, the best in two decades, is well underway. Industrialized countries have effectively managed to ease their economies out of the latest recession and help create the strongest performance in global financial markets since 2000. Developing countries’ performance is also to be commended. Significant progress has been made by many of them, in reforming their economies, improving governance and enhancing their absorptive capacity. Of course, much remains to be done by both the developing and developed economies to further deepen reforms and create the conditions for sustaining this recovery. In this context, and in response to the level and volatility of oil prices which have risen in a market facing increased speculation and strong demand, as well as geopolitical tensions, Saudi Arabia has decided to increase its oil production capacity to 11 million barrels daily thereby ensuring that the excess production capacity will be 1.5 million barrels daily. However, it is also worth stressing that the long-standing market balancing efforts of the major oil exporters need to be supplemented by enhanced producer-consumer cooperation.

The economic recovery is still occurring in an unsettled global political environment, and amid several regional conflicts. The ongoing challenges involving Palestine, Iraq, and other countries unfortunately demonstrate not only how immense human suffering can be created or exacerbated, including effects on children and the poor, but also the potential diversion of political attention and resources from other legitimate and longstanding development needs.

Helping poor countries achieve pro-poor, equitable and sustained economic growth is our collective obligation. This meeting should therefore reiterate our message about the need to promote a more stable global economy, freer trade, increased aid levels and better conditions for aid’s more effective use.

This brings me to the first item on our agenda, Aid Effectiveness and Financing Modalities. I appreciate all the work that has been done so far in addressing the issue of aid effectiveness and in exploring ways to enhance aid financing. But further real progress needs to be demonstrated.

To have a better chance of meeting the MDGs, developing countries should first and foremost rely on their own resource generation capacity and we should all help them do so. A path of sustained economic growth that brings about a steady stream of readily available resources should be the primary objective for developing countries. To embark on such a path, developing countries should pursue appropriate domestic policies, especially those supportive of the investment and job-creating capacity of the private sector, domestic and foreign. As I noted, commendable progress in reforms has been made by the developing countries in recent years, especially at the level of macroeconomic policy and public sector reform. This has demonstrated the benefits of adopting outward-oriented strategies and overcoming impediments to conducting business more efficiently. This progress was also instrumental in enhancing many countries’ absorptive capacity, and improving the prospects for the more effective use of aid. With much ground remaining to be covered, the welcome increase in “ownership” by developing countries of their own development policy formulation process has helped strengthen the domestic environment. If sustained, it should help bring the MDGs within closer reach. So can enhanced attention to improved governance practices, public resource management and the better prioritization, costing and targeting of poverty reducing programs.

It remains clear, however, that developing countries’ intense efforts to promote sustainable and more equitable growth would need to be complemented by a reinvigorated effort by the donor community to provide more aid and to make it more predictable and flexible. A stronger effort to improve the aid
allocation process is also needed. Donors would need to focus on managing for results, performance-based selectivity, and efforts to reduce costs in the delivery of aid through harmonization and a better alignment of aid with country programs. More and better directed aid is needed to allow countries with good policy performance to accelerate the needed progress to attain the MDGs.

The attainment of the UN ODA target of 0.7 percent of Gross National Income should remain the ‘first-best’ solution for all. In this connection, I welcome the fact that an increasing number of industrialized country donors have reached the 0.7 target, or aim to do so within the foreseeable future. Saudi Arabia, for its part, has long surpassed the 0.7 percent mark.

There are many interesting ideas for alternative financing, but they have not succeeded in generating the necessary political consensus. We should not become diverted by rhetoric divorced from the underlying political, technical, and legal realities – including possible negative impact on poorer countries themselves. For instance, I note that some of the Global Taxation ideas, such as the carbon tax and taxes on financial transactions, are still being considered, despite the obvious political challenges their implementation would encounter. On the International Financial Facility, I note the relative progress that has been achieved in exploring the technical aspects of the proposal and in attempting to tackle the various implementation obstacles. While, a positive outcome could help countries that have not attained the 0.7 target to do so, the urgency of the task at hand requires us to focus our efforts on practical and broadly endorsed ideas and avoid straining the already heavy development agenda by considering proposals that have failed so far to generate the political traction needed to move them forward.

Our efforts should be focused on pursuing practical actions that could help generate additional financial resources for the attainment of the MDGs. These actions should include: (i) most importantly, moving the trade agenda forward and pressing for a freer movement of goods and services across the world; (ii) exploring possible blending arrangements of the various financing instruments and mechanisms that are available with the aim of enhancing their overall effectiveness and alignment with the country’s own needs and priorities; and, (iii) better channeling the $80 billion in workers remittances (of which about $16 billion from Saudi Arabia alone) into more productive assets such as small business development.

Further trade liberalization, would indeed allow developing countries to tap the enormous potential for increased export earnings in the markets of the industrial countries. Such potential can only be realized if protectionist barriers are rolled back (and not reintroduced in different forms), and distorting subsidies phased out. It has been confirmed at previous meetings that the potential gains for low income countries are huge. Indeed, income gains from feasible trade reforms, estimated at as much as $60 billion, confirm the role that trade reforms can play, relative to aid, in achieving the MDGs. With full liberalization, including removal of the $300 billion in subsidies that industrial countries lavish on their shrinking farm populations as well as tariffs on some agricultural products that can reach as much as 900 percent, world income could increase by over $500 billion and raise an additional 140 million people out of poverty. And the benefits would not stop there. Greater export earnings would in turn stimulate pressure by the firms involved for further complementary domestic reforms, such as less regulation, a more efficient business environment, and demand for supporting social and physical infrastructure.

Let me now turn to the subject of Investment Climate and Infrastructure Development. Improving access to, and quality of, both social and physical infrastructure continue to be the foundation on which developing countries can achieve sustainable growth and make progress on poverty reduction. In this connection, I would like to welcome the progress made by the Bank in implementing the Infrastructure Action Plan and look forward to it resulting in more and better infrastructure investments where they are most needed. I would, however, call on the Bank to work harder at better translating the knowledge acquired from analytical work into more effective lending. It should also ensure that work among the
different parts of the World Bank Group (e.g. IFC and MIGA), is divided according to each part’s comparative advantage. Moreover, the World Bank Group, in partnership with the IMF and other relevant development partners, could do more to help: for instance, by pressing ahead with work to help countries increase their fiscal space for productive investments and by finding more creative financing solutions for them, such as better tailored sub-sovereign lending instruments and more attractive conditions for Public-Private Partnerships.

In this context, finding the fiscal space for productive investments in social and physical infrastructure indeed remains a challenge for most low-income countries. A number of them are facing unsustainable debt burdens, which are draining their finances and impeding their ability to invest productively in social and physical infrastructure. The HIPC initiative has gone a long way to address this problem, but more is needed to help these countries achieve more sustainable debt levels going forward. I take note of the progress in the development of the proposed Debt Sustainability Framework for Low-Income Countries and look forward to further work which will win broader ownership by both creditors and borrowers. Successful implementation will be the ultimate proof of the validity of the framework and its robustness. For instance, while the proposed framework aims in principle at striking the right balance between rules and discretion (as it allows for flexibility in addressing country specific circumstances), striking such a balance in reality will reflect actual implementation of the framework in a specific country. Only time can tell how this could play out. In the meantime, one topic that I feel deserves immediate attention is Bank-Fund collaboration. This is in my view of paramount importance. I urge that both institutions work harder at fully harmonizing not only their procedures in the preparation of the DSAs and in agreeing on a common risk classification, but also in reaching a common ground with regard to the advice and recommended course of action for countries to deal with their debt situations.

Another opportunity for greater harmonization between the Bank and the Fund is related to finding a common ground on the issue of Voice and Participation of Developing and Transition Countries, especially in relation to voting structure and the Quota formula review process. I am also of the view that enhancing developing and transition countries’ voice and participation in decision making affecting their development process should not be limited to issues of voting structure and capital stock. Much could be gained from further enhancing countries’ ownership of their development strategies (through the PRSP process) and by giving them a greater say in the preparation of their respective CASs and the implementation of assistance programs and projects.

In conclusion, I very much welcome our discussion and note with satisfaction the sense of urgency and realism that is now informing the debate on how to accelerate progress towards achieving the objectives of the MDGs. It is now timely to focus on relevant and practical ideas that have a good chance of resulting in greater development effectiveness and in the needed financing for development.

**Statement by Mr. Hilary Benn, Secretary of State for International Development and Mr. Gordon Brown, Chancellor of the Exchequer, United Kingdom**

Next year is a critical year for the international community. We will be assessed on our achievements against our Monterrey commitments in support of the Millennium Development Goals (MDGs). Next year will see the Millennium Review Summit at the UN, and progress meetings on other key issues, such as the Second High Level Forum on Harmonisation and the Commission on Sustainable Development. Time is short and urgent action is needed if we are to achieve the MDGs by 2015.

**Aid Effectiveness and Financing Modalities**

The case for more and better aid is strong. We welcome the growing consensus among developed countries on this issue. We now need to move on from discussion to decisions and action. The
agreed plans on harmonisation, alignment and coordination of aid behind a country’s national development strategy needs to be implemented by all development agencies, especially where it matters—on the ground. These plans also need to be supported by more aid, with a greater share being allocated to low-income countries with good policies for poverty reduction. In addition, development agencies need to review their policies so that their financial and non-financial support is more predictable, is integrated into the recipient’s budget process and subject to transparent and focused terms.

We very much welcome the Financing Modalities and Aid Effectiveness paper. We endorse the call for all donors to make rapid progress towards the 0.7% GNP target for ODA. The UK has set out a clear timetable for meeting the target, and we encourage all developed countries to make similar commitments. We agree that the International Finance Facility (IFF) is both technically feasible and the most fully advanced proposal to frontload aid. The IFF is the only realistic means of generating the additional finance needed to help meet the Millennium Development Goals by 2015. In addition, we welcome the exploration by the World Bank of different modes of participation in the IFF, although we do not believe that there are insurmountable difficulties for developed country governments to directly contribute. We now urge the World Bank and IMF to work together towards swiftly resolving the outstanding issues regarding the IFF identified in their paper, in order to inform decisions by potential donors.

Discussions are being held between the Global Alliance for Vaccines and Immunization and the UK and French Governments to frontload additional funding for vaccines and immunisation services in the world’s poorest countries.

We welcome the Landau and Action Against Hunger and Poverty reports on innovative financing mechanisms published recently, and support further consideration of the range of options for increasing development assistance. We encourage the Bank to continue work on the most appropriate lending terms for assistance to middle-income countries taking account of the need to focus scarce concessional resources on the poorest countries.

Joint Bank/IMF PRSP Progress Report

The Poverty Reduction Strategy (PRS) process provides a country-led framework for elaborating and prioritising poverty reduction and development efforts. We welcome the recent evaluations of the PRS process and agree that the approach has delivered significant gains. However, there are many areas which require improvement. In particular, the process needs to put ownership, sustaining and building capacity and partnership at the forefront.

Implementation of the recommendations of the Independent Evaluation Office (IEO) and Operations Evaluation Department (OED) evaluations will require a significant change in the way the Bank, IMF and development partners do business. The UK would like next year’s PRS Progress Report to identify concrete actions that the Bank, IMF and development partners will take in response to these findings and recommendations. This response should be subject to a thorough consultative process involving developing country governments and civil society. In addition the 2005 Review should build on commitments already made on harmonisation and those that will be agreed at the Second High Level Forum on Harmonisation in March 2005.

This year’s Progress Report has proposed changes to the PRS review procedures (Joint Staff Assessments and Annual Progress Reports). We welcome these and believe that, if implemented appropriately, they will go some way to improve local ownership of the PRS process. But, more flexibility is needed to tailor the review process to different country circumstances and open it up to other important stakeholders, for example, parliaments and the private sector.
Developing countries’ policy choices, and the advice of the IFIs, should increasingly be informed by analysis of policy options using Poverty and Social Impact Analysis (PSIA). We therefore welcome the recent progress made by the Bank and IMF to enhance their ability to carry out this work. However, we believe greater efforts are also needed to strengthen in-country capacity, and ensure closer cooperation between the Bank and IMF and other partners in the field. We welcome the proposal that the Bank and IMF should review their experience in this area and report back in next year’s PRS Progress Report.

**Conditionality**

Our understanding of what makes aid effective is changing. Evidence and experience challenges the traditional approach to attaching strict terms and conditions to aid. We need to take more of a partnership approach to the delivery of aid. A good aid partnership is based on an open dialogue, with rights and responsibilities on both sides. Within such a framework, both parties need a clear statement of the terms and conditions. Development agencies and IFIs need to show that aid is being used to support an effective programme of poverty reduction. Developing countries need to know what aid they can expect when, and to be clear under what circumstances it can be withdrawn.

The Bank and IMF need to move faster to streamline and focus their conditionality on critical issues (this includes the need to make progress in reducing the total conditionality across the BWIs). Next year’s PRS Progress Report is an appropriate opportunity to address this. The UK also wants the Bank to undertake a review of its own approach to conditionality, similar to that undertaken by the IMF in 2000/01, by the time of the next Annual Meetings. This should result in a specific policy and a new set of operational guidelines on appropriate conditionality.

**Debt and Debt Sustainability**

We welcome the recent progress made on the Heavily Indebted Poor Country (HIPC) Initiative and are pleased that a further five countries have reached Completion Point in 2004. However, we must make further efforts to ensure that the HIPC initiative is fully financed and implemented in the most generous way, to benefit as many countries as possible. The decision to extend the sunset clause to the end of 2006 is welcome, but it is unfortunate that we have been unable to agree on the need to leave the initiative open to new entrants post-2004. There are a number of countries which will require comprehensive treatment of their debts if they are to make progress towards meeting the MDGs. The Bank and IMF must therefore conduct a thorough review of the potentially eligible countries to ensure that as many countries as possible are added to the list before it is closed.

Despite the encouraging progress that has been made, the international community could, and should, do more to provide relief on the debts of the world’s poorest countries. Too many countries are still unable to finance the essential investments in health, education and infrastructure necessary to meet the MDGs because of the burden of servicing their debt. We therefore need to consider all possibilities for financing up to 100% multilateral debt relief for the poorest countries.

If further debt relief is to help countries progress towards the MDGs, it must be truly additional. This requires further donor contributions to cover the costs to the Multilateral Development Banks, as well as more efficient use of IFI internal resources. In the case of the IMF, we propose that a revaluation of a portion of the gold reserves could be used to generate the necessary finance. But the costs to IDA and the African Development Fund (AfDF) must be met by increased donor resources.

For this reason, we have announced that the UK will provide our share of the debt service payments to IDA and the AfDF for all IDA-only countries with sufficiently robust public expenditure
management systems to ensure that the savings from debt relief are spent on reaching the MDGs. We call on other governments, especially our G7 partners, to join us so that no country is held back by the burden of unsustainable debt.

In order to avoid a new debt crisis in the future, it is crucial that the lending decisions of the International Financial Institutions, other development agencies and creditors are based on a robust debt sustainability analysis. We welcome the progress made on developing the proposed debt sustainability framework in low-income countries. However, more work remains to be done before it can be made fully operational. Future work will need to focus on two key issues: first, the Bank and IMF must find modalities to arrive at joint Debt Sustainability Analyses (DSAs) (based on a clear division of labour) to provide countries, and their development partners, with clear guidance and advice to inform their future financing decisions. Without such a joint approach we risk sending mixed signals and undermining the case for broad international support for the DSA approach. DSAs will also need to be developed in consultation with low income countries themselves. Second, we must ensure that the debt thresholds are calibrated appropriately to provide a sufficient degree of comfort that future episodes of debt distress can be avoided, and that the framework is used as a guide rather than a rigid tool.

Enhancing the Voice and Participation of Developing and Transition Countries in the IFIs

Although some progress has been made on parts of the Voice agenda since the Spring Meetings, notably at country and institutional level, and in the establishment of the Analytical Trust Fund to support sub-Saharan African Executive Directors’ offices, little progress has been made on the options for structural reform. We must do more.

While not ruling out any options for making progress in the voice agenda, we think that the Bank Board’s Progress Report presents a pragmatic way forward on the structural issues. For Governors to have a well-informed, substantive and political discussion on the various options, they need full details of the impact and implications of each option. So we call on our Boards to identify practical options to be worked up in detail and presented to the Governors for a full discussion at our next meeting.

Elements of Growth Agenda

A country’s ability to generate growth is critical to its ability to meet the needs of the poor and achieve the Millennium Development Goals. We welcome the shift in the Bank’s approach to infrastructure emphasising the delivery of services and pro-poor growth. We also endorse the balanced approach taken in the Bank’s paper to the roles of the public and private sector in financing the substantial infrastructure requirements of developing countries. However, we believe there is still a need to reach a clearer understanding of where each sector can best add value. Steps to leverage in more private investment are important, as is the need to attract local investors.

A good investment climate is central to private sector growth, the creation of jobs and poverty reduction. We welcome the World Bank group’s work to promote investment climate assessment and diagnosis, and to support SMEs and microenterprises. It is now appropriate to move from assessment of the investment climate to successful implementation of policy reforms. We urge the Bank to put more emphasis on forming partnerships and working with others, including governments, the private sector and other international agencies and networks on this agenda.

We believe the Bank must take better account of the political and social issues surrounding the involvement of the private sector in infrastructure service delivery; it is essential for the views of the public, politicians, management, staff, and users of utilities to be addressed in order for technical solutions to work in practice. We welcome the importance given in the Bank paper to building the
evidence basis on effectiveness, to monitoring impact and to benchmarking performance. Such approaches need to be developed together with those most affected by projects, and with businesses, parliaments and other stakeholders, including NGOs, in poor countries.

Middle Income Countries (MICs)

There is increasing international recognition of the importance of achieving the Millennium Development Goals in Middle-Income as well as Low-Income Countries. Nearly a third of those living on less than US$1 a day live in Middle-Income Countries (MICs), and not all MICs are on target to meet the MDGs. Overall, MICs receive $17bn of net global concessional development assistance (including 43% of bilateral oda) but because this is not used as effectively as it could be, it is not achieving poverty reduction and many MICs risk falling back into low-income country (LIC) status. DFID has produced a new strategy for engagement in MICs that focuses on securing international consensus on the role of aid in MICs. This will ensure that DFID’s programmes in MICs are part of a co-ordinated and poverty focussed international effort.

We will work with our international partners to improve their ability to target poverty in MICs, and support reforms in international trade and other global policies. We will use our influence and role as shareholders in the IFIs to improve the poverty focus and allocation of their resources to MICs.

Leveraging Trade for Development

Openness to trade is a key driver of growth, development and poverty reduction. We need to build on the framework agreement reached in Geneva this summer and make swift progress towards a good, pro-poor conclusion to the Doha Development Agenda. We need also to make progress in areas of interest to developing countries, in particular reducing the barriers to agricultural trade and ensuring their reforms are appropriately sequenced, and support them through the transition to more open global markets.

We welcome the increased attention the Bank and IMF have paid to trade and trade-related issues. Their analysis shows very clearly that trade has the potential to make a significant contribution to growth and poverty reduction. To maximise this potential we believe that developing countries should carefully sequence trade reforms in their own strategies for poverty reduction, supported by aid flows to invest in the capacity to trade. We are therefore pleased to see that trade now features more prominently in Poverty Reduction Papers. We will emphasise the need for the Bank and the IMF to continue to prioritise this work.

The World Bank and the IMF can play a valuable role in helping the most vulnerable countries adjust to and benefit from more open markets. We welcome the IMF’s initiative in establishing a new facility to help countries facing balance of payments problems as a result of trade adjustments. We should seriously consider supplementing this with additional grant resources, designed to help the most vulnerable countries adapt and reap the benefits of more open global markets.

The Extractive Industries Review

The United Kingdom welcomes the overall conclusion of the Extractives Industries Review (EIR) that the World Bank’s continuing engagement with the extractives sector is in keeping with its mission of poverty reduction and sustainable development. We share the concerns of many that countries with non-renewable natural resources often fail to achieve sustained economic growth and development, and are often those with the highest levels of poverty, corruption and conflict. We do not, however, believe that
this is inevitable. Careful attention must be paid to improving public and corporate governance, strengthening environmental and social safeguards and increasing commitment to human rights.

In particular, we welcome the World Bank’s leadership in the Extractives Industries Transparency Initiative (EITI) as an early indication of commitment to the EIR recommendations. We urge the IMF to take on a similar role.

We believe that the current World Bank commitments to energy efficiency and renewable energy are insufficient. Climate change is the world’s greatest environmental challenge. It is the poorest countries that will suffer most from severe weather events, yet it is they who have contributed least to the problem. We intend to work with the Bank and others to make this a priority in 2005.

_Education for All_

We need to work closely in partnership with national governments to ensure that education is a top priority in the fight against global poverty and conflict. Greater commitment to education is crucial as we are not on track to meet the 2005 MDG of gender parity in education.

We need to continue to support global partnerships such as the Fast Track Initiative (FTI) and UN Girls’ Education Initiative to step up support for national governments in achieving Universal Primary Education. The FTI underlines the need to ensure that global efforts are anchored in country-led development processes, and effective and predictable financing supports credible education plans. We urge the Bank Board to continue to monitor the progress of the FTI as a key mechanism to meet the education MDGs.

_IDA 14_

The UK strongly believes that IDA must retain its central role in the global development architecture, especially in light of its relative effectiveness and its focus on poverty. We will therefore be pressing for a substantial increase in IDA 14 resources, and urge others to join us in ensuring that IDA continues to be able to meet the needs of the world’s poorest countries.

Of course, it is equally important that these additional resources are used effectively at the country-level. This means IDA will need to move ahead on the harmonisation, alignment and simplification agenda at the country-level, and move quicker on decentralisation. We will also be pressing for IDA’s financing terms to be appropriately linked to the level of debt vulnerability of borrower countries.

In conclusion, as we approach the first major benchmark towards the MDGs, this is the time we must make our collective choice. We must seize the opportunities presented to us in 2005 to act on the promises needed to achieve the agreed goals. Nobody denies that the problems are daunting, or that change will be difficult. However, there has never been a time in human history when the case for development was either more pressing or more widely understood.
Statement by Mr. Boniface Britto, Minister of Planning and Development, of the Republic of Côte d'Ivoire

My statement will address each of the points of our agenda.

Aid Effectiveness and Financing Modalities

Since Monterrey, the issue of aid effectiveness and financing modalities has been the subject of continuing debate. For our part, we have three main concerns. First, given the huge scope of our needs and desired results, our countries will need substantial and additional aid between now and the year 2015. Second, we want to be sure that our countries receive a flow of aid that is reliable and predictable, capable of facilitating the financing of investment programs, particularly in the area of infrastructure. And third, we hope to have flexible financing mechanisms that will be appropriate to the various situations of the different countries.

We note that this debate has already generated a growing consensus around the idea, which we fully embrace, that concessional financing is one of the most secure ways of expediting achievement of the Millennium Development Goals (MDGs) and of sustainable development. This is particularly true for the least developed countries, since they do not have access to private capital markets.

Available statistics show that the volume of official development assistance (ODA) has declined considerably over the past ten years, falling from 0.34 percent in the early 90s to a record low of 0.22 percent in 2001 and 0.23 percent in 2002. This seems a long way from the 0.7 percent target set in the Monterrey Consensus, a target already adopted by the United Nations over 30 years ago. This being the case, the challenge facing us is to seek the ways and means of coming close to the 0.7 percent target for this century.

A consensus is also emerging around the idea that external aid, however concessional it may be, can only accomplish the desired objectives if it meets a number of effectiveness criteria, including strict ranking of priorities, a greater sense of accountability at management level, and an environment propitious to investment. Over the past few years, a number of our countries have been implementing more appropriate economic policies and action frameworks, resulting from our respective poverty reduction strategies (PRSP). As a result, aid effectiveness has improved considerably in several of those countries. It is true, however, that we will need to step up the pace of those reforms if we want to make more rapid progress toward poverty reduction and achievement of the MDGs. There are some cases where a country faces a structural weakness of its absorptive capacity. This is the case, for example, of post-conflict countries or low-income countries under stress (LICUS). In those cases, priority should be given to the strengthening of their capacities. In our opinion, aid can be made more effective by better aligning aid programs with the development priorities of the recipient countries and by more closely harmonizing the policies and practices of the development partners, since this can result in lower transaction costs.

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11 On behalf of the following countries: Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Democratic Republic of the Congo, Côte d’Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tome & Principe, Senegal, Togo, and Somalia (informally).
Strengthening the Foundations for Growth and Private Sector Development: Investment Climate and Infrastructure Development

We appreciate the analyses carried out by the World Bank staff on this topic.

Where investment climate is concerned, we believe that a good investment climate is beneficial to society as a whole, since it makes it possible to create a greater number of better-quality jobs, to reduce the price of goods and services, and to increase tax revenues to finance the public services, in particular the social sectors. Thus, a good investment climate determines the contributions that an enterprise makes to society. The public authorities are responsible for promoting market opportunities for all businesses, from microenterprises to the multinationals.

We are happy to note that improvement of the investment climate has become the mainstay of the World Bank’s global development strategy. The Bank has, quite rightly, accumulated several tools with which to carry out diagnostic studies of the investment climate and to identify the strategic bases of the reforms necessary to the establishment of a good investment climate in the developing countries. We encourage the Bank to deepen the scope of these diagnostic studies with best practices in mind, to formulate an appropriate framework of institutional reforms, and to assess the impact of those programs and the scope of the tools used. All this can be carried out in partnership with the other development partners, and we urge the Bank to present a report to our meeting in the spring of 2005.

With respect to infrastructure development, we welcome the report that the World Bank has provided at our Committee’s request. This report shows that progress has been made in terms of the World Bank Group’s re-engagement in the infrastructure sector. The new lending commitments of the Bank and IDA for 2004 exceed those for 2003 by US$1.1 billion. The commitments of the International Finance Corporation (IFC) for the same period have increased by close to US$350 million. Overall, for the entire World Bank Group, commitments are up by around US$1.5 billion. We are happy to learn that those institutions’ commitments are expected to continue to increase in 2005 and that particular attention will be devoted to the renewable energy subsector, for which the Bank has explicitly undertaken to make a supplemental contribution of 20 percent per year over the coming years.

In the particular case of the African continent, annual public capital expenditure on infrastructure development totals some US$6 billion. According to certain estimates, it will be necessary to invest US$18 billion in infrastructure every year to ensure levels of economic growth that will allow for accomplishment of the MDGs. The $12 billion gap far exceeds IDA’s one and a half billion annual commitment for infrastructure mentioned above. We therefore encourage the Bank to design innovative instruments to step up infrastructure financing in Africa.

In this context, we welcome the Bank’s efforts to combine resources of public origin with those from private sources. Studies show that over 70 percent of infrastructure investment comes from public financing sources and that the private sector contribution represents 20 to 25 percent. Official Development Assistance (ODA) represents around 5 to 10 percent. Furthermore, aware of the dilemma faced by the developing countries in terms of the balance between budget and public investment resource allocation, the IMF and the World Bank, in collaboration with some of our countries, have initiated a pilot program designed to solve the problem of the fiscal space. This important program will also enable public entities operating under sound management to devote the necessary resources to the financing of new investments. Our countries welcome this initiative, which is designed to create the conditions for recovery and economic growth.

Likewise, we note that most of the infrastructure investment programs focus on decentralized entities. The Bank’s assistance to such entities has traditionally been channeled through the central
government. In our countries, there is an unmet demand for infrastructure investment in the decentralized entities because of the lack of budget resources at central government level. Since those entities have practically no access to the financial markets, our countries welcome the initiative of the World Bank, in cooperation with IFC, to provide institutional support that will enable the decentralized entities to have direct access to funding on the financial markets.

Lastly, we note that the demand for funds to finance infrastructure projects has far outpaced the funds allocated under IDA 13. We fervently hope that IDA 14 will make substantial room for allocations for infrastructure programs.

**Voice and Participation of Developing and Transition Countries**

Our position on this issue is a simple one. Since our Spring Meetings, discussions on the strengthening of what is now termed the “voice” of the developing and transition countries in the decision-making process within the World Bank and the International Monetary Fund have been held, mainly within the World Bank Group. The interim report we have received shows that progress has been made in areas where action has been undertaken to strengthen the internalization and ownership of programs in those countries, such as the initiative concerning the Poverty Reduction Strategy Paper (PRSP), Decentralization and Harmonization, as well as action taken to strengthen the capacities of the Executive Directors’ offices.

For issues of a structural nature, the discussions have not resulted in any substantial progress. This is why, to avoid prolonging the debate and above all to avoid a certain weariness concerning this subject, we propose that the Board of Governors itself examine it and then decide on the roadmap and provide clear instructions to the Boards of Directors on the upcoming phases in this process.

**Debt and Debt Sustainability**

We appreciate the documents prepared by the Bank on this matter. We feel that the pursuit of debt viability is in itself an inherent requirement of any viable development strategy. Hence, we consider the ongoing discussion on this issue to be a very healthy one. However, we do not wish to reduce the debate on the dynamic relationship between debt, on the one hand, and growth and sustainable reduction of poverty, on the other, to a simple question of determining and distributing the potential cost of the debt to the international community in the event of borrower country default. Rather, we wish to emphasize the role of external public debt in the financing of essential investments to expand the bases of production and stimulate the process of wealth creation, particularly in contexts where the private sector is still in a nascent stage and mobilization of domestic savings is inadequate. Such investments are essential if our countries are to bring their debt burden back to a sustainable level and keep it there.

We commend any initiative aimed at further easing the conditions for granting certain of our countries supplementary, even concessional, resources, and giving priority to grants. However, more important for our countries than actually easing conditions, the success of which is hypothetical in the present context of scant development aid flows, is the need to focus on the availability and predictability of concessional financing. To deny countries the possibility of having continued access to concessional borrowing, other than grants, to finance reforms, even when such grants prove unavailable, would constitute a serious step backwards in the global plan to support development.
The Development Committee is meeting at a time when there are signs of resurgence of growth in the global economy, expansion of global output and increase in international trade. At the same time, the steep rise in oil prices, geo-political developments and the pressure on interest rates raise concerns about the risks and uncertainties with regard to the durability of the recovery. The outlook for capital flows to emerging economies is clouded by rising global imbalances and lack of sufficient fiscal and structural adjustment in the industrialized world. The continuing pressure on interest rates threatens to reduce international liquidity, putting pressure on capital flows to emerging economies.

Accelerating the international development agenda including reaching the millennium development goals (MDGs) by 2015 will require concerted action by all parties. The Global Monitoring Report and the background paper for this meeting indicate slow progress in meeting the financing needs and improving the trade prospects of developing countries. Achieving of MDGs will, of course, primarily depend on efforts of the developing countries themselves. But, aid can play a significant role as a catalyst, enhance the benefits of trade, and accelerate private investment and capacity building. The background papers presented to the Committee reinforce the view that substantial increase in aid can be effectively used across a broad range of countries. The paper particularly highlights the financing needs and the track record of effective implementation in low-income countries in South Asia. The high growth rates, improved macro-economic management, control of inflation, better management of debt, improvement in Country Policy and Institutional Assessment (CPIA) indicators, improved public expenditure management and improvements in service delivery, together with their focus on infrastructure point towards strengthening of performance in these countries and their absorptive capacity. It is ironic and unfortunate that at a time, when capacity for effective use of aid is increasing, aid flow is declining in real terms. The modest increase in global overseas development assistance (ODA) represents special purpose allocations based on strategic considerations rather than development needs and country performance. This poses a challenge to the work of the Committee, which after all, is designated as Committee for Transfer of Real Resources to Developing Countries.

The ongoing IDA-14 replenishment negotiations provide both an opportunity and a challenge to the international community for supplementing the financing needs of low-income countries where the majority of the poor reside. IDA has demonstrated a proven track record for developmentally effective use of resources. A substantial stepping up in IDA-14 and its allocation for targeted achievement of MDGs will demonstrate the commitment of the international community to the achievement of global objectives.

The allocations should be guided by eligibility, need and performance. Any artificial capping of their allocations would significantly undermine the global efforts to achieve the MDGs. The achievement of MDGs cannot be left to the market forces alone. Their achievement will require public investments over long period on a sustained basis. While estimating a country’s capacity to raise funds for achieving the MDGs and deciding about the concessionality element of aid, the role of private capital flows to a country should not be over-emphasized.

We have noted with interest the innovative proposals in increasing ODA flows including the International Financing Facility (IFF) Proposal of UK and the global taxation proposals. We note that some progress is being made in refining the IFF, essentially amounting to front-loading of ODA resources. While proceeding with this proposal, we should rely on existing institutional mechanisms and avoid any further proliferation of funds and facilities with separate decision making structures. It also

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12 Representing the constituency of Bangladesh, Bhutan, India and Sri Lanka.
needs to be noted that even the IFF is unlikely to yield resources of the requisite magnitude, unless there is a substantial real increase in net ODA.

The central role of infrastructure in enhancing the growth prospects, accelerating poverty reduction and achieving the MDGs is well recognized. There is sufficient empirical evidence pointing to a clear linkage between infrastructure services and many of the MDGs. Infrastructure is also fundamental to improving the investment climate and expanding private sector activity. We had therefore, welcomed the Bank’s reorientation and commitment to increased lending in infrastructure. Last year we had welcomed the Bank’s new Infrastructure Action Plan, which promises Bank’s re-engagement and substantial scaling up of infrastructure lending after a decade of neglect. We are pleased to note that some progress in this area has been made in the first year. But this, at best, represents a tentative beginning. The huge financing needs of the infrastructure sector, which are estimated to be of the order of 7 per cent of GDP for all developing countries, indicate the enormity of the challenges that lie ahead. Traditionally, public funding has constituted 70 per cent of total spending on infrastructure. The private sector contributes 20-25 per cent, while ODA finances another 5-10 per cent only. The Bank will clearly need to do much more if it has to respond to the needs of the developing countries in this area. Many countries are also pursuing innovative approaches of public-private partnership in infrastructure financing. The Bank can play a useful role in providing assistance and support for these initiatives.

Over the years, the non-financial costs of Bank operations have increased significantly. Concerns with regard to safeguard policies, instead of becoming facilitators for sustainable development, have often acted as barriers. The efforts underway to streamline and modernize safeguard policies in the Bank need to be pursued with vigor. Only then can the Bank equip itself to be more responsive to the needs of the borrowing countries. Considering the particularly high investment needs for quality infrastructure services in low-income countries, additional support for infrastructure should be an important priority in IDA-14 replenishment negotiations.

In response to the Monterrey Declaration, we have been discussing the issue of enhancing the voice of developing countries and countries with economies in transition in the running of the Bretton Woods Institutions. The world has changed a lot since 1945 when the structural framework for Bretton Woods Institutions was put in place. Unfortunately, the structure of these institutions continues to reflect the economic situation as prevalent at that time and not the current realities. It was in recognition of these changes that the heads of governments had given a call at Monterrey for moving forward in this area. Unfortunately, the progress reports that we have received from the Boards of these institutions does not indicate much movement and seems to address peripheral issues or issues which are not germane to the voice debate. Even more disconcerting is that the progress report from the Bank is not a consensus of the Board, but represents the view point of the majority shareholders and that too of those who have a greater voice. This lack of consensus on the basic approach highlights the extent of prevailing voice deficit in these institutions. It is our hope and expectation that when we receive further progress reports from the Boards, it will be a more consensual and more representative report of all shades of opinion and options.

The domestic debt of the public sector is a critical issue in a number of low-income countries as it places a serious constraint on mobilization of additional domestic public resources for development efforts, especially MDGs. But, its integration in the sustainability framework is highly complex. In spite of the stated difficulties, more research and analytical work should be undertaken to refine and improve the framework to factor in domestic debt in sustainability assessment.

The use of this framework in deciding grant funding from IDA-14 is welcome. However, the cost of IDA-14 grants should be met by donor contributions on the lines of arrangements worked out for IDA-13 grants, and upfront charges on the grant. The credit-recipient countries should not be made to bear the cost of the grants by hardening the credit terms.
To sum up, the global community has little to show by way of conversion of the millennium resolve into action. In eleven years that remains to 2015, our destiny is in our hands to shape. If we all act together in tandem, we can reach the goals that we have set ourselves. Achieving these goals are critical not only for the poor and the under-privileged, but also for the world as a whole.

Statement by Mr. Peter Costello, Treasurer, Australia

The world is expected to enjoy economic growth in 2004 at its highest rate in almost 30 years. We should capitalize on that strong growth to press home trade liberalization, structural reforms, improved aid effectiveness and sustainable debt arrangements that will assist developing countries’ growth in real living standards in years to come, and accelerate progress against poverty.

While growth in 2005 is forecast to remain almost as strong as this year’s, there are downside risks from high oil prices, political uncertainties and economic imbalances. In Asia, the region that most directly affects the economic prospects of this constituency’s members, the pace of Japanese recovery and the extent of China’s necessary moderation in growth remain uncertain. And in some economies of the constituency itself, per capita real income growth remains subdued or even negative. Among the small island economies of the Pacific, per capita GDP growth over the last decade was well below the averages for the East Asia and Pacific region, and for Lower Middle-Income countries more generally.

The effectiveness of aid (however financed) and the ability to service debt are dependent first of all on countries’ own successes in creating the foundations for growth, and using growing trade opportunities in more open markets to generate wealth equitably for their citizens and revenues with which to provide services and service foreign debt.

Foundations for Growth: Investment climate and Infrastructure Development

The World Bank has produced powerful evidence that a key determinant of wealth creation is the ability of ordinary people to use their capital as collateral in the formal economy to finance growth. If governments make the cost of doing business in the formal economy too high, by failing to secure law and order, by allowing high costs or unpredictability in enforcing contracts, or by imposing over- restrictive regulation, then economic activity is channeled to the informal sector, which provides a poor foundation for sustained growth and poverty reduction. The evidence is capably presented in the World Development Report 2005: A Better Investment Climate – for Everyone and (more pointedly) in Doing Business 2005: Removing Obstacles to Growth.

When countries can ensure low-cost arrangements for business start-up, registration of property, contract enforcement, credit evaluation, hiring and firing, investor protection and closure of failed businesses, then they enjoy more business formation, more employment, faster growth in living standards, and smoother and faster adaptation to unforeseen economic shocks. Misguided regulation in any of these areas damages poverty alleviation. The costs of inappropriate regulation are often borne by the most disadvantaged in society. Where costs of doing business are high, small businesses stay small, often

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On behalf of the constituency comprising 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.
outside the formal sector, without access to finance for expansion. In the labour market, marginal participants such as women and youth are particularly disadvantaged.

The contrasts in business climate are large. Comparing the best-performing economies to the weakest-performing economies:

- enforcing a contract can cost as little as 4% of the value disputed, or as much as 280%;
- starting a business can take as little as 2 days, or as many as 200;
- registering a change in property ownership can take as little as 1 day, or well over two years;
- an index of the rigidity of employment regulation varies, from most flexible to most rigid, by a factor of thirty.

No amount of aid, whether by soft loan, grant or technical assistance, and no matter whether financed today by ODA or tomorrow by ‘innovative financing mechanisms’, can be as successful in sustainably reducing poverty where the foundations for private sector growth are weakened by a poor business environment.

The Bank’s *Doing Business* database provides a powerful ‘self-help manual’ for countries to diagnose whether they are discouraging wealth creation by bad regulatory policies, where the main regulatory problems lie, and which countries have best solved those problems. This work, and its cost-effective dissemination through [http://rru.worldbank.org/doingbusiness/](http://rru.worldbank.org/doingbusiness/), serves as a model of how a modernizing World Bank can cheaply deliver powerful new tools to help its shareholders improve their performance. We strongly support the planned extension of the ‘*Doing Business*’ database in 2005 and 2006, to include such additional comparative measures as property registration processes, trade infrastructure performance and property protection.

As countries reform their business environment, it will be increasingly important to ensure their improved access to global markets. In low-income countries, agriculture employs almost 70% of the work force and produces almost one-quarter of GDP. Agricultural trade liberalisation can improve the opportunities for these people. The international community could realistically agree to the elimination of export subsidies, substantial reductions in trade-distorting domestic support, and better market access. We welcome Bank initiatives such as the forthcoming publication on *Global Agricultural Trade and Developing Countries*, and its assistance to developing countries to reduce “behind-the-border” barriers to trade such as poor logistics, poor phytosanitary standards or obstructive customs processes.

We also welcome the Bank re-building its catalytic role in infrastructure projects, in a way which is flexible and pragmatic. We encourage giving proper weight to the quality of service, and to infrastructure operations and maintenance costs, not just construction costs. The Bank’s current approach rightly explores the whole spectrum of public and private provision, at all levels of government. It seeks to rebuild the information base necessary to evaluate infrastructure needs and the contributions of infrastructure provision to the Millennium Development Goals. It embodies important work in transport, trade facilitation and information and communication technologies, all of which help reduce the ‘behind-the-border’ barriers to trade noted above.

It is heartening to see the strong growth in FY 2004 in volumes of infrastructure finance through both the World Bank and the International Finance Corporation. But more important than volumes is
quality of investment and of its operation, and we would hope the new emphasis in the Bank’s infrastructure operations will improve the quality of cost-effective services provided.

While we would expect to see more infrastructure support in IDA 14, this must be weighed against other needs and we would not support any preconceived targets in this or other areas. We consider it is worth analyzing experience with sub-sovereign lending by the Bank for infrastructure, and further exploring possibilities for direct financial market access by sub-sovereign borrowers. But we are mindful of the limited capacities for debt management in many developing countries and the distance to travel to operationalise the debt sustainability framework, and suggest these investigations proceed cautiously.

Aid Effectiveness and Financing Modalities

Governments everywhere must build the foundations for growth and the prosperity of their people by securing peace, ensuring law and order, and promoting an environment conducive for private sector development. Aid can play a role in supporting and accelerating growth, but it has a much smaller impact where governments are not already committed to good policies and approaches.

Our constituency members support the strengthening of performance-based allocation of aid under IDA 13, and support the moves to improve and simplify the measurement of country policy and institutional assessments (CPIAs). The CPIA system is a fundamental part of IDA’s performance-based allocation system, and therefore of critical interest to IDA borrowers and donors alike. We also look forward to the publication of the 2005 round of CPIA measurements.

The challenges facing Low-Income Countries Under Stress – the LICUS grouping - are huge, as is implicitly shown in the paper on Aid Effectiveness and Financing Modalities. Among IDA-only borrowers, there are more LICUS (31) than non-LICUS countries (27). LICUS countries are home to over 400 million people, with average GDP per capita of only US$1 a day. Moreover, they receive much less Official Development Assistance and fewer remittances than other IDA-only borrowers. Their domestic investment as a share of GDP is significantly lower. Because they are hindered by poor governance and policies, and often by recent histories of conflict, LICUS economies receive only modest levels of performance-based aid allocations. Many are already too indebted to borrow more, even at IDA’s highly concessional terms, and the fragility of their institutions and governance make them unlikely candidates for productive use of IDA grants.

The Bank has been at the forefront of developing approaches to engage with and help LICUS. Yet it still struggles to deliver, and to finance, the blend of practical technical assistance and other non-lending interventions that are needed to carry forward reforms in LICUS. The Bank’s comparative advantages in helping these countries are its analytical resources and the truly global experiences it can draw on. Unfortunately, the Bank’s spending on analytical and advisory services has become more strongly associated over recent years with the size of a country’s lending program alone.

The Bank has noted that when it comes to core analytical and advisory services, there are sizable gaps in the coverage for particular groups of countries such as LICUS and small states. About 30 countries received none of the five core diagnostic products that the Bank considers desirable. Most of these countries are small: for example eight of the countries missing the core diagnostic products are small island economies in the Pacific.

We note that the countries which have very few of the core diagnostic reports include a number of Heavily Indebted Poor Countries (HIPC). The Bank’s debt sustainability work has shown that countries with weak policies and institutions suffer debt distress at significantly lower debt ratios, are
more prone to misuse of funds and less capable of managing resources productively. It is important that we deal not only with the symptoms of these problems by providing debt relief and grant assistance, but also deal with the underlying causes: poor financial management and weak policies and institutions.

We welcome moves over recent years to differentiate the Bank’s products for better engagement with LICUS, small states and some HIPCs, but more needs to be done. In particular, there is a need for a greater level of practical, results-oriented technical assistance to support these countries to strengthen policies and institutions and to build the foundations for growth. We hope that the IDA 14 replenishment will provide a new mechanism for the Bank to engage with those clients that have traditionally had limited engagement with the Bank and where the challenge of poverty is growing.

Improving the Bank’s performance in matching its range of products to shareholders’ needs and borrowing capacities requires continuing evolution in the Bank’s priorities and budget. There needs to be clear prioritization of required, measurable outputs, appropriate assignment of resources to produce those outputs, and accountability for delivering them. The Bank needs to build a stronger productivity culture, so that increased outputs can be produced without excessive growth in the Bank’s administrative budget. Ultimately, it is the Bank’s poorest clients who pay for excessive growth in the Bank’s administrative costs; in recent years, growth in administrative costs have necessitated re-imposition of commitment fees on the undisbursed balances of IDA borrowings.

The quest for increased aid flows to accelerate progress towards the Millennium Development Goals targeted for achievement by 2015 has produced various ideas for innovative aid-financing mechanisms, ranging from the proposed International Finance Facility (IFF) through to ideas for global tax systems.

The attraction for some in the IFF seems to lie in its front-loading of aid flows and the potential for the associated commitments to be kept ‘off-budget’ in some donor economies. The general case for budget transparency which the World Bank rightly expounds to aid recipients argues also for transparent accounting to voters of the commitments aid donor governments enter into on their behalf. This constituency urges caution in proposals for front-loading aid given the need for substantial aid will continue past 2015. Global taxation ideas do not appear practical in any relevant time frame. The most transparent and cost-effective way to provide more aid resources is for countries to increase their aid programs and we are concerned to limit the level of World Bank resources devoted to less practical options.

Debt and Debt Sustainability

The HIPCs initiative has now delivered irrevocable debt relief to 14 over-indebted members, and another 13 are between the HIPC decision and completion points. At HIPC completion point, countries emerge with ratios of net present value of debt-to-GDP of 150%. We are concerned, however, that even as this progress was being achieved, creditors (including the World Bank itself) continued new lending, propelling the indebtedness of some HIPCs significantly over the 150% benchmark.

This is not a failure of the HIPC process, but rather a failure to apply the lessons from past cases of over-indebtedness to today’s lending decisions.

Working closely together in the World Bank and the IMF, we need to operationalise the Debt Sustainability Analysis (DSA) framework. We welcome the joint Fund-Bank DSA paper that has been prepared for this meeting (Debt Sustainability in Low-Income countries: Further Considerations on an Operational Framework and Policy Implications). Its identification of the linkages from weak policies and institutions to heightened vulnerability to debt crises is an important insight, and the DSA’s estimates
of threshold limits at which excessive lending is significantly likely to lead to future incidents of debt distress are very informative. They are, however, estimated limits, not lending targets. High debt can be inimical to growth, and therefore to poverty alleviation, well before it causes debt servicing crises.

Looking forward, we need to consider how the DSA framework should be reconciled with the HIPC process. There can not be separate approaches for determining when it is appropriate to stop lending to a country because of concerns over debt sustainability, and for determining when debt relief should be provided.

One lesson from the DSA is the need to make more recourse to grants rather than loans for dangerously indebted poor countries. More IDA grants than loans under IDA 14 to those countries with vulnerability to debt service problems will be part of the answer, but only part. As noted above, the Bank also needs to address the underlying causes of debt distress – poor policies and weak institutions. In such cases, we need seriously resourced, practical advisory and technical assistance, de-linked from financial assistance.

Voice and Participation of Developing and Transition Economies

Maintaining the legitimacy of the Bretton Woods institutions requires timely adjustment in their governance practices, and in the representation of shareholders in the light of their changing weights in the world economy. Shareholding governments also need to be confident that their Board representation can effectively influence the policies of the Bank and the Fund.

The Progress Report for this meeting by the Board of the World Bank, Voice and Participation of Developing and Transition Countries in Decision Making at the World Bank and the International Monetary Fund, usefully chronicles action to date, and practical options on which it might be possible to build consensus for future decision by Governors.

In IDA, the subscription by many African countries to allocated IDA shares is now helping to increase their voting shares appreciably, towards their initially agreed potential. There is as yet no consensus for adjustment of quota shares at the IMF, or a change in the capital subscription shares at the IBRD.

We have supported the development over recent years of measures to enhance the resources available to very large constituencies with many low-income or LICUS borrowing members to better represent the voice of their shareholders in the governance of the World Bank. The recent initiation of the secondment program is a worthwhile development in this regard. Despite these improvements in resourcing, large constituencies still face challenges in representation and voice.

This constituency supports the further work the Board proposes by the Spring 2005 meeting in order to enumerate detailed options to enhance representation and voice, as a base from which to seek Governors’ guidance and decision.
Statement by Mr. Joseph Deiss, President of the Swiss Confederation

I note with satisfaction that the world economy is on the path to recovery with improved growth prospects in developing and developed countries alike. This is good news, but there is no room for complacency regarding our efforts towards achieving the Millennium Development Goals. At the occasion of this 70th meeting of the Development Committee, I welcome the opportunity to discuss some innovative ideas to accelerate our efforts toward achieving our goals. I thank the World Bank and ministers that have helped advance the international discussion on the financing of the MDGs.

Aid Effectiveness and Financing Modalities

Our constituency is keen to participate in the consultative process on new sources of financing and to contribute lessons learned from our experience. Four principles should guide us in this process.

First, our efforts should first and foremost target the poorest countries that face the greatest challenges to achieving the MDGs. Effectively supporting the poorest members of the international community to accelerate the pace of development is in everyone’s interest and will contribute to social and economic development and lead to increased stability.

Second, we believe that a demonstration of enhanced aid effectiveness is important for reaching results on the ground and remains indispensable for building the political consensus and public support required for increasing ODA. Although significant progress has been achieved in terms of harmonization and governance, bilateral and multilateral donors as well as recipients still face a considerable unfinished agenda.

Third, developing countries need to fully own their reform programs and to play a leading role in implementing them in order to effectively use the aid they receive and deliver results in terms of growth and poverty reduction. We need to better understand where and how more aid can be invested most effectively. Many developing countries have been able to enhance absorptive capacity in recent years, and it would be useful for international financial institutions to help identify the factors behind these encouraging success stories. In this context, we welcome the initial work undertaken by the United Nations and the World Bank to monitor and substantiate absorptive capacity and encourage them to pursue their efforts in this area. At the same time, it is important to develop credible alternative approaches to address the needs of poor-performing countries, such as LICUS.

Fourth, we should agree from the outset of the process that there is no need to create new and costly institutions to deliver aid. New vehicles dedicated to additional resource mobilization would have to ensure that they will not add red tape and conditionality, but will be aligned with existing aid channels. Our concern should be on how to make existing organizations more effective in development cooperation.

A number of interesting and innovative proposals to mobilize additional development resources have been tabled in the international discussion. Yet, good intentions face a tough political reality. In particular, the legitimacy of international taxation is open to debate. In our view, among the proposals for global taxes, some forms of environmental taxes would be the most promising due to their potential for mobilizing additional resources and their ability to curb energy consumption and reduce emissions. On the other hand, we seriously doubt that a global consensus on transaction-based taxes can be reached.

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14 On behalf of Azerbaijan, Kyrgyz Republic, Poland, Serbia and Montenegro, Switzerland, Tajikistan, Turkmenistan and Uzbekistan
The basic idea of the International Finance Facility to front-load and make aid flows more predictable is appealing. However, at least in the case of Switzerland, such a mechanism does not seem to be compatible with the budgeting requirements and would not generate additional ODA.

We believe that there is considerable room for better harnessing private donations for global development. Such efforts must be underpinned by a stronger dialogue between governments, the private sector, and civil society on the challenges and opportunities of tackling development and poverty. In Switzerland, such private contributions are above the international average, and their share is one-fourth of Swiss ODA. Therefore, we must ensure that the new instruments under consideration do not crowd out private efforts.

We should also recognize and better highlight the role of direct investments as a major source of financing for development. We must help developing and transition countries improve their investment climate both to better support their local businesses and to better capture private capital to develop their economies. On behalf of our constituency, I would like to commend the Bank for the 2005 World Development Report on Investment Climate and for the Doing Business project. They are very important tools for sharpening the debate on the investment climate and its reform and for helping governments to shape their reform strategies and measure progress.

We would like to stress that Switzerland is ready to join a common effort to deepen the dialogue on mobilizing additional aid and exploring various options, including new financial mechanisms to make aid more predictable, sustainable, and effective.

**Growth and Infrastructure**

Regarding the growth agenda, we fully subscribe to the first pillar of the strategic framework of the World Bank Group which has been in place since 2001. There is strong empirical evidence of the link between a good investment climate, growth, and economic and social development leading to poverty reduction. At the same time, we must recognize that poverty-reducing growth depends on different factors such as its composition, distribution, and sustainability. We support the WBG’s new approach which focuses on small and medium enterprises through a better business-enabling environment. Such enterprises account for the largest share of job creation, improved living standards, and the taxes necessary for investment in public services. We also agree with WBG stand-alone advisory services that support the investment climate reform agenda.

We reiterate our support for implementing the Infrastructure Action Plan. We underline the importance of rural infrastructure as well as of the operation, maintenance, and rehabilitation aspects. We welcome the Bank’s complementary approach with regard to the roles of the public and private sectors in providing infrastructure services. We consider that the Bank is uniquely positioned to play a catalytic role in supporting infrastructure development by fostering private sector participation as well as providing technical assistance and advice.

**Debt Sustainability**

The Enhanced HIPC Initiative continues to play an important role in addressing the excessive debt stock of many of the poorest countries. However, it is regrettable that 11 eligible countries have still not passed the Decision Point. With these countries in mind and envisaging accelerated progress, we supported the extension of the HIPC sunset clause for another two-year period. It is also critical that the donor community comprehensively support the Initiative with complementary instruments, such as technical assistance for debt management. The high costs of debt relief must also be seen in the over-
arching context of mobilizing and allocating additional funding for development assistance. In this regard, the Bank must explore how it can increase its own contribution to finance IDA and HIPC debt relief.

The necessity to complement the Initiative with a forward-looking instrument for debt sustainability is corroborated by the fact that the debt ratios of several HIPC countries, which have gone through the Completion Point, are above the projected levels. Such an instrument would also be helpful to other low-income countries – as well as middle-income countries – in managing prudent borrowing programs to avoid the risk of debt distress. This would also be in line with the fundamental principle of equal or equitable treatment of individual countries. Excluding the most debt vulnerable countries from the global lending business and allowing them, *a priori*, to have access only to grants does not constitute a general solution. While the framework currently under consideration is almost ready for implementation, a number of challenging methodological issues must be further refined and political and multilateral governance implications addressed. In particular, strong joint Bank-Fund leadership is required to produce single Debt Sustainability Assessments (DSAs).

*Voice*

We share the view that the voices of developing and transition countries at the World Bank should be strengthened. Stronger country ownership, further decentralization, and greater staff diversity are just a few ways this can be achieved. We should safeguard the principle of consensus-based decision-making that currently guides most of the Board’s discussions. As for the proposals presented, we must carefully weigh the benefits against the costs associated with their implementation.

*The World Bank’s Role in Harmonization*

We are pleased with the Bank's progress in reforming its own policies and procedures with the objective of increasing aid effectiveness, reducing transaction costs, and facilitating harmonization. These changes can also entail risks for the borrowers as well as for the Bank. Therefore, we concur that such changes have to be rolled out with particular care, a high level of transparency, and where appropriate, on a pilot basis. It is especially important that such changes do not undermine the proper functioning of other bodies within the Bank, such as the Inspection Panel.

The strong high-level commitment to improving donor harmonization around borrowing country systems lags behind in terms of implementation. There is a need for the Bank – as well as most other bilateral and multilateral agencies – to expedite the necessary adjustments in terms of rules, procedures, and practices.

*Statement by Hon. Antonio Fazio, Governor of the Bank of Italy*¹⁵

*Introduction*

Much work has been done since Monterrey to implement the Millennium Development Goals (MDGs). However, the documentation before us today shows that progress has been mixed and particularly slow in Sub-Saharan African countries. Both the target of gender equality in education and the health goals are at a very high risk. The poverty reduction target will only be reached in the aggregate by 2015 if countries continue with current reforms. Progress can be accelerated by refining our result-

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¹⁵ On behalf of Albania, Greece, Italy, Malta, Portugal, San Marino and Timor Leste.
based approach. It is, therefore, highly appropriate that we now focus our attention on what demonstrably makes aid more effective as an instrument to achieve the MDGs.

A Clear Strategic Focus

It is now well-understood that reaching the Millennium Goals will require additional financing, but there is also a clear recognition that aid per se is not the solution to the development challenge. Aid can play a catalytic function, but, in order to do so, it must be effective. It must be directed to its most productive uses and complemented by increased domestic resource mobilization and private capital flows. These, in turn, will only come about with further strengthening of the policy environment in developing countries.

The documentation in front of us argues that developing countries taken as a group could use larger volumes of aid effectively due to their now stronger policy frameworks. It also recognizes, however, that individual countries face specific absorptive capacity constraints whose depth and scope vary depending on the country’s unique situation and level of development, with Middle Income Countries (MICs) at one end of the spectrum and difficult cases such as Low-Income Countries Under Stress at the other. Absorptive capacity constraints are rooted in basic social, cultural and political realities; constitutional provisions and administrative processes; weak institutional capacity; and poor quality of physical and human capital.

For poorer countries, country-owned Poverty Reduction Strategy Papers (PRSPs) continue to be an essential tool. Their implementation, however, needs to be carefully monitored both by governments and donors. Going forward, PRSPs should take a more comprehensive and balanced view of the multiple factors contributing to sustained poverty reduction and improved social indicators and must include an in-depth analysis of the sources of economic growth. In this respect a healthier private sector, with unleashed entrepreneurial energies, should provide a broader and deeper revenue base to the government, and is a critical lynchpin in the virtuous cycle that generates more fiscal space for needed social and infrastructure expenditures.

In the case of MICs, constructive and long-term strategic partnerships between them and the donor community should be further encouraged. In particular, the Bank needs to maintain a balance between working as an effective catalyst of development resources and playing an independent advisory role while preserving the broad safeguards which are the hallmark of its involvement in projects.

One issue greatly debated with reference to the MICs is that of the integrity of the Bank’s policy in the environmental and social areas. From our perspective, there is no doubt that the International Financial Institutions (IFIs) in general, alongside their catalytic role, continue to have an important function in safeguarding the environmental and social aspects of development, and the two must be carefully balanced.

Finally, effective strategic focus requires stronger developing country ownership of development programs. In this context, we acknowledge the efforts of the Bretton Woods Institutions (BWIs), particularly the World Bank, to move the debate on “voice” forward. Voice has been rightly approached both as an issue of adequate and effective representation for the developing and transition countries (DTCs) in their Boards and one of strengthening the DTCs’ ownership of operational programs. With respect to representation, we are open to consider efforts to align the voting power of member countries more closely with their current economic status, and to explore the feasibility of other measures, provided a broad consensus could be reached. But we also believe in the fundamental need for strengthening voice at the operational level. Better communication, at all stages of strategy and program formulation and
implementation, is an important way to assure this. In this context, we strongly encourage the Bank to make strategic communication an integral component of all its programs and projects.

Implementing the MDG Agenda

Country-owned development strategies provide the overall framework for the donor community to support a country’s own priorities. This is the essential basis for harmonization of donors’ policies and procedures. How well harmonization is accomplished will depend on effective stewardship by developing countries, but also on the strong commitment by donors. The First High-Level Forum on Harmonization in Rome formally captured the commitments of all development partners, but the implementation record so far has been mixed. We encourage the Bank to propose an action plan to be discussed in the forthcoming Second High-Level Forum in Paris. We continue to view cooperation and coordination with the IMF and between the Bank and the other Multilateral Development Banks as an essential component of a successful harmonization agenda.

With regard to the actions that development partners are called to undertake to achieve the MDGs we have discussed at length in past meetings the need for further investment in education and health. We have also discussed progress in the “Education for All Fast Track Initiative” and several global health partnerships, such as the “Global Fund to Fight AIDS, Tuberculosis and Malaria”, that Italy strongly supports. These remain important priorities, but the Bank now needs to accelerate progress in creating an enabling environment for the private sector, including the provision of physical infrastructure.

We are pleased with the progress made by the Bank in developing a deeper understanding of the investment climate and its micro-level components. These investment climate analyses must now be projected against the backdrop of the broader macroeconomic and governance frameworks and of the dynamics at play in the financial sector of individual countries, with special emphasis on access to credit particularly for Small and Medium Enterprises (SMEs). In this regard, we stress the importance of implementing effectively microfinance programs and initiatives. We also encourage the Bank to review its so far limited experience with operations specifically targeted at increasing the competitiveness of the economy and improving the business climate with a view to better integrating its advisory services (e.g., policy dialogue, business development facilities) and lending products in order to achieve greater catalytic and developmental impact.

We take note of the results achieved so far in the implementation of the Infrastructure Action Plan. An increase in the volume of infrastructure investments remains an important goal in the context of efforts to strengthen the overall climate for private investment. The World Bank Group and other IFIs have an important catalytic role to play in this respect by developing more flexible models for public-private partnerships and additional risk mitigation measures that would help secure long-term private sector funding for infrastructures.

Considering the related broad issue of financing the MDG agenda, since our last meeting work has been done mostly on the International Financial Facility (IFF) and on Global Taxation (GT), but exploration of other options has been limited. Additional analysis could cover options such as the use of incentives to attract remittances to development-oriented programs. Indeed, the benefit of remittances for economic development in recipient countries is becoming visible in a number of cases. Initiatives have been recently outlined by the G7 countries with regard to remittances sent from their economies to emerging and developing countries. Other mechanisms to involve the private sector in voluntary aid schemes could be explored, especially given the political and legal constraints that hinder both GT schemes and the general applicability of an IFF.
With respect to the role of the public sector in financing investments, developing countries have been emphasizing that more fiscal space is needed. But the way fiscal space should be created is through the strengthening of tax systems and the broadening and deepening of the revenue base. Increase in public spending should not put a country’s macroeconomic stability in jeopardy by leading to unsustainable debt levels. We see a lead role for the BWIs in efforts to coordinate financing strategies with respect to the most indebted countries.

Finally, we welcome the extension of the Sunset Clause of the Highly Indebted Poor Countries (HIPC) Initiative through the end of 2006, basing eligibility on HIPC income and indebtedness criteria that are applied using end-2004 data. Now it is essential that a sound debt sustainability framework be put in place as soon as possible, based on the ongoing work in the Fund and the Bank. It is indeed necessary to complement the ex-post debt relief provided by the HIPC Initiative with a more comprehensive debt sustainability framework, able to provide guidance to lenders and donors and to coordinate their financing in order to prevent the build-up of unsustainable debt. The new framework should be able to discriminate more effectively among countries based on performance and the level of concessionality they need, preserving in such a way the principle of selectivity in aid allocation and minimizing moral hazard. We also subscribe to the idea of complementing it with more effective and innovative instruments to deal with exogenous shocks.

Statement by Mr. Ralph Goodale, Minister of Finance, Canada

The Bretton Woods Institutions Remain Key Players

Sixty years ago, finance ministers assembled in Bretton Woods and created the World Bank and the International Monetary Fund (IMF), endowing them the noble mandate of raising economic growth and increasing economic and financial stability, thereby reducing poverty. These remain worthy goals. While many have witnessed unprecedented growth and prosperity over the last six decades, hundreds of millions remain marginalized. The Bretton Woods Institutions are needed now more than ever to support international efforts to promote peace and prosperity for all citizens of the world. But much has changed in sixty years and, to achieve these goals, the institutions must adapt and reform to serve clients, especially those in Africa, better.

Need for a Stronger Focus on the Millennium Development Goals

We are at a critical juncture. Given the long lead times between program and project approvals and their impact on reducing poverty, we need to increase our efforts now in order to ensure that we meet the Millennium Development Goals (MDGs) by 2015. As the largest single source of development finance for the world’s poorest countries, the World Bank has a critical role to play in helping us achieve the MDGs. We must also ensure that resources are targeted wisely to achieve maximum results. We are fully convinced that a major effort is needed now, and both developing and developed country partners must strengthen their collaborative efforts to fulfill the commitments we made in Monterrey.

The Challenge of Africa

Making headway in reducing poverty in Sub-Saharan Africa remains our greatest challenge. If we fail Africa, we fail the Millennium Challenge. Africans need the international community to join together in support of the New Partnership for Africa’s Development to focus on the needs of the continent.

On behalf of Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.
August 2004 I visited South Africa, Mali, Tanzania and Nigeria. I was reminded of Africans’ urgent needs and aspirations. African men and women, girls and boys want—and deserve—the same things as all of us—a home, enough food to eat, good health, education, a job, respect for their rights, and most important of all, a secure environment that will promote opportunity and foster hope. Our discussions must take into full account the challenges facing Africa. Three years ago shareholders of the International Development Association (IDA) again agreed to direct half of IDA resources to support African development. We need to renew this commitment for its fourteenth replenishment (IDA14). We need to listen to Africa and to be flexible and practical in our approaches.

Strong Foundations for Growth and Private Sector Development

Growth will depend on the deepening of sound economic policies, improved governance and a more open global trading environment. We welcome the adoption of the Doha Round negotiating framework in July 2004. Although many difficult issues remain, this development gives hope for renewed momentum in meeting the Doha development agenda with its promise of raising millions out of poverty. The IMF and World Bank must continue their efforts to support this process through advocacy and analytical work and through building local capacity to enable countries to respond to the opportunities created. They should assist countries in their transition process through support for safety nets for those who will be disadvantaged. We encourage the World Bank and IMF to continue their support for low-income countries in mainstreaming trade-related issues through the Poverty Reduction Strategy Paper (PRSP) process and in their operations.

Equally important, the United Nations (UN) Commission on the Private Sector and Development has stressed that “poverty alleviation requires a strong private sector. It is the source of growth, jobs and opportunities for the poor.” The lack of key elements of the investment climate, particularly in the rural economy, result in high costs that inhibit the emergence of small-scale entrepreneurs and traders and deny the poor the opportunity to participate in economic growth. Clearly, private investment (both foreign and domestic) will be attracted in sufficient volumes and produce results only if there is an enabling environment, where the conditions in which businesses operate are transparent and predictable and where there is appropriate governance, sound macroeconomic policies, fair competition, good physical and social infrastructure, smart regulations and the rule of law. In this regard, we welcome the progress that many member countries have already made, often with the assistance of the World Bank Group, in strengthening business environments as well as in addressing investment climate issues and infrastructure bottlenecks. Attention paid to the lessons of past experience has been invaluable in these efforts.

We need to build on recent successes to promote more business-conducive policies and to provide access to affordable infrastructure services. One message came through strongly and clearly during my recent trip to Africa: improving infrastructure, especially in the transport and energy sectors, is key to promoting private sector development and poverty reduction. Africans across the political and business spectrum all underscored the vital importance of reducing the cost of doing business. The Bank-IFC “Doing Business” project has proven its worth as a benchmarking tool and has led to reforms in some 30 countries with unimaginable benefits to farmers and informal sector entrepreneurs with micro and small businesses. We strongly support the innovative spirit behind the municipal finance pilot, the Grassroots Business Initiative, and the practical work on public-private partnerships to provide accessible and efficient infrastructure services. The Bank and IMF are definitely well-positioned to offer the kind of support African countries need to improve access to affordable infrastructures and therefore provide an enabling environment for economic growth.
Financing Development

Mobilizing sufficient resources to support development programs remains a pressing challenge, but one worth tackling head-on as more than 1 billion people living on less than one dollar a day depend on our collective efforts. Canada has delivered on its Monterrey commitment, increasing international assistance by 8 per cent per year. Ireland, in moving towards achieving the UN target of 0.7 per cent of gross national product, has doubled its Official Development Assistance budget since 2000.

We must find practical solutions to mobilize additional resources and to work together to maximize their contribution to poverty reduction. Remittance flows, estimated at US$100 billion per year, are an important source of financing, and measures should be taken to facilitate the flows to help families and small businesses and to maximize their poverty reduction impact. Redoubling the International Finance Corporation’s and the Multilateral Investment Guarantee Agency’s efforts to catalyze private sector investment is also essential.

Real increases in Official Development Assistance are essential for achieving development and progress towards the MDGs in least developed countries in general, and Sub-Saharan African countries in particular. IDA and the African Development Fund are also particularly important for these countries. IDA is a crucial instrument, as it provides the largest share of external financing for the poorest countries’ efforts to meet the MDGs. IDA also serves as a cornerstone of the development process when the depth of its technical capacity and policy underpinning for its programs are harnessed to build a country-owned, performance-based and demand-driven approach, conceived and implemented in collaboration with other development partners. Since its establishment in 1973, the African Development Fund—representing an enduring partnership for development between African countries and the donor community—has become an important source of funding and technical assistance for some 40 low-income countries in Africa. Importantly, the African Development Fund has become a key player in regional cooperation and integration initiatives. We need to ensure that the timely conclusion of the IDA14 and African Development Fund X replenishment exercises is our number one priority.

Improving the Effectiveness of Aid

Resources must be invested wisely to maximize their poverty reduction impact. Harmonization around country-level instruments such as joint general budget support and Sector Wide Approaches (SWAps) is critical. We welcome the World Bank’s increasing involvement and co-ordination with bilateral donors at the country level in SWAps and Poverty Reduction Support Credits, and urge continued progress. We also welcome the UNAIDS “Three Ones” initiative, which promises to improve co-ordination of assistance to HIV/AIDS programs, and we urge all national and international agencies involved in HIV/AIDS support to commit to its principles.

We recognize the progress made in integrating client priorities and needs in World Bank and Fund operations. Their business plans now better reflect country priorities as detailed in country-owned strategic documents, especially the PRSPs, which are now seen as the country-level operational framework for progress towards the MDGs.

As the development partners increasingly rely on the PRSPs, the policy content of these strategy papers, their pro-poor focus and the consultation process must be strengthened even further. These strategies should pay more attention to the social impact of macroeconomic choices, to rural development and growth, and to sectors where poor women as well as poor men are most economically active—such as smallholder agriculture. Particular attention should also be given to building capacity in PRSP processes for mainstreaming gender equity and to the empowerment of women as a means to achieving it.
Increased donor support may hinge on a better understanding of absorptive capacity challenges in client countries. Absorptive capacity is a multidimensional and dynamic concept, which differs among countries and specific cultural circumstances. Some constraints can often be addressed relatively quickly. Others require extensive technical assistance, often from the international financial institutions. Careful attention, therefore, should be paid to capacity-building needs of countries and institutions in project design and country assistance programs.

**Critical Attention to Debt Sustainability**

As we invest more heavily in development, we must not repeat past mistakes. The Heavily Indebted Poor Countries (HIPC) Debt Initiative has taught us an invaluable lesson on the financial and social costs of debt overhang. Our experience with the Initiative also underscored the need to adopt a dynamic, forward-looking perspective on debt sustainability. The Initiative and the long-term debt sustainability work undertaken by the World Bank and the IMF must take into full account the difficulties facing many African countries.

Twenty-seven countries are already benefiting from relief under the HIPC Initiative and are having their overall debt stock reduced by two-thirds. Their debt service as a percentage of exports has also been substantially reduced to an average of 10 per cent. Savings from lower debt-service payments have contributed to a substantial increase in poverty-reducing expenditures. However, the experience of the HIPCs has shown that for most countries the relief received has not been sufficient to sustainably resolve the problems of excessive debt burdens. Careful attention should continue to be paid to prudent and sustainable management of borrowing on the part of the countries and of lending by development partners, and further debt relief will be required.

The HIPC Initiative remains a valuable instrument to give other heavily indebted poor countries a fresh start, namely by freeing up fiscal space for productive investments. Eleven countries most affected by conflict have yet to be considered for HIPC assistance. We therefore support the proposed extension of the sunset clause, which will give them until 2006 to initiate the process.

The key to poverty reduction is broad-based and pro-poor growth. For most HIPCs, deeper reforms are necessary to promote long-term growth. Over the short and medium term, while reforms will require funding, this may come in the form of loans that will add to the financial burden of the poorest countries. Development finance must be provided strategically and responsibly, either on highly concessional terms or on a grant basis, in order to protect the gains of the HIPC Initiative and to minimize the risk of debt distress. We recognize the progress made in fine-tuning the framework for debt sustainability analyses and support that such analyses be jointly conducted by Bank and Fund staff in partnership with the country authorities. For this initiative to work, developing countries and their developed partners, as well as other multilateral development institutions, must participate fully. Besides the importance of joint work by Bank and Fund staff, the process and results of the debt sustainability analyses must be fully transparent, available to all, and used by all. The recent decision to publish country ratings from the World Bank’s Country Performance and Institutional Assessments, a key input of these analyses and of the IDA resource allocation system, is an important step in this direction.

Having the results of these analyses inform the lending decisions of IDA and the Poverty Reduction and Growth Facility (PRGF), as well as those of other development partners, is vital to ensure that unsustainable borrowing is avoided. We urge Executive Directors and IDA Deputies to fully consider the merits of the proposed debt sustainability analysis operational framework and to refine it as appropriate with a view to having it guide lending decisions during the IDA14 period. Future PRGF arrangements should also take into proper account the conclusions of these debt sustainability analyses.
Special Approach for Small Island States

Stability in growth and debt sustainability are major challenges facing small island states, especially those in the Caribbean region. The devastation brought upon the Caribbean islands by Hurricane Ivan underscores the vulnerability of these small states. Over the last decades, many countries of the region undertook wide-ranging market-oriented policy and institutional reforms. However, from the perspective of sustaining growth, the results have been well short of expectations. The World Bank and IMF could do better in terms of providing economic and financing policy advice based on a comprehensive understanding of special small state policies and circumstances. In 2000 the World Bank endorsed the task force study on small states, which confirmed that small states face special development challenges and therefore need more focused attention. In this vein, the World Bank and IMF need to recognize the region’s specificities and undertake more rigorous social and economic analysis to provide for a comprehensive understanding of the forces underlying growth, which will help inform policy-making and development assistance. This includes the need to examine the issue of debt sustainability of middle-income small states. At the same time, attention should continue to be paid to the critical building blocks of sustainable growth, namely quality infrastructure, human capital development and technological know-how.

Looking Forward

Little more than a decade remains until 2015. Scrutiny of our actions and policies will only increase as we come closer to the deadline for meeting the MDGs. It is encouraging that we know that, on a global scale, we will likely meet the goal of halving global poverty. However, the challenges of meeting this target at the country level, especially for most African countries, are daunting. In this global effort against poverty and despair, all development partners have critical roles to play. The Bretton Woods Institutions are needed now more than ever and they, more than ever, need to heed the voices of their smaller shareholders. Developing and developed countries, the public and private sectors, democratic institutions, and civil society must all work closely together and improve the focus of our efforts to guarantee a better future for the world’s poorest.

Statement by Mr. Horst Grebe López, Minister of Economic Development, Bolivia17

Aid Effectiveness and Financing Modalities

We welcome the significant work put into the elaboration of this topic for our meeting. We are running out of time, and in order to accelerate the international development agenda towards the Millennium Development Goals (MDGs), we need more and better aid, which is a challenge for both borrowers and donors.

We want to comment on four points:

- First, improving the efficiency in the use of aid can make a significant contribution to increase the financing resources to meet the MDGs. In particular, urgent work is needed on speeding up the implementation of the harmonization agenda, not only to reduce the bureaucratic burden of multiple conditions but mainly to harmonize the work on environmental and fiduciary safeguard policies. There is a window of opportunity where the use of country systems can reduce the cost of doing business with the multilateral and

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17 Representing Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay.
bilateral donors and, at the same time, enhance capacity building, increase transparency and promote country ownership of development assistance process. Following the priorities of recipient countries in accordance with their budget cycles is another effective and fast way of improving aid efficiency. Receiving countries, on their part, also need to accelerate reforms in particular to streamline their public expenditure management systems and strengthen their systems of control. Moreover, there is a need to implement the third generation reforms to build the micro institutional foundations of a market economy.

• Second, as regard to aid volume and absorptive capacity, we are convinced that developing countries have a significant potential to use additional aid more productively and effectively, and we encourage World Bank and IMF to take additional and more concrete initiatives in this area. We understand that studies by Bretton Woods Institutions show that there were significant improvements in aid absorption and effectiveness in poor countries during the last years. Nevertheless, we would like to see more direct actions from both institutions to streamline these improvements even further, and to reduce the main constraining factors affecting the adequate use of additional technical and financial assistance. Absorptive capacity should not be an excuse to refuse an aid flow increase.

• Third, we all know that unpredictability of aid flows substantially contributes to diminish aid effectiveness. It is in this context that we very much support the idea of the International Financial Facility (IFF). The IFF, by frontloading future aid commitments based on the premise that the rates of return of aid are higher than the cost of borrowing for donors countries, would bring the necessary volume of aid in a predictable way to finance social investment to advance towards the MDGs. We would suggest that IFF funds should be channeled mainly through multilateral financial institutions, which – given their global or regional nature—will permit to allot the funds to the most promising projects and programs, assuring in this way a good return for investment and a better pooling of the risks derived from those investments. In this respect, we urge for more work on the steps ahead to implement IFF timely, particularly on fiscal transparency, governance, legal restrictions and disbursement mechanism among others. However, we suggest adopting a cautious approach to avoid decreasing aid flows after 2015. It is important to create a permanent facility with a view to keeping it working well beyond 2015.

• Finally, as regard to the other alternatives such as global taxes, they are a creative way to increase the availability of financial resources for low-income and medium-income countries. The implementation of global taxes requires above all a political will and a joint commitment. As we call for more work on this topic due to its technical complexities, we call for cautiousness on the issue of externalities that any tax creates.

We believe that a good alternative to new financing and tax mechanisms to collect resources for aid is to reduce spending on current subsidies to agriculture in industrial countries (an equivalent to increase taxes from a public finance point of view), starting with the export subsidies. Specifically, the expected reduction in cash payments to agriculture from the Treasuries of OECD countries, which the Doha Round would imply, could easily be channeled to aid developing countries. We are not talking about small amounts. The recent OECD document “OECD Agricultural Policies 2004: At a Glance” (June 2004) shows that the OECD transfers from taxpayers to support agriculture reached USD$191,197 million in 2003 (from an estimated total support of USD$349.8 billion). If at least a 16% of the subsidies from taxpayers were allocated to direct support, we would have an amount higher than any of the alternatives discussed in the document; besides, several of them are of remote and uncertain applicability.
This simple proposal would allow to increase resources substantially to aid developing countries and, on the other hand, competition in international agricultural markets would be favored, allowing poor farmers to obtain a fair price for their harvests, and letting the world economies allocate their resources better and more equally.

This proposal does not need harmonization, and it would be a source of permanent employment creation. It is well documented that the potential gains from partial merchandise trade liberalization plus the elimination of agricultural export subsidies could bring more than USD500 billion in real income gains and lift about 140 million people out of poverty by 2015. Moreover, remittances of foreign workers to their home countries are currently as large as Official Development Assistance (ODA) flows despite the significant restriction to the movement of labor across national borders. There is great potential to substantially increase financing for development, if progress is achieved in liberalizing trade in goods and services in the context of the Doha Round. We call for global efforts to make the Doha Round a success in the spirit of the Monterrey agreements.

Elements of the Growth Agenda: Investment Climate and Infrastructure

We very much welcome the inclusion of this topic in the Development Committee agenda.

Growth is indispensable for lasting poverty reduction. A good investment climate is vital for sustained growth and employment creation. Moreover, a bad investment climate affects the small and medium enterprises more than the large ones, to the detriment of the poor segment of society.

To construct a vibrant market economy in the developing world, it is necessary to advance not only in macro stabilization, privatization and in allowing prices to reflect their scarcity values, but also to advance in developing the micro-foundations of a well-functioning market economy.

In various regions, despite significant advances in macro stabilization and market-oriented reforms, most countries maintain excessively complex regulations for business and have neglected infrastructure investment. The macro and the liberalization/privatization reforms are a step in the right direction but will not be able to deliver the expected results, in terms of economic growth and employment creation, if the micro-foundations to operate a business are not present. Investment climate reforms should address the wide range of rules and regulations that govern the life of the firms from establishment to liquidation in the key markets in which the firms participate, namely capital, labor and product markets.

Addressing the reform of the micro-foundations of the market economy is not an easy task. Much care should be taken to establish simple, market friendly rules of operation in all markets in which the firm operates and, more importantly, the institutions that can enforce the new rules.

We expect much of the recent “Doing Business” project and of the Investment Climate Surveys to ascertain the status of the investment climate as well as to uncover the significant barriers to doing business in developing countries. We think they are pioneer studies that will allow to give concrete meaning to themes such as institutions and comparative institutional quality, which are at the core of the operation of well-functioning market economies. This will permit to advance in reform programs to modernize the institutions of the market economy in the developing world and to unclog their potential for pro-poor growth and employment creation.

We think that the logical next step in this endeavor is to put the results of the Investment climate Surveys and the Doing Business project into practice. We cannot agree more with the need to have the highest standards of monitoring, evaluation and results measurement of this ambitious reform effort. The
time has come to have the highest accountability standards not only for the implementation of these reforms but also to ensure that they are not reversed in the medium term.

Last but not least, there is a crucial element of the world’s investment climate that has not yet been addressed and has much potential to promote growth and poverty reduction, and that is a successful completion of the Doha Development Round. Multilateral trade liberalization is the most important policy action to substantially improve the investment climate of the World and bring lasting prosperity in particular to the developing world.

Infrastructure

Infrastructure is a key component of the investment climate. Deficit in infrastructure in developing countries is one key determinant of their growth performance.

With regard to instruments and approaches to expand infrastructure in developing countries, we urge the World Bank Group to work the areas of guarantees, sub-sovereign financing and public-private partnership (PPP) in depth. The Bank Group is too small in relation to the enormous needs for financing in the infrastructure sector; therefore, it has to find ways to maximize its impact through partnerships with the private sector and use its financing instruments, in particular its guarantees schemes, innovatively.

One of the most serious constraints to scale up the Bank businesses infrastructure are the restrictive environmental and safeguard policies, which are by far the most stringent of all the IFIs. We urge the Bank to advance in the use of country systems in the application of environmental and social safeguards, which saves on transaction costs for the client and the Bank and is better for institutional development and project sustainability.

Statement by Mr. Bertel Haarder, Minister for Integration and Development Cooperation, Denmark

Key messages

We are fully committed to the Millennium Development Goals (MDGs). We are still a long way off achieving the MDGs. The Global Monitoring Report clearly identified what we need to do, and who needs to do what. It is not easy, whether it is about mobilising more resources, improving development effectiveness or implementing policy reforms. But it can be done, and a number of both developed and developing countries have proved that it is possible and indeed feasible. Let’s use this opportunity to reconfirm our commitments to the MDGs, and share views and experiences on how best to move forward.

Today’s agenda items are all important tools in reaching the goals. We would like to highlight the following key messages:

- Aid effectiveness must be improved. We must move forward with harmonisation, donor coordination and alignment of aid to Poverty Reduction Strategies.

- ODA must be increased. The best option would be for donors to move towards the UN objective of 0.7 percent of GNI.

18 On behalf of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden.
• New financing modalities should be further considered. A number of technical and political issues must be solved to make current proposals feasible.

• A good investment climate and private sector development is essential to achieve economic growth, but growth must be sustainable and accompanied by pro-poor policies to reduce poverty. Equity can, in itself, contribute to higher growth rates.

• Good governance and anti-corruption measures are crucial for ensuring a sound investment climate.

• Implementation of the HIPC Initiative is of key importance, and we must ensure that resources to cover IDA’s HIPC costs are mobilised. But we also need to look beyond debt relief to ensure long-term debt sustainability and thereby foster long-term growth.

• The voice and participation of developing countries must be enhanced. We stress the need for constructive discussions of the issue in the Boards of both the World Bank and the IMF.

Aid Effectiveness and Financing Modalities

Aid effectiveness can and must be further enhanced. One of the most important determinants for increasing effectiveness is the developing countries’ own policies. While overall policies have improved, governments must do more to strengthen good governance and public institutions. A number of encouraging initiatives have been taken in recent years and important progress has been made at country level to improve aid effectiveness. Government-led groups play a central role in this regard and help us align our support with priorities of the Poverty Reduction Strategies (PRS) and to co-ordinate programs. In some countries common results frameworks have been established that are based on joint indicators. But in most countries there is substantial scope for increasing the effectiveness of aid.

Better donor harmonisation is a prerequisite for improved aid effectiveness. We urgently need to translate our rhetoric on harmonisation into action on the ground. Progress in this area remain too slow. Donors need to further align aid with national strategies and to harmonise and simplify policies and practices. The World Bank should continue to strengthen and refine their role in promoting harmonisation efforts at the country level. Better alignment of Country Assistance Strategies (CASs) with PRSs is one of the very important challenges. The PRS must serve as the core framework for harmonizing and aligning donor assistance and be a vehicle for prioritising capacity building needs that are essential for improving aid effectiveness. The PRS should be better linked to the MDGs. In order not to strain the limited capacity of developing countries, progress reporting on PRS need to be unified with reporting on MDG outcomes.

National ownership of the PRSP process should be improved. In many countries, national parliaments, line ministries, local governments, the private sector and civil society need to be better involved in the PRSP process. We note with grave concern that PRSPs have been formally presented to the parliament in only half of the countries concerned. The criticism that country ownership may be hindered by the PRS being a requirement for concessional lending from the Bretton Woods Institutions should be taken serious. But we also recognize that this link has worked as an important incentive in the introduction of the PRS approach. We expect the Bank to further explore ways of alleviating this tension, including possible modification of the procedure of Board consideration of PRSPs.
The link between PRS and the national budget is in many countries inadequate. Incomplete costing of programmes is an obstacle for incorporating PRS priorities in budget allocations. The financing of the PRS should be linked to the medium term expenditure framework, the annual budget and programs where all resources, including domestic revenues and aid flows, are incorporated. We further believe that good governance and anti-corruption measures and systems for monitoring and evaluating results should be important elements of the PRS.

The best option for securing more aid would be for donors to move towards the UN objective of 0.7 percent of GNI. Delivering on the pledges from Monterrey is crucial, but not enough. It is estimated that aid has to be doubled by 2015 to achieve the MDGs. Aid has increased, but still falls significantly short of what is needed to reach the MDGs. Furthermore, half of the increases in aid commitments from 2001 to 2003 were due to exchange rate movements and inflation. In this connection, we would also like to caution against redefining ODA to include spending that are not primarily aimed at poverty reduction, since that will give us a false picture of the level of development assistance.

A substantial increase in IDA’s resources is required. The donor community need to ensure that IDA maintains its crucial role in the fight against poverty. Bearing in mind that the IDA14 replenishment will constitute the bulk of IDA’s contribution to financing the MDGs, we urge all participating countries to support a replenishment level that allows IDA to – as a minimum – maintain its share of the ODA that is required to reach the MDGs. Debt sustainability is a promising prime criteria for identifying the appropriate grants envelope in IDA.

More aid can be effectively used. The Nordic and Baltic countries believe that more aid can be effectively used. Sector and programme aid should, however, be encouraged in order to lower the administrative burden of external aid. Country experience shows that there is significant scope for scaling up and that more aid would accelerate progress towards achieving the MDGs. In many recipient countries capacity building remains essential. It is especially important that the respective governments improve the macroeconomic performance, governance and strengthen institutions. Improved public expenditure management is critical in this context. Donors must – where needed – support the governments’ efforts in these areas.

The possibility of identifying new financing modalities should be fully explored. We welcome the work by the World Bank and others in further exploring financing modalities that may help mobilise additional resources to achieve the MDGs. However, these modalities should not be used to divert attention from previous commitments.

An International Finance Facility (IFF) could be a relevant instrument for countries prepared to make a legally binding pledge of future increase in aid. We strongly agree - as stressed in the DC document on this issue - that front loading of future aid flows through such a mechanism as IFF, must ensure additionality, i.e. result in a short term increase and then a steady flow of funds.

Some of the global tax proposals seem attractive. We appreciate the analysis on the various global tax mechanisms to mobilise further external financing. Although some of the global tax proposals have attractive features, such as correcting international externalities, they would take time to implement. At this juncture, they may not gain sufficient political support and will consequently not contribute to progress towards financing the MDGs. We would, however, like the Bank and the IMF together with the UN and other relevant actors to further explore the pros and cons of global tax proposals, as well as voluntary contributions mechanisms, such as a global lottery.

A more differentiated use of financing mechanisms could increase investments in reaching the MDGs. In our view, the Bank should continue as a primarily financial institution for concessional
lending. However, we fully support the Bank’s suggestion of looking more into where grants work the best and where loans are a more appropriate financing mechanism. Developing countries have very different access to the spectrum of financing mechanisms – be it domestic resources, ODA, private capital transfers or trade gains. We should, therefore, seek a more flexible financing system that is based on the needs of the recipients and aimed at supporting investments for reaching the MDGs.

Considering that a third of the poor live in middle income countries, innovative ways to make better use of existing financial mechanisms available for these countries are called for.

_Aid in itself is not enough._ Increased ODA is not sufficient to ensure that we reach the MDGs. Aid can only be complementary to other resources and a catalyst for enhancing the benefits of other steps taken. Increased trade is one of the most important factors for development and a key pillar for achieving the MDGs. We acknowledge the responsibility the industrial countries have in improving market access for agricultural goods. We, therefore, welcome the decision by the WTO on August 1 this year to proceed with the multilateral trade negotiations under the Doha Development Agenda.

**Growth and Private Sector Development**

_Economic growth is essential, but needs to be accompanied by pro-poor policies and with measures to protect the environment._ The Nordic and Baltic countries fully agree on the need for further enhancing our understanding of how to effectively improve the climate for investments and private sector development. It is simply crucial in our efforts to strengthen growth. We must, however, remember that growth is a necessary, but not sufficient, condition for sustained poverty reduction. It must also be ensured that it is environmentally sustainable and that the poorer segments of the population can both contribute to and share the benefits of economic growth. Accordingly, an inherent part of a comprehensive strategy to strengthen growth should also address issues of unequal distribution. Equity is an important element of the growth agenda and can, in itself, contribute to higher growth rates. We, therefore, very much welcome that the World Development Report 2006 will focus on equity and development.

_A country specific approach to growth is required._ Experience has shown that there are some fundamental principles for growth, including macro-economic stability, competition in allocation of resources and market access. Economic policies and advice must, however, be country specific in order to be effective. The Nordic and Baltic countries agree that more economic and social analysis at the country level is needed to obtain a better understanding of the unique situation and growth potential of each country.

_The private sector is vital for growth, employment and poverty reduction._ We agree, as stated by the Bank, that the developing countries need to improve the investment climate to attract investments and ensure private sector development. In this context we would like to emphasize the importance of social and environmental safeguards as an integral part of the Bank’s support to private sector development. The results achieved by IFC in this area are appreciated. Provision of infrastructure services, property and labour rights, and the functioning of labour and finance markets also need to be ensured.

_Links between infrastructure investments and poverty reduction need to be further explored._ The Nordic and Baltic countries welcome the efforts of the World Bank Group in implementing the Infrastructure Action Plan, including efforts to mobilise funds from private sources and enhancing public private partnerships. We agree that the World Bank Group can and should play an important catalytic role in leveraging financing from multiple sources to ensure the provision of infrastructure services. Our understanding of the links between infrastructure investments, growth and poverty reduction is, however, not complete. We encourage the Bank to further explore these links.
Good governance, respect for the rule of law and anti-corruption measures crucial for stimulating growth and investment. It is time to move beyond rhetoric and take prompt action, whenever we face corruption. We welcome the efforts made by the Bank to fight corruption, and urge the Bank to further strengthen its efforts in this area. Good governance and respect for the rule of law should likewise be given high priority by all partners.

HIPC and Debt Sustainability

Further progress in the implementing the HIPC Initiative is of key importance. Debt sustainability in low-income countries remains an essential condition for economic stability, growth and poverty reduction. We are pleased that debt relief under the Initiative continues to help countries to increase poverty reducing expenditures. We urge all creditors to participate in the HIPC relief efforts and all donors to substantially increase their contribution to the HIPC Trust Fund to secure the additionality of the HIPC Initiative and to make sure that IDA’s ability to assist the poorest countries is not compromised. We must make sure that the HIPC technical meetings continue, and that the required recourses to cover IDA’s HIPC costs are mobilised.

We support a further extension of the sunset clause of the HIPC Initiative by two years. The Nordic and Baltic countries note that a majority in the Boards of the IMF and the World Bank prefer an extension with a modification that limits the eligibility to a set of countries, using income and indebtedness criteria that are applied based on end-2004.

We need to look beyond debt relief to ensure long-term debt sustainability. It is important that we find ways to maintain what has been reached through the HIPC Initiative. The World Bank and IMF’s Operational Framework for Debt Sustainability provides a promising basis for incorporating debt sustainability considerations in a forward-looking way. We would like to emphasise that close cooperation and coordination between the Bank and the IMF is of utmost importance in implementing this framework.

Voice of Developing and Transition Countries

The voice and participation of developing countries must be enhanced. The Nordic and Baltic countries are strongly in favour of enhancing the voice and participation of developing countries within the World Bank and the IMF. Important progress has been made on practical reforms, such as improvement of the capacity of the developing countries constituency offices. In this context we welcome the establishment of the Analytical Trust Fund. Furthermore we should not forget that poverty reduction strategies also provide an important instrument for developing countries to enhance their voice.

More must be done. We will constructively and candidly consider all options on the voice agenda with a view to move the issue forward. As a first step, we support an increase in basic votes to enhance the voting power of developing countries. We regret that only very limited progress has been made during the last year, and stress the need for continued discussions in the Boards of the World Bank and IMF. We urge countries to be more flexible in order to find sustainable solutions to these fundamental questions.

Statement by Mr. Jin Renqing, Minister of Finance, People’s Republic of China

We welcome the focus of this Development Committee meeting on such priority issues as how to mobilize additional development assistance, promote economic development and poverty reduction through growth and infrastructure development and strengthen the voice and participation of developing
countries in international financial institutions. These issues are essential to the achievement of Millennium Development Goals (MDGs). I would like to share my observations as follows:

**Aid effectiveness and financing modalities**

Developing countries need adequate financial support from developed countries to support their structural reform efforts. This is essential to achieve MDGs, and it is also the core of Monterrey consensus. In the process of progressing towards MDGs, mobilizing incremental development assistance quickly and significantly is an important mission that needs to be fulfilled by international community. Peace and development are closely linked and one cannot be sustained without the other. It is the unshakable responsibilities and mutual interests of all countries to support economic development and poverty reduction of poor countries. Currently, military expenditure in developed countries amounts to US$700 billion per year, and their agriculture subsidies have reached US$300 billion, whilst the official development assistance is less than US$60 billion. This must be changed.

We welcome the efforts made by international community to increase development assistance since last meeting. We noted that some developed countries have reached 0.7% UN target of development assistance as a ratio of their GNP, and several other developed countries have committed to the target with specified time table. In aggregate, however, the overall official development assistance is only 0.23% of their GNP. It is lower than the level in the early 1990s, and far less than what is needed by developing countries to carry out structural adjustment and promote social development. Given the limited time left before 2015, the international community must have a sense of urgency to address the financial gap, which we believe is the center of our discussion on this topic. It is also an important test for the international community’s willingness and sincerity to push forward progress towards MDGs. We once again call for developed countries to take their due responsibilities to increase their official development assistance as quickly as possible.

We are pleased to note that developing countries have made great progress in policy reforms, and their capacity to use the development assistance resources effectively has been improving rapidly. Therefore, donors should not use aid absorptive capacity as an excuse to hold up on aid commitment to or fail to take action to increase additional aid.

We applaud the efforts of the Bank in the past year to encourage the international community to increase aid commitment. The global poverty reduction conference held in May has deepened the understanding of both the concept and practice for poverty reduction, and has broadened the consensus on acting together to tackle global poverty. The conference has also emphasized the need to mobilize more aid and adopt innovative financing modalities to scale up effective activities in poverty reduction. The paper prepared by the World Bank is helpful for the international community to realize the importance and urgency of increasing aid. And the paper has laid out the technicalities of various financing modalities to increase development aid. We welcome and will be willing to further discuss those financing modalities, including international finance facility (IFF) and the Global Taxation. No matter what kind of modalities are to be adopted, the most urgent need is to mobilize additional and substantial aid as quickly as possible. We hope that developed countries can come up with political wisdom and commitment to implement Monterrey consensus. In the meanwhile, we hope that the international community will continue its efforts to ensure the successful operation of the existing aid mechanisms, including the successful conclusion of IDA 14 replenishment as early as possible.

**Elements of growth, investment climate and infrastructure development**

We welcome the discussion of economic growth and infrastructure investment at the Development Committee meeting. This marks a new understanding by the international community,
especially Multilateral Development Banks, on redefining the significance of growth and its implication for poverty reduction by taking stock of lessons learned in the past and freeing themselves from rigid theories, after a long period of thinking and practice.

The Chinese experience over the past 20 years proves that development is the core truth. Economic growth is the basis for comprehensive development. It is also the physical prerequisite to fight against poverty. Only with growth, can job opportunities be created and people’s living standard be raised; only with growth, can sufficient resources be generated to support social development including education and health care. What we have learned in China is that, while maintaining sustainable growth, so long as we adopt a people-focused, all-round, holistic and balanced development approach in a scientific way, build up a sound and fair distribution system step by step, and protect the vulnerable groups, the whole population can share the benefit of growth and constantly improve their living standards.

To achieve economic growth, it is critical to invest in infrastructure and eliminate bottle necks of development. This is also an important element of a sound investment climate. Adequate access to infrastructure facilities is the basic economic right for the poor. Infrastructure facilities provide physical means for the poor to participate in development, including entering into markets, obtaining relevant information and immigrating. It is well-known truth in China that “to get rich, one must build road first”, a summary of Chinese approach of economic development and poverty reduction. The focus on the centrality of growth in fighting against poverty and the importance attached to infrastructure represents an encouraging evolution of development theories as a result of learning from empirical experience. It provides an important guidance to MDBs in redefining their work priorities and objectives. All of these will make positive contributions to MDGs.

I would like to make the following specific comments:

- **Investment Climate.** A favorable investment climate, including a clean government, good governance, a sound legal system and necessary infrastructure, is the precondition to attract private investment and achieve economic growth. The core criteria to measure the success of investment climate reform should be based on the results on the ground, that is, whether private investment has increased or not. It has to be acknowledged that the ways to improve investment climate vary according to different country circumstances and their development stages. The World Bank’s assistance to its client countries in investment climate reform is a cooperative and mutual learning process, and the Bank should pay attention to the differences of country circumstances and respect the ownership of developing countries in the areas of lending operations, analytical work or monitoring results.

- **Public-Private Sector Partnership.** Past experience shows that, with regard to infrastructure development, while it is inadequate to rely on public investment only, the complete shift to private sector involvement has also resulted in painful lessons. This is why the Bank, as a multilateral development agency, has reemphasized its role in helping client countries’ infrastructure investment. It makes good sense for the bank to promote public-private partnership, and explore ways to increase infrastructure investment. We hope that the infrastructure action plan can be implemented quickly so as to promote infrastructure development and economic growth in developing countries.

- **Public Investment and Fiscal Space.** We need to reach a common understanding of relationship between short-term fiscal sustainability and long-term economic development. Infrastructure is critical to tackle bottle necks of economic development and meet the needs of people. From medium to long term point of view, infrastructure will have direct financial
returns. Economic growth and tax increase will help to improve government’s fiscal account. Short-term fiscal balance target should not be pursued at the expense of long term economic development. Therefore, we welcome the cooperation between the Bank and the Fund in working out ways to increase fiscal space for public investment.

**Strengthening developing countries voice and participation**

The participation of developing countries in world affairs is indispensable to establish a fair and balanced world economic order. The World Bank is an international development institution, and to enhance the participation of developing and transition countries in the decision-making of the World Bank would serve as an important guarantee for the Bank to achieve its objective of poverty reduction through economic development. The increased weight of developing countries in the world economy should be properly reflected through the IMF quota and the Bank’s share allocation. We support the constant efforts of the Development committee to address this issue. We hope the two Institutions will continue to work on feasible solutions.

We would also like to reiterate that the proportion of the staff from member countries should be consistent with their shares in the two Institutions. And we once again call for the two Institutions to increase the recruitment of professionals from developing countries, and make efforts to assign and promote the staff from developing countries to senior positions.

**Statement by Aleksei Kudrin, Minister of Finance of the Russian Federation**

**Aid Effectiveness and Financing Modalities**

The international community is increasingly focusing on the Millennium Development Goals, and in particular on the steps necessary to accelerate progress in this important area. In this respect we see the approaching fifth anniversary of the MDGs as an opportunity to review the experience so far, and to take a fresh look at the problems of development. The report under consideration takes an important step in this direction. We are particularly gratified to see that the authors of the report have managed to avoid bias and undue simplification in describing the current state of play. We support the analytical approach of the paper, which stresses the need to improve the quality of development assistance rather than calling for a mechanistic increase in aid volumes.

This is not the first time that Development Committee turns to the issue of aid effectiveness. The novelty of the latest report is in that it presents a thorough and comprehensive description and analysis of all the options at our disposal. The paper correctly recognizes enhanced absorption capacity as a key condition of reaching the MDGs, and takes a pragmatic and realistic approach towards identifying and addressing the main obstacles in this area. In our view one of the paper’s most interesting conclusions is that many such obstacles are found at sub-national levels, and that the IFIs can help to address them. Another noteworthy conclusion concerns the link between country absorptive capacity and sectoral distribution of aid, which we see as yet another argument for increasing the share of infrastructure lending.

The issue of the quality and concessionality of aid links the task of reaching the MDGs to the problem of debt sustainability. Increasing resource requirements of some of the poor countries have been sometimes seen as contradicting the need for maintaining external debt at manageable levels. It has even sometimes been suggested that sensible debt management is an obstacle for reaching the MDGs. While we certainly do not share this view, we welcome recent steps to resolve this apparent contradiction, in particular, progress in designing the system of external aid based on sustainable debt levels. This is
essential for preventing debt crises in poor countries while at the same time maintaining their access to external financing. We support the emerging outlines of the new system of international development assistance and the general direction of its development, while also noting the obvious need for further work and improvements in its methodology.

We share the concern about the lack of resources for development, and therefore support the work aimed at augmenting aid volumes. Several proposals have been put forward in this area, including some ground breaking ones. We are ready to consider any constructive proposals leading to progress on the basis of international consensus, which, in the case of the more novel initiatives, would likely require piloting as the first step. However, in view of the utmost importance of this issue, we believe that our first priority should be exhausting the opportunities implicit in the existing international financial architecture.

Although we strongly support the efforts to increase aid volumes and improve aid effectiveness, we are also convinced that this work should not distract us from the more important goal, that of fostering economic growth and sound economic policies. Experience has proven than this is the only sure and sustainable way for the developing countries to reach the MDGs, while external assistance can at best play a supporting role. If we look at the record of growth from the early 1960es to today, we will see that the countries that made the most spectacular progress did so almost entirely on their own, without any significant external aid. At the same time all successful countries based their growth strategy on the traditional recipe of macroeconomic stability, trade liberalization and the use of market systems – adapting it as necessary to local conditions. On the other hand, countries that have been receiving massive volumes of concessional financing, often to the tune of 10% of their GDP annually, not only failed to produce comparable growth results but became dependent on external aid for the foreseeable future.

Strengthening the Foundations for Growth and Private Sector Development: Investment Climate and Infrastructure Development

The Development Committee has not addressed the issues of private sector development and infrastructure since the mid-1990es, and in our view this discussion is long overdue. We find it especially appropriate because it responds to the concerns raised recently by many borrowing countries about maintaining the capacity and relevance of the World Bank Group in crucial areas of development. We welcome the respective papers, which are concise and direct in dealing with these issues. We also appreciate an explicit link between these papers and the document on aid effectiveness and financing modalities, which emphasizes the crucial role of economic growth underpinned by private sector and infrastructure development in attaining the MDGs.

The World Bank has recently been paying much attention to assessing and improving investment climate in the borrowing countries. We strongly support this work. For example, the “Doing Business” project is a unique source of objective information on investment climate and a real eye opener for the authorities and investors. It clearly indicates the so far untapped reserves of incremental growth and employment generation. We are also pleased to see that access to infrastructure services is identified as a major component of overall investment climate, regardless of the sources of infrastructure development – public or private. These initial studies should be expanded to cover not only the areas pertaining to governance and business regulations but also other important components of investment climate, such as access to credit, financial sector development, competitiveness and productivity factors, and so on.

In this respect we welcome the continued support offered by the World Bank Group to its clients in implementing their investment climate reform agendas. This support takes many forms, including advisory services in combination with policy-based lending, and stand-alone advisory services. The Bank
should be ready to respond to client needs in this area independent of their current fiscal and balance-of-payment situation, which presumes adequate administrative budget.

It is now clear that the decline in the Bank’s infrastructure lending during the 1990s was a serious strategic miscalculation. This experience needs to be critically analyzed in order not to repeat these mistakes in the future.

We are pleased to see that in the framework of its Infrastructure Action Plan the WBG started to rebuild its lending portfolio and infrastructure knowledge base while adopting a more realistic approach to the respective roles of the public and private sectors in providing infrastructure services. This especially concerns the area of public-private partnerships. It is not a secret that some previous attempts to attract private investors into infrastructure and energy sectors at any price in a weak institutional environment resulted in the accumulation of government contingent liabilities and eventual costly lawsuits. But the idea of the PPP in different forms remains a viable and important one, and properly structured PPPs could well be the way forward. The WBG needs to expand its use of traditional and new instruments that could mitigate non-commercial risks for investors while limiting government liabilities and promoting fiscal transparency.

Related to that is the issue of infrastructure tariff and subsidy policy, which is in turn linked to the problem of affordability and socio-political stability.

Another area that needs to be addressed is sub-sovereign lending for infrastructure development without sovereign guarantee. Bank’s inability to engage in this type of operations despite their increased relevance, large potential demand and direct links to poverty reduction represents a serious gap in WBG services. We look forward to possible solutions in this area and stand ready to support any proposal, including the creation of a special entity dedicated to sub-sovereign lending if this type of activity could not be accommodated within the existing structure of WBG.

Debt and Debt Sustainability

We believe that the issues of debt management and debt sustainability cannot be considered in isolation from the implementation of the HIPC Initiative. We cannot increase lending, even for the noblest of purposes, while at the same time continuously forgiving earlier debts. Such a practice impedes fiscal transparency, undermines international financial architecture and distorts incentives for the borrowing countries. It is time we took a fresh look at this problem and address it in a firm and comprehensive manner. We cannot attain the Millennium Goals through uncontrollably and unsustainably inflating the level of indebtedness.

We hope that the latest extension of the HIPC Initiative for another two years is the last action of this sort, after which no more extensions will be considered. We would also urge the international community to adhere to the existing December 31, 2004 deadline for including new members into the Initiative. We must resist temptation to extend this deadline any further.

We need to confront the problem of financial discipline and display restraint in extending credit to non-creditworthy countries. The mechanism for maintaining debt of the poorest countries at sustainable levels, which is currently being developed, should give us an adequate tool for addressing this problem. In this respect we should also make an effort to develop new financing mechanisms that do not lead to debt accumulation.
Enhancing Voice and Participation of Developing and Transition Countries in Decision Making at the World Bank and the International Monetary Fund

The question of the voice of developing and transition countries in the Bretton Woods institutions continues to occupy an important place on the DC agenda. The core of the issue is how to improve the reflection of the client countries’ true needs and priorities in the Bank’s and Fund’s policies and practice. The analysis of development assistance over the past decades draws a key conclusion: the impetus of growth comes from the inside, and development models cannot be easily transplanted or replicated. The only successful kind of development assistance is the one that nurtures this internal impetus, encouraging local priorities and capacity.

In this regard we strongly support the recent commendable trend of basing projects and programs of assistance on existing country development programs, as exemplified by the PRS process. The next logical step in this work should be greater reliance on the countries’ own institutional and implementation capacity, in particular, setting up fewer parallel structures and systems for project implementation. Obviously, this move to the use of country systems should be gradual, only where it makes practical sense, and should not undermine the high standard of Bank supported operations. Nevertheless, given the centrality of this issue for ensuring country ownership, we hope that the work on the use of country systems could be accelerated.

From the point of view of improving the voice of client countries, mechanisms of establishing their true developing priorities are of the utmost importance. Unfortunately, to date this discussion has centered on the possibility of redistributing the votes in the Bank and Fund Boards. We believe this approach to be a dangerous mistake. On the one hand, demands to redistribute the votes necessarily cause tensions among the shareholders, thus undermining the long-standing and well-functioning principle of governing by consensus. On the other hand, continued attention to this controversial proposition distracts attention and energy from the real issues, which, as evident from the presented report, do have practical solutions.

Statement by Mr. Nor Mohamed Yakcop, Minister of Finance II, Malaysia

We appreciate that the focus of the Development Committee this time is on aid and aid effectiveness, improving the investment climate and infrastructure for growth and poverty reduction, increasing the voice of developing and transition countries in the Bank’s on-going efforts to help the poor and ensuring debt sustainability to enable low income countries not to be overburdened by debt in meeting the Millennium Development Goals (MDGs).

Aid Effectiveness and Financing Modalities

We are pleased to note that more aid is being allocated to poorer countries. Recent work on the absorptive capacity quoted in the Development Committee (DC) paper shows that there is considerable scope for increasing aid volumes without reaching the limits of absorptive capacity constraints. However, we are disheartened to note that although the level of Official Development Assistance (ODA) has increased in recent years, yet it has fallen far short of the agreed target of 0.7 percent of Gross National Income (GNI). In 2003, donor countries delivered US$68.4 billion ODA, which is only 0.23 percent of

their GNI. This percentage is expected to increase to only 0.32 percent in 2010, even if all DAC/OECD countries were to meet their expressed commitments.

In view of the big shortfall in aid to developing countries, we support the move to explore possible new and innovative sources of funding not only to increase the much needed volume of aid but, more importantly, to ensure the predictability of its delivery to the needy recipient countries.

The proposed International Finance Facility (IFF) is one such innovative instrument that has great potential. The frontloading aspect of the IFF will assist donors to meet the immediate need to increase the volume of aid. It also allows commitments made by donors to be fulfilled immediately and therefore assists recipient countries to plan and implement their development programs to meet the needs of the poor in accordance with the receipt of the aid flows. This will considerably enhance the effectiveness of aid utilization as the availability of the funds can then be matched with the readiness of the country to implement its plans.

We also wish to support the proposal for global taxation as a means to improve the efficiency in allocating national and global resources. Resources of the world are being tapped often to the point of depletion, and developed countries are spending their money to benefit from and obtain returns from these resources. We feel it is highly appropriate if these expenditures are taxed to enable the revenue raised to be directed to the poor people of the world. We have to accept the fact that we cannot stop or prevent such expenditures from being made but, at the very least, the poor will also get to benefit from these spending if there is a tax imposed that will channel the revenue collected to increase the volume of aid to meet the targets of the MDGs.

**Elements of the Growth Agenda**

**Investment Climate and Infrastructure**

We are pleased to note that there is widespread recognition of the link between investment climate and infrastructure, economic growth and poverty reduction. A sound investment climate is crucial for the development of the private sector to be an engine of growth for the economy. The main challenge now is to assist member countries in getting the necessary infrastructure in place sooner. The Bank’s strategy should be flexible enough to respond to the varied nature and specific needs of its clients. In this regard, we support the plan to reexamine instruments and policies of the Bank to identify the specific responses and strategies that are critical for the improvement of investment climate and infrastructure development in client countries.

**World Bank’s Infrastructure Action Plan**

We note with appreciation the report on the implementation of the Infrastructure Action Plan. We welcome the Bank’s re-engagement and focus on infrastructure and the Bank Group’s efforts to get the private sector to invest in this sector. Infrastructure has an important role to play in poverty reduction and ultimately the achievement of the MDGs. We fully agree that it is very important for the public and private sectors to work in partnership and ensure that there is adequate funding available to meet the huge needs for infrastructure development in developing countries. In this regard, we are pleased to note the Bank’s willingness to engage along the entire public-private sector spectrum for both infrastructure financing and service provision. We also strongly support the Bank’s continued work in addressing the issue of fiscal space for infrastructure investments and improve its product mix to stimulate infrastructure investment. Additionally, we also urge the Bank to continue to increase its focus on expanding support at the regional and cross-country levels to bring greater benefits to more people.
The Bank should also continue its work on financing at sub-sovereign level in the Middle Income Countries as there are more infrastructure investments to be made at state or municipal levels. Investments at these levels would have a direct impact on local economic growth and development. However, this should be done with central government support and approval. This is to ensure coordinated economic development in a country, both for physical as well as financial considerations.

We also wish to extend our support for the Bank’s work to develop a core set of infrastructure indicators for each initiative in order to ensure better results in measurement and management. However, we would like to underscore the fact that poor results should not be used as the basis for denying a country further resource allocation and assistance. On the other hand, it should be treated as guidance on how to better utilize the available resources to support the country and improve its conditions.

Voice and Participation of Developing and Transition Countries

Progress has been made on the Voice Agenda with regard to enhancing country ownership and perspectives in the Bank-supported programs and greater support for the Executive Director’s office of large multi-country constituencies, including our constituency which has 11 member countries. Nevertheless, we are disappointed with the slow progress made in moving this Agenda forward, in particular with regard to the voting and quota structure as well as Board representation.

While the Bank’s work program has evolved with the changing needs of member countries since the historic meeting in Bretton Woods 60 years ago, its structure still remains the same. The economic status of member countries have changed drastically, particularly in Asia where many countries are now playing a greater role in the global economy. In light of this, developing and transition countries must be given due recognition and greater ownership and voice in the operations and policies of the Bank. To remain relevant, the structure, policies and operations of the Bank must evolve with time.

We support the proposal for the Bank to design a framework for future consideration of the Voice Agenda. The framework would provide a proper and structured plan with a time frame to move the agenda forward. We acknowledge that this process requires close coordination between the Bank and the Fund which share common shareholders and be complementary in their objectives.

Debt and Debt Sustainability

We welcome the work done by the Bank to develop further the proposed debt sustainability framework and address its operational issues. The framework is for determining the right mix of loans and grants and more importantly for ensuring that the appropriate level of debt is extended to a country. We support the view that determining debt sustainability of a country is not a straightforward arithmetic process of calculating the right threshold. This is because the capacity of a country to sustain its debt payments is also affected by factors beyond its control such as natural calamities and regional unrest that cannot be quantified and reflected in the threshold indicators. In this regard, the indicative debt-burden thresholds should be used as a guide rather than as a rigid ceiling. The Bank must also take into consideration specific country circumstances in deciding the appropriate mix of loans and grants.

We fully agree that sound policies are critical in enhancing aid effectiveness and the Country Policy and Institutional Assessment (CPIA) could be used in assessing the quality of policies and institutions. Nevertheless, we would like the Bank to proceed cautiously on the use of the CPIA as some elements of subjectivity in the CPIA may result in less than accurate assessment of the policy and institutional reforms in a country. In this regard we welcome the proposal to use debt sustainability analysis framework as a basis for operational changes in IDA operations. We also welcome the
modalities for collaboration with the IMF on the debt sustainability issue and encourage the extension of such collaboration to other multilateral development Banks (MDBs).

We are hopeful that the issues discussed at this meeting relating to aid and aid effectiveness, growth, debt sustainability and increasing the voice of developing and transition countries will be seriously addressed by all parties concerned going forward, and we hope the Development Committee will get positive reports with concrete and significant commitments made to address these issues when we meet again in Spring 2005.

Statement by Mrs. Ngozi Okonjo-Iweala, Minister of Finance, Nigeria

Our agenda this year reflects the emerging consensus that achieving the Millennium Development Goals (MDG’s) will, at the minimum, require substantially improved aid flows from both official and private sources, better and increased donor coordination and harmonization, a deeper focus on growth issues and debt sustainability, as well as significant progress on improving governance of the Breton Woods Institutions.

Note on Aid Effectiveness and Financing Modalities

The paper under discussion reaffirms the points we have made on previous occasions that our countries’ absorptive capacities and abilities to utilize aid have improved and that more aid will be required to meet the MDGs by 2015. At our last meeting, we reiterated the need for a substantial scaling up of official development assistance (ODA) by our development partners to 0.7 percent of gross national income (GNI) and for improved predictability in aid flows. As we meet today, there are several global programs that remain under-funded such as the Education for All and the HIPC initiatives. We believe that the major pre-occupation now for donors should be that of exploring ways to marshal the international political will to scale up aid flows in line with the Monterrey Consensus. To this end, we welcome the fact that some countries have already committed themselves to a clear timetable for scaling up official aid towards the target of 0.7 percent of GNI.

We also note the recent increase in aid flows, the bulk of which went to special interventions in a few countries. This is a clear evidence that substantial scaling up of aid to all countries is possible provided the necessary political will can be harnessed.

The Global Monitoring Report (GMR) called for a strengthening of the global compact to achieve development effectiveness. We are pleased that research work carried out by Bank and Fund staff confirms the position we expressed during the last Spring meeting that improved policy environment in Sub-Saharan Africa (SSA) has enhanced the capacity of our countries to absorb more aid effectively. With adequate financial resources, therefore, progress towards meeting the MDGs can be accelerated.

The issue of delivering aid effectively is intricately linked to that of harmonization. The GMR also called on the development partners to assist with improving absorptive capacity through the alignment of their procedures with country systems and donor harmonization. The experiences of Tanzania and Mozambique clearly confirm the benefits of donor harmonization. However, we note that in many of our countries aid programs continue to be fragmentated and full of conditionalities, resulting in countries incurring very high transaction costs. Therefore, we urge our development partners to expedite

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the process of harmonization and hope that substantial progress will be reported at the Second High-level Forum on harmonization to be held in Paris.

It is our considered view that there is scope for our countries to absorb more aid flows provided the appropriate capacity constraints to aid delivery are identified and dealt with. Also, in order to scale up aid, it is our view that the Bank needs to look more closely on the issue of fiscal space. We urge the Bank and Fund to speed up the technical work in this regard in the context of medium-term development objectives.

ThePRS framework has helped to enhance the development of country-owned and credible long-term strategies for poverty reduction and growth. However, consolidation of this participatory process is likely to be fundamentally undermined by public frustrations occasioned by donors failing to align their procedures to country priorities and by inadequate and unpredictable aid flows. While faster economic growth and prudent fiscal management should gradually enhance mobilization of domestic resources, including public-private fiscal management, this has to be complemented by substantial external resources. For our part, we are committed to continue strengthening our countries’ systems to improve the environment for aid delivery, accountability and for measurement of results. We therefore look forward to the early conclusion of the IDA 14 negotiations which should also address the requirements for special initiatives such as regional integration and contain a larger grant envelope.

While a performance-based aid allocation mechanism provides appropriate incentives for all IDA countries, it may in some cases result in substantially reduced donor assistance to countries that need it most. We have in mind LICUS countries which often need to rebuild basic economic infrastructure in order to extricate themselves from a poverty trap. Thus, limiting assistance to such countries to technical assistance and capacity building projects only may not be the most appropriate response. We would therefore urge that such countries be engaged at an early stage to determine, on a case-by-case basis, the most effective way of delivering augmented external assistance.

The issue of aid volatility has been identified as a matter of concern for many developing countries as it diverts their attention from dealing with the more pressing issues of social service delivery. Unpredictable aid delivery has also contributed to the growing problem of domestic debt in some of our countries. In this connection, we very much look forward to a timely finalization of the implementation mechanisms for the International Financing Facility (IFF). The IFF as proposed should ensure that aid flows are predictable, long-term and need not compromise the existing aid architecture. Recipient countries must also be consulted and involved in finalizing issues around allocations, operating principles and policies.

We also welcome other efforts to diversify sources of funding such as global taxation and voluntary contributions and are encouraged by the finding by the staff of the two institutions that the innovative financing mechanisms are technically feasible.

Note on debt sustainability in low-income countries

We take note of the efforts made by both the Bank and Fund to come up with a debt sustainability framework that will assist in assessing the debt carrying capacity of borrower countries, with a view to better determine the appropriate mix of financing. This committee has previously addressed the issue of the debt overhang that continues to constrain countries to graduate from concessional to non-concessional sources of financing. We also agreed on the need to avoid situations where countries that had graduated from HIPC for example, find themselves with unsustainable debt situations. Today, the heavy debt burden in SSA continues to constrain policy makers from investing in public infrastructure and human
resources needed to support growth. Therefore, for the proposed debt sustainability framework to be effective, it also needs to be buttressed by efforts to unleash the economic growth of developing countries.

However, as we seek ways and means of ensuring debt sustainability, and as the HIPC Sun-Set Clause is approached in 2006, we are disappointed that not much attention has been given to non-HIPC low-income countries whose debt stress levels continue to undermine their effort towards achieving the MDGs.

We welcome the recently announced measures towards complete debt cancellations, particularly those that would ensure the additionality of aid commitments. This is a major step in the right direction towards addressing the burden of debt in poor countries.

Note on the Elements of the growth agenda: Investment Climate and Infrastructure

There is a renewed recognition of the role that the private sector can play in assisting countries to meet their developmental objectives. Besides improved macroeconomic environments, enhancing private sector businesses in SSA will require, on the domestic front, the creation of sound investment climates including adequate infrastructure. To this end, we welcome the work that both the IFC and MIGA are playing to improve the investment climate of our countries.

We also applaud the efforts of the international community to bring the Doha Negotiations back on the Agenda. In anticipation of the negotiations, therefore, we call for the finalization of the issues related to trade facilitation, including development of supply capacity and competitiveness, thereby enhancing market access that is necessary to unleash the growth potential of our countries.

More innovative financing instruments are needed, including the use of local currencies as well as lending instruments at the sub-sovereign government level while taking into account regional dynamics.

While we recognize that both IDA and IFC have made commendable progress in improving the effectiveness of their assistance programs to the private sector in SSA, more still needs to be done for the two institutions to make a significant contribution to the Region’s economic growth and development. In this connection, we call upon both IDA and IFC to work together towards implementation of their joint initiative for promoting micro, small and medium scale enterprises in SSA. Further, to succeed in promoting significant private sector growth for poverty reduction, there is a need for improved coordination of the WBG’s efforts.

We note, however, that MIGA is yet to articulate an engagement strategy for SSA. In the meantime, the Agency’s scale of operations in the region remains too low to have any significant impact on economic growth and poverty alleviation. Thus, to enhance its effectiveness, MIGA requires to urgently formulate an engagement strategy for SSA. Furthermore, MIGA needs to coordinate its strategy and activities with IDA and IFC to exploit synergies.

Note on Infrastructure Action Plan

We have taken note of and would like to express appreciation for the progress made in increasing financial commitments and instituting new Bank procedures and processes related to the infrastructure action plan, in FY04. We particularly welcome the Bank’s engagement with NEPAD in a regional approach to infrastructure development and encourage a design that exploits economies of scale where possible. We are also happy to learn that pilots have begun to explore the use of country systems in infrastructure projects.
We wish however to encourage the Bank to focus on results and delivery on the ground. For the most part, progress made so far is still on paper rather than in terms of tangible actions to support business activity, competitiveness and growth. In real terms, actual disbursements for infrastructure to SSA are still relatively low. We therefore welcome plans to increase lending levels in real terms. Improvements in delivery will require the combined effort of the Bank, governments and the private sector on agreed actions related to implementation. We therefore encourage the Bank to act on project implementation constraints identified jointly with the private sector players in SSA.

Note on Voice

We commend the World Bank for continuing to keep the VOICE issue on its agenda. We welcome the support to African chairs, however, we should recognize that further progress on the structural issues is necessary for developing countries to have a meaningful voice.

We endorse the recommendation to pursue all options regarding basic votes, selective capital increase and its equivalent selective quota increase, special majorities, board composition and membership as part of the set of issues to be resolved within the proposed time frame.

The review of the quota formula by the IMF is a pre-requisite for making progress on the structural issues. In considering a way forward, we call upon both institutions to work together on the structural issues and present a joint WB-IMF paper at the next spring meeting.

Statement by Mr. Fathallah Oualalou, Minister of Finance and Privatization, Kingdom of Morocco

The 70th meeting of our Committee comes at a time when the recovery of the world economy is strengthening, as evidenced by the increase in industrial production and investment and the expansion of trade flows. According to IMF estimates, the world growth rate should reach 5 percent in 2004 and 4.3 percent in 2005, largely driven by strong growth in the United States of America and Japan and the recovery of economic activity in Europe.

In developing countries, growth should increase to about 6.5 percent as a result of the sustained rate of expansion in the East and South Asian countries, faster growth in the Latin American countries, and an increase in the growth rate in Sub-Saharan Africa.

Yet, despite these favorable prospects for growth, the economic situation in most developing countries remains uncertain, owing in particular to the scope of poverty in these countries and their vulnerability to exogenous shocks, as seen in the current spike in oil prices, which could have major negative repercussions on non-oil-producing countries.

This situation concerns the entire international community, whose cooperation must be intensified in order to establish a strong and united world economy, enriching to all.

Such action requires that efforts continue to be made to increase the level of aid and improve its effectiveness so as to attain the Millennium Development Goals, in addition to efforts to improve the investment climate and develop the infrastructure to promote growth in developing countries and ensure medium- and long-term debt sustainability.

21 On behalf of Afghanistan, Algeria, Ghana, The Islamic Republic of Iran, Iraq, Morocco, Pakistan, and Tunisia.
Attaining the Millennium Development Goals also requires that developing countries be better represented in the Bretton Woods institutions.

_Aid Effectiveness and Financing Modalities for Activities to Attain the Millennium Development Goals_

The mobilization of adequate means of financing is a key element in attaining the Millennium Development Goals, which is a central concern of our Committee.

The report prepared by the Bank and the Fund for this Committee conveys a number of alarming realities, particularly the fact that a large number of developing countries will fail to achieve by 2015 the Millennium Development Goals in the areas of poverty reduction, education, and health.

For this reason, the entire international community should step up its efforts to honor the commitments made at various international meetings, particularly the Monterrey Conference, to increase the level of development assistance.

Developed countries have a crucial role to play within this framework by moving quickly to achieve the objective of the United Nations of increasing official development assistance to 0.7 percent of donor countries’ GNP.

Improving the effectiveness of this aid should also be a major concern, both for donor countries and for recipient countries, because simply increasing the aid volumes is not sufficient.

Donor countries should step up their efforts to harmonize and simplify their operational procedures, specifically so as to reduce the cost of mobilizing aid for recipient countries. To that end, donor countries should embrace the challenge of quickly implementing the provisions of the Rome Declaration on harmonization and the Marrakech Declaration on results-based management.

Making more effective use of development assistance also requires that innovative mechanisms be set in place to mobilize this assistance and that its role as a catalyst be strengthened.

In this regard, we reiterate our support for the efforts of various development partners to explore new opportunities for speeding up mobilization of the resources needed to attain the Millennium Development Goals, particularly the International Finance Facility, which involves mobilizing additional resources on the international financial markets on the basis of guarantees offered by donor countries in the form of firm commitments to provide subsequent contributions. Inasmuch as this mechanism appears technically feasible, we call upon the World Bank and the IMF to undertake further analysis so as to clarify the issues related to its advantages and drawbacks, and so that the legal and budgetary constraints hindering its rapid operationalization can be removed.

We also note with interest the proposals of the working group on new international contributions. Although the principle of instituting a global tax to finance development entails both conceptual and practical difficulties, no avenue for mobilizing the financial resources needed to attain the Millennium Development Goals and for promoting growth in developing countries should be overlooked.

_ Strengthening the Foundations for Growth and Private Sector Development: Investment Climate and Infrastructure Development_

The experience of several developing countries has demonstrated that there are direct links between improving the investment climate and promoting growth and reducing poverty.
We are all aware of the fact that private sector development requires a sound and attractive business environment, characterized in particular by the existence of a stable macroeconomic framework, an improved sectoral environment and, in particular, a well developed local financial system in order for the necessary resources to be mobilized and for optimal distribution of these resources to be achieved, so as to promote economic growth and contribute to poverty reduction and job creation.

Developing countries should therefore view the goal of improving the investment climate as one of the highest priorities of their national policies.

In this context, developing countries should thus step up their efforts to strengthen democracy, implement structural reforms, and promote good governance.

We call upon the multilateral development institutions and, in particular, the World Bank to support the efforts of developing countries aimed at improving the institutional and legal environment for businesses, especially small and medium enterprises, facilitating their access to financing and removing the obstacles that hinder normal operation of their productive activities.

In addition, we call upon the various institutions of the World Bank Group, specifically IBRD, IDA, IFC, and MIGA, to review their institutional frameworks for intervention and revise their respective policies so as to reflect more clearly the demands of improving the investment environment in developing countries.

We must not, however, lose sight of the importance of trade liberalization for enhancing the investment climate.

It is for this reason that we are pleased to note the resumption of the Doha Round of negotiations in Geneva last July, and, once again, we call upon developed countries to seize this opportunity to forge ahead with the establishment of an equitable multilateral trading system that takes the needs of developing countries into account and thus makes world trade a true engine of growth and poverty reduction.

To that end, developed countries should substantially reduce tariff and non-tariff barriers that still hinder access to their markets, so far as goods and services from developing countries are concerned, as well as agricultural subsidies.

In addition, improving the investment climate requires that adequate infrastructure be put in place to reduce transaction costs for businesses and improve poor populations’ access to high-quality basic services.

In this regard, we support the Bank’s efforts relating to implementation of the infrastructure action plan, and we believe that, through this plan, the Bank has sent clear signals to its teams and to its clients and partners concerning the central role of infrastructure in achieving the development agenda and the Millennium Development Goals.

The Bank should intensify its efforts to accelerate implementation of this action plan and substantially increase its activities in the area of infrastructure, including diagnostic work, dissemination of know-how, and providing advice to developing countries. This objective should be addressed by making full use of our institution’s vast experience in the area of infrastructure financing, by maintaining its comparative advantage in terms of technical expertise, by simplifying the procedures, and by improving the cost of its resources.
We believe that the issue of infrastructure financing, along with the budget constraints that developing countries face in this area, deserves special attention from our Committee, given that Bank estimates show that the volume of infrastructure financing needs to be doubled in order to attain the Millennium Development Goals. We note with interest the pilot conducted in this regard by the IMF and the World Bank for the purpose of identifying areas of flexibility in budget policies that govern infrastructure financing.

We also call upon the Bank to continue its efforts to increase the level of coordination between its activities and those of other donors and financial institutions, particularly AfDB which, within the NEPAD framework, is responsible for steering the infrastructure component in Africa.

The ultimate goal of such coordination should be to support reforms of regulatory frameworks needed for infrastructure development and to encourage the mobilization of greater financial resources for this purpose by adopting a pragmatic approach based on the development of public-private partnerships and mechanisms designed to attract private sector resources.

Strengthening the Voice and Participation of Developing and Transition Countries in the Bretton Woods Institutions

Strengthening the effective participation of developing and transition countries in the decision-making process of the Bretton Woods institutions, especially on issues having an impact on the future of those countries, is likely to create the consensus necessary to facilitate achievement of the Millennium Development Goals.

After more than two years of discussion on this issue in our Committee, we believe that we have managed to achieve only slight progress, even though commendable efforts have been made, primarily in terms of strengthening the logistic and human resources of the Executive Directors representing the developing and transition countries.

We all agree that it will be impossible to achieve greater democracy within our two institutions unless there is a firm political will and an appropriate strategy for communication and awareness-building on the part of all stakeholders regarding this important issue.

The report prepared by the Bank’s Executive Directors traced the history of the discussions on this issue and presented a number of options concerning, in particular, measures on which decisions are now pending and those that will require greater consensus.

We regret, however, that this report did not receive the support of all, and particular of those whose voices it is sought to strengthen, and that it was not possible to achieve the consensus that is even more desirable in this particular case.

In this regard, we call upon the IMF and the Bank to continue their efforts to encourage rapid implementation of those measures on which agreement has already been reached, or on which agreement can easily be reached.

At the same time, these efforts should focus on seeking a consensus on structural measures, particularly the restoration of basic votes to a level that is at least equivalent to the one in effect when the IMF was established, the expansion of membership shares, the establishment of new special majorities, the selective increase of capital, and the expansion of the Boards.
We are convinced that attainment of the Millennium Development Goals is also contingent on the financial viability of these countries, which must not be compromised or jeopardized.

Accordingly, the efforts made by the international community should be part of an approach that is guided by the principle of maintaining the sustainability of the debt of developing countries’, particularly the most highly indebted among them, and ensuring that the resources transferred to these countries are made available to them under terms and degrees of concessionality that do not threaten their medium- and long-term viability.

In this context, we are pleased with the decision to extend until the end of 2006 the sunset date of the Heavily Indebted Poor Countries Initiative. This extension will no doubt enable a greater number of low income countries, especially those impacted by external shocks, to reach their decision and completion points and benefit from debt relief.

At the same time, we support the efforts of the Bank, the Fund and other development partners to establish a new framework for assessing the sustainability of the low income countries’ debt, based on systematic analysis of the factors driving their debt.

In addition to indicators that determine the tolerable and bearable degree of debt, such an assessment should, in our view, take into account other qualitative factors so as to provide an appropriate clarification of their financing strategies.

We believe that assessments of the effectiveness of economic policy measures and institutional reforms should play a major role in the establishment of this new framework, especially because such assessments have demonstrated their pertinence in the empirical analysis of trends in developing countries’ debt level.

It is also necessary for the Bank and the Fund to maintain a high level of collaboration, both between themselves and with creditors and recipient countries, so as to permit a thorough and regular assessment of the sustainability of the low income countries’ debt by incorporating such an assessment into the framework of the two institutions’ existing operational policies and practices.

Lastly, we want to stress the fact that the concern about maintaining debt sustainability should not lead to a reduction in the volume of official development assistance, but rather to an increase in its concessionality and, more specifically, in the share of assistance awarded in the form of grants. In this regard, we welcome the United Kingdom’s recent pledge to assume its share of the multilateral debt of countries engaged in a process of economic reform, and we encourage the other donor countries to follow its example.

**Statement by Mr. Antonio Palocci, Minister of Finance of Brazil**

**Aid Effectiveness and Financing Modalities**

We note with concern that post-Monterrey commitments remain at US$ 18.5 billion a year, in contrast to the US$ 50 billion a year that would be necessary to reach the MDGs. Increase in ODA from

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22 On behalf of Brazil, Colombia, the Dominican Republic, Ecuador, Haiti, Panama, the Philippines, Suriname and Trinidad and Tobago.
0.22% of global GDP in 2001 to only 0.246% in 2003 is worrisome, particularly as exchange rate fluctuation and inflation account for more than half of that nominal increase, from US$ 52 billion in 2001 to US$ 68 billion in 2003.

There has not been any noticeable change in the slim possibility of attaining the MDGs, especially in Africa, nor has there been significant progress in the two main issues related to external aid, namely insufficiency in volume and lack of predictability in flows. The current scenario calls for renewed impetus and for innovative financing mechanisms. We maintain our long held position that such mechanisms must be realistic, sound, and feasible from both financial and operational standpoints. However feasible those mechanisms may be, political consensus constitutes their very core and it is crucial for effectively promoting development.

Upon invitation by President Lula, world leaders gathered in New York on September 20th in the historic meeting “Action against Hunger and Poverty”. A total of 106 countries lent support to the New York Declaration, based on the report from a technical group on innovating financing mechanisms formed by Brazil, Chile, France and Spain. The Declaration stated that “at the present stage of technological progress and agricultural production worldwide, the persistence of (extreme poverty) is economically irrational, politically unacceptable and morally shameful”. It also stressed that it is “appropriate and timely to give further attention to innovative mechanisms of financing – public or private, compulsory and voluntary, of universal or limited membership – in order to raise funds urgently needed to help meet the MDGs and to complement and ensure long-term stability and predictability to foreign aid”. Indeed, hunger cannot wait.

We remain convinced that the commitments expressed in the Monterrey Consensus should be sufficient to finance the attainment of the MDGs. Nonetheless, in a scenario depicted by insufficient and volatile assistance, we believe that time has come for the international community to seriously examine alternatives including frontloading, global taxation, and blending mechanisms.

We reiterate our support to the United Kingdom’s proposal of an International Finance Facility, which we deem technically feasible. The International Finance Facility is the only practical proposal made so far to effectively implement frontloading of funds. Our support to the International Finance Facility notwithstanding, we invite the international community to examine global taxation mechanisms, an alternative that comprises a number of operationally feasible options to levy positive externalities. In this sense, we fully agree that the viability of such mechanisms faces more political than technical obstacles. We consider that more analysis on global taxation is needed, as we point out that probably any system would be too complex to be implemented in time to reap the benefits in favor of the MDG’s.

An alternative to new financing and tax mechanisms to channel resources to developing countries could be the elimination of export subsidies in developed countries. The gains from this elimination would be twofold. Budgetary resources channeled to external aid could be increased by adding budgetary resources previously earmarked to trade subsidies, without further fiscal impact. In addition to larger aid volume, developing countries would also benefit from trade gains derived from wider market access. Indeed, to eliminate trade subsidies appears to be a first-best alternative when compared to all other financing mechanisms.

The idea of blending mechanisms has experienced marked progress recently. We follow with the utmost interest the discussions on this issue, whether it be because it helps enhance effectiveness and the structure of incentives toward good policies or because blending can be of great benefit to many Middle Income Countries, which are home to approximately a third of the poor population of the world.
With respect to financing modalities as a whole, we believe that the best course of action is to move simultaneously in several fronts. We are currently in a process of groping where different likelihoods of success regarding a number of specific initiatives start to surface, which indicates that it might be too early, at this stage, to discard any proposed modality. In addition, there are different preferences among donors, deriving among others from regulatory, accounting, budgetary, and legal aspects. The less restrictive the scope of financial modalities discussed, the higher the probability of reaching consensus on our common goal to increase the flow of funds as urgently as possible.

Because multilateral assistance establishes a relationship between resource allocations and the soundness of policies and institutions, we concur that it tends to be more selective than bilateral assistance. We fully concur that external aid should help strengthen national policies and institutions and that PRSPs should constitute the framework to both increased effectiveness of aid and enlarged scope of assistance (scaling up). The Development Committee’s document reports that developing countries have greatly improved in maintaining sound economic practices, in strengthening governance, in public sector management, and in enhancing their investment climate. In tandem, during the last decade donors have increased aid selectivity towards countries with higher poverty levels but better governance practices. However, harmonization and collaboration between donors and with MDBs has had slow progress. Performance-based allocation of resources and focus on management by results have already borne important fruits.

Absorptive capacity remains at the center of the discussions on increased and more effective aid. The constraints faced by developing countries in the chain that links funding at the macro level to service delivery at the local level are not to be neglected. On the contrary, such constraints are to be targeted not only by increased volume of aid but also by predictable flows to finance recurrent costs. Volatile and unpredictable fiscal sustainability due to high dependency on aid flows, unsustainable debt servicing, and possible “Dutch disease” resulting from bunching aid flows will remain significant constraints in the foreseeable future. Also, lack of institutional capacity, inadequate human and infrastructure resources, and sectoral variations will not be overcome in the short term. It is encouraging to realize that, despite those barriers, the Development Committee’s paper estimates that there is significant potential for using additional aid productively provided that there is good debt management in developing countries.

In our Constituency, we point out the case of Haiti to illustrate the need for increased volume, predictable flows and strengthened donors’ harmonization. Last July, the World Bank, along with the Inter-American Development Bank, the European Union and the United Nations, held a Donors’ Conference for Haiti attended by 30 countries and 32 international organizations. The Conference focused on an Interim Cooperation Framework prepared by the Government of Haiti that indicated the country’s urgent needs in 20 priority sectors from July 2004 to September 2006. Haiti, the poorest country in the Western Hemisphere, where two thirds of the population live below poverty line, identified total financing needs of US$ 1,365 million and a financing gap of $924 million over the next two years. We congratulate ourselves with the participants for the unprecedented level of effort between the Haitian authorities and the international community in the production of the Interim Cooperation Framework and for the success of the Conference, where pledges up to US$ 1,085 million were made.

The recent massive destruction of life and property occasioned by the series of hurricanes in the Caribbean has once more brought to the fore the vulnerabilities of the island economies of our Constituency Hurricanes and other natural disasters can seriously hinder the growth and development potential of these countries or delay their prospects for eradicating poverty and attaining the Millennium Development Goals. While governments as well as philanthropic organizations and concerned individuals in these countries usually come to the assistance of one another during these times of distress, recent events have demonstrated that the required scale of resources and the enormity of the task calls for
some kind of permanent mechanism to be established as a joint effort of the multilateral financial institutions to which affected countries can turn for rapid emergency assistance.

In particular, we deeply mourn the loss, in the wake of Hurricane Jeanne last month, of more than 2,000 lives in Haiti’s third-largest city, Gonaïves, and in its adjoining Northwest Province, already the poorest and most destitute region of the country. Much of Gonaïves remains under water or mired in mud, even as we speak. This astonishing level of destruction – caused not by hurricane-force winds but by relatively-mild rains on the periphery of Jeanne – is a direct consequence of the over-exploitation of trees for charcoal and of rock quarries for construction. Even more than the post-disaster assistance mechanism alluded to above, Haiti needs strong and sustained support from the international community if it is to begin to address its almost-total deforestation and the depletion of its environmental capital.

Strengthening the Foundations for Growth and Private Sector Development: Investment Climate and Infrastructure Development

We highlight that infrastructure services are not an isolated item within the growth agenda but do impact on the investment climate conducive to job creation and increased income. We acknowledge the strong relationship between infrastructure services and the MDGs, both directly – as water, sanitation and housing constitute objectives in themselves – and indirectly – as other goals such as education, health and gender equality, depend on investments in infrastructure. We fully concur that the aim of investments in infrastructure is to deliver services, and not build up physical assets. We found of particular interest indications that the majority of infrastructure services are used by firms, instead of individual consumers, and that investments in building and maintenance of infrastructure fuel growth and foster poverty reduction.

The need for investments in new infrastructure and maintenance of existing assets, around 7% of developing countries’ GDP, represents twice as much as the current level of investments which now stands at 3.5% of those countries’ GDP. Private investments in infrastructure, which had increased from US$ 20 billion in 1990 to US$ 130 billion in 1997, have decreased to US$ 40 billion, indicating that it has not successfully replaced public investment. Indeed, in the 90s 70% of all infrastructure projects were financed by the public sector, 8% by ODA and only 22% by private sector. In this scenario, we are convinced that public sector participation in infrastructure investment remains critical. Moreover, public investments could benefit from high rates of return, as rates of return of infrastructure projects financed by the World Bank have reached 35% on average over the last three years, while achieving a significant 20% in the 40 previous years.

We underline estimates for Latin America in the 90s’suggesting that had the region augmented investment in infrastructure assets in 10% it would have increased growth by an additional 1.5% per year. We underscore that lack of investments in infrastructure in Latin America in the 90s’ has reduced long-term growth in the region between 1% and 3%23. Whereas the World Bank estimates that US$ 70 billion would be necessary over the next 5 years to build, improve and maintain roads, railways, telecommunication and energy systems, private investment decreased 75% in the region, from US$ 78 billion in 1998 to US$ 20 billion in 2002. In the case of Latin America, market oriented reforms have not neglected investments in infrastructure. To a large extent, such investments have not yet materialized in the volumes, regions, and sectors desired due to fiscal restrictions entailed by reforms aiming at better governance.

Even though multilateral institutions’ resources are insufficient to close the gap of infrastructure investment needs in developing countries, their catalytic role is not to be underestimated. Also, they render developing countries a valuable service by signaling to all development agents the central position of infrastructure investments in the growth agenda. We congratulate the World Bank for promoting investments in infrastructure both by enlarging the scope and number of ESW focusing on this issue, currently 70 products, and by increasing lending volume for the sector by US$ 1.1 billion for IBRD in FY04 (to US$ 6.5 billion) and by US$ 334 million for IFC (to US$ 983 million in the same fiscal year). Recent Country Assistance Strategies (CASs) and Country Partnership Strategies (CPSs) have incorporated a more prominent role for investments in infrastructure. However, we believe that synergy amongst the World Bank Group agencies should be more explored. Improved coordination within WBG could lead, for example, to an integrated approach to risk management capable to better meet clients’ needs whenever IBRD and IFC exposure limits or IDA allocations ceilings are reached.

In our view, a strong feature of the World Bank’s *Infrastructure Action Plan* is to acknowledge both the financing needs for projects in developing countries and the reduction in investments in infrastructure from the private sector and MDBs. Also, a well-balanced approach to public and private resources is to be praised, as we congratulate the institution for its *guidance notes* on energy, transportation, water, and telecommunications. We encourage the World Bank to keep on promoting capital markets’ participation in infrastructure projects through both risk mitigation products and institutional strengthening.

Where investments in infrastructure are concerned, we salute the IAP strategy’s focus on incentive to public-private partnerships. In this sense, we encourage the Bank to examine in depth the fiscal implications of PPPs within a scenario of constrained fiscal space and to enlarge the range of products designed to meet clients’ needs in such partnerships, especially guarantees. Also, we fully concur with attention given to output-based aid as a means of stimulating public-private partnerships targeted to the poorest layers of the population. Indeed, performance-oriented subsidies may constitute important incentives to investments in infrastructure.

We underline the critical importance of fiscal space issues. We have closely followed the effort made by both the Bank and the Fund in pilot countries to increase fiscal space for productive public investments, especially in infrastructure, taking into account fiscal balance goals, public companies treatment and PPP accounting. Brazil and Colombia being two pilot countries, the Brazilian and Colombian authorities eagerly await for the results of the Pilot Program on Public Investment, and expect that innovative ideas will be offered by Bank and Fund staff in order to sustain adequate levels of investment in infrastructure. We welcome the introduction of new accounting rules for guarantees within CASs envelopes, as only 25% of face value do impact countries’ exposure limits in IBRD and IDA allocation. Those new rules allow for optimism regarding the use of guarantees. Also, on-lending arrangements to sub-sovereign entities (often the agents for public investment) help leverage private resources to infrastructure investments, as long as they are designed within a fiscally responsible framework. We expect this search for balance between productive investment and fiscal prudence to remain an important feature in the Bank and Fund’s relations with member countries.

In our Constituency, the Philippines has submitted for legislative discussion eight fiscal measures equivalent to about 2% of GDP to help achieve fiscal balance by 2009. Reforms including tariff adjustments are being implemented to strengthen the finances of public enterprises and reduce public debt to no more than 90% of GDP by 2009. The new Dominican Administration has presented a program of reform and adjustments to address the fiscal imbalances brought about by the banking crisis. The effort required to restore fiscal balance is about 4% of GDP. This program will include measures to reduce expenditures, particularly in the reduction of energy subsidies heavily affecting public finances, as well as
to increase revenues. This fiscal effort will add to a 14% adjustment in the 2003 current account, and will bring about a major economic adjustment. We call on the international community to extend their support to this country, which has shown a good economic policy track record in the past.

Investments in infrastructure are strongly driven by the quality and stability of regulation. We are glad to learn that this critical aspect of development policies has been firmly rooted in the growth agenda. In this sense, we congratulate the World Bank and the European Bank for the innovative firm-level research covering 54 countries in the last three fiscal years, including 31 assessments of investment climate. The Doing Business project, encompassing 133 countries in 2004 and 145 countries in 2005, and the focus on investment climate in the World Development Report 2005 has rapidly achieved the status of benchmark for policy makers, especially where microcredit and SMEs are concerned.

In our Constituency, we highlight Colombia’s recent progress regarding investment climate reforms. According to the Doing Business report, in the past year Colombia became one of the most successful investment climate reformers, second only to Slovakia. This has been the result of a combination of actions on several fronts. Microeconomic reforms reduced the number of days necessary to start a business and the time needed to resolve disputes, while a 2002 reform established a more flexible labor market. In the macroeconomic front, Colombia remains strongly committed with prudent fiscal policies. All targets in the IMF program have been met, and congress is discussing pension, tax and budget code reforms. The implementation of democratic security policy and the restoration of law and order in most of the country allow people and businesses to once again peacefully go about their activities. This comprehensive strategy is bringing the economy back on track, with overall growth above 4% and private investment increasing by more than 20%. We look forward to the continued support of the World Bank Group to this recovery effort. In Brazil, long standing distortions have been addressed in order to improve the investment climate. Microeconomic reforms had been initiated long before the disclosure of recent World Bank’s research on investment climate. Approval by Congress of a Bankruptcy Law that is expected to enhance collateral value as it simplifies liquidation procedures, reduction of bureaucratic burden on foreign trade, and reduced taxation on cascade value-added are expected to have strong positive impact on the investment climate in the short term. Even though neither the WDR 2005 nor the Doing Business has captured the already noticeable positive impact of these reforms, given the backward looking nature of this kind of study, the Brazilian authorities are convinced that future reports will reflect results brought about by those measures.

We took note with great interest of studies suggesting that productivity and income inequalities among countries are mainly due to the quality of institutions and policies of those countries, while both human and physical capital help explain only a residue of those inequalities. However, we stress that such studies are recent and hence the historical series may not be sufficiently lengthy to constitute statistical evidence of a purportedly secondary role played by human and physical capital. Moreover, assessing quality of institutions and policies by using objective indicators does not prevent subjective elements from eventually influencing results. In this sense, we underscore that those preliminary indications should not lead to increased investments in institution building and related issues to the detriment of investments in human and physical capital.

We believe that the relationship between, on the one hand, adverse investment climate and, on the other hand, informality in the economy deserve further exploration given its far reaching implications for policy makers, as it affects tax collection, social security, and labor market regulation.

We stress that the ample range of reforms pertaining to enhancing investment climate, such as access to financing, labor market, infrastructure, fiduciary structure, quality regulation, and taxation, depends on democratic institutions. Since democratic institutions are built on consensus, reforms of that nature may take time but bear long lasting fruits.
It is our belief that increased flexibility in markets and strengthened competition benefit productive, innovative firms and help introduce new technologies. However, in a globalized, competitive world, this is no longer a purely domestic issue and has become the subject of negotiations within multilateral fora, where the voice of developing countries is not always heard.

Debt and Debt Sustainability

Debt sustainability for low-income countries (LICs) is closely related to both the perspective of additional concessional resources from donors and absorptive capacity from recipient countries. We reiterate our support to the idea that debt sustainability parameters be defined taking into consideration not only indebtedness indicators that account for the possibility of external shocks but also the quality of national institutions and policies.

Our Constituency welcomes the idea of a forward looking framework aiming at assessing debt sustainability of LICs, whether it be to capture early signs of debt distress or to guide allocation of grants and concessional funds. We fully agree that a wider range of indicators and thresholds would provide both bilateral and multilateral donors with a more robust reference for the allocation of resources. In our view, the inclusion of debt stock as well as debt service indicators in the threshold guidelines for the new framework will result in a superior methodology for classifying countries. We welcome the intention to use additional indicators including debt-to-GDP and debt service-to-exports and to apply the thresholds flexibly depending on the potential of countries to avoid debt distress. Because of its objective of preventing the debt distress in low-income countries before it occurs, we think that the new framework will prove to be more acceptable to both debtors and creditors.

A framework to examine debt sustainability is especially opportune as the HIPC initiative, the only current framework for assisting low-income countries with debt difficulties, may possibly be terminated after the two-year extension recently approved. We encourage staff to develop appropriate options on how to deal with HIPC in the interim period between decision and completion points. We underline that the eventual termination of the HIPC Initiative does not imply multilateral disengagement from the debt sustainability issue. On the contrary, it does imply an increased concern with the future of aid flows. In this sense, we stress the need for continuous, steady repayment of concessional resources so as to maintain the revolving fund mechanism that has benefited so many indebted low income countries.

We took note with great interest of the evidence showing that countries with strong policies can bear higher debt ratios. On the one hand, as an adequate combination of debt ratios and policy indicators would constitute a significant progress in analyzing debt sustainability, we concur that the Bank’s role in managing a performance-based allocation system, incorporating the CPIA, would be pivotal. On the other hand, the importance of accuracy in gathering data and the budgetary implications of public sector domestic debt, marked by data limitations and different characteristics, indicate that reliance on the Fund is critical. Therefore, collaboration between the Bank and the Fund on this issue is of utmost importance for a successful, meaningful framework.

We welcome the possibility of introducing the new framework in time to impact on the 14th replenishment of IDA. We agree that the Bank should work closely with other development partners in going forward, since a unilateral approach by the Bank may be ineffective if borrowers have the option to obtain loans from other sources outside of the framework. We also understand the challenge to strike a delicate balance between ensuring that countries receive just enough resources to escape debt distress, while ensuring that grant allocations do not act as disincentives to countries striving for debt sustainability.
Voice and Participation of Developing and Transition Countries

Our Constituency reiterates that the issue of voice is not to be addressed in the void, as it strongly relates to the effectiveness of the Bretton Woods institutions in attaining their ultimate purposes. We recall that such effectiveness was examined on the occasion of the Monterrey Conference on Financing for Development, during the discussions on enhancing the coherence and consistency of the international monetary and financial systems in support of development. As a result of those discussions, paragraph 62 of the Monterrey Consensus calls for a broader and strengthened participation by developing and transition countries in the decision-making process at both the Fund and the Bank. Unfortunately, the structure of the Bretton Woods institutions have not changed over time to reflect the current economic situation. Moreover, the Boards of these institutions have not reported much advancement in addressing the important issues. Real progress appears to be hindered by the prevalence of views of the majority shareholders to the detriment of under-represented countries on the Boards. We look forward to progress reports from the Boards that are more representative of the views of developing countries, and to the translation of the Consensus into concrete measures.

We remain supportive of a number of measures that have been adopted. We are convinced that increased involvement of developing and transition countries in the design and formulation of lending and non-lending operations, by means of Country Assistance Strategies and Poverty Reduction Strategy Papers, does contribute to enhance those countries’ participation in the institutions. In addition, locating Bank decision-making and operational staff in the countries concerned also can have a positive impact on increasing the voice of developing and transition countries. Furthermore, capacity building is critical to an effective and fruitful participation in the institutions’ decision-making process.

Despite those measures, to increase voting power still remains the critical, fundamental step to enhance the voice of developing and transition countries in the Bretton Woods institutions. Once more, we invite other member countries to revisit the quota formulas in order to correct long standing distortions, as the current formulas do not reflect the international role of a number of actors. It is our long held position that more weight must be given to the Gross Domestic Product (GDP) of each country, measured preferentially by the criterion of the Purchasing Power Parity (PPP). Naturally, the Fund should lead the sequence of actions, as changes in quota formulas would immediately impact the access to financial resources. We stress, once more, that wide political consensus among governors of the Bank and the Fund is of the essence.

Simultaneously with the quota formula review, two other steps could be taken in the short term, aiming at increased participation of developing and transition countries in the Bretton Woods institutions. The issue of basic votes could be simultaneously addressed by the Fund and the Bank’s Board. Also, an increase in the use of the special majority of 70 percent to approve decisions on policy issues could give additional assurances that the voice of developing countries would be heard and taken into consideration.

Finally, we regret the discrepancy that persists in IDA between votes allocated and actual voting rights. We commend the Bank for its effort to exhort Part II countries to subscribe to their full allocations and encourage the institution to keep this effort.
Statement by Mr. Didier Reynders, Deputy Prime Minister and Minister of Finance of Belgium

This Annual Meeting of the Bretton Woods Institutions, marking the 60th anniversary of the Bank and the Fund, takes place under less than benign auspices. Fear of a terrorist attack has caused both our host country and the management of our institutions to once again compress the Meetings into two days – with an extremely dense agenda. I do hope that very soon we can revert to our old format which makes for a much more effective, visible and valuable meeting of our important institutions.

Aid Effectiveness Needs Policies, Quantity, and Quality

Significant success has been achieved with respect to better policies of less developed countries, with strengthening poverty reduction strategies, more selective aid and performance-based aid flows, as well as donor coordination. The development banks and bilateral donors have made progress with respect to Aid Effectiveness. But still, a long road lies ahead of us if we are serious about achieving the MDGs.

While improved policies in less developed countries have removed some absorptive capacity constraints for a number of countries, there still remain far too many countries – and many of those are the poorest ones – where violent conflicts of internal or external nature, corruption, bad governance, lack of administrative and implementation capacity, a deficient legal system and regulatory framework limit severely the potentially beneficial effects that aid flows can have on sustainable development.

On the other hand, both the quantity and the quality of aid flows remain deficient. Commitments have been made by the donor countries, but are slow to be fulfilled or, in aggregate, are insufficient. We know that at least a doubling of today’s level of $60 billion in aid flows would be necessary for the achievement of the MDGs. If donor countries were to reach the proverbial 0.7 percent of GNI in ODA flows, this problem would be solved. Today’s level amounts to less than 0.25 percent of GNI. Let me state here that both my own country, and other countries in my constituency, have committed themselves or have already reached the 0.7% benchmark.

While we appreciate the good intentions of a number of governments to overcome these financing gaps – let me mention here the British proposal for an International Finance Facility, and the various proposals made to levy world-wide taxes, or regional taxes, for development – I do think that the political obstacles these proposals face on a world-wide scale should be taken seriously. The Parliament of my own country has passed a law expressing their support for the introduction of a Tobin Tax, but it will only go forward if others do the same. To me, all these proposals are only second or third-best solutions, none of which can overcome the basic problem with gaps in ODA flows, i.e. a lack of political will. It seems to me that we should all rather work on increasing our aid flows, meet our commitments, maybe even ahead of time and move on. The current negotiations for the replenishment of IDA 14 are the best starting point in this direction.

Easier to solve on a theoretical basis, but nonetheless difficult, is the problem of steady medium-term commitments of aid flows, and alignment with recipient countries’ budget cycles and priorities. While there is ample evidence that aligned aid is twice as effective as non-aligned aid, the problem lies with the budget legislations and, again, the political will of the donor countries. But we should commit to work on these and develop a time schedule by which we can deliver better, if not more, aid. This is a practical proposal.

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24 On behalf of Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, Turkey.
Development Needs Growth, Growth Requires Stability, but also Infrastructure

The paper on the Growth Agenda of the Bank, including the progress report on Infrastructure, has some impressive, but also depressing pieces of information. The gap in infrastructure finance increasingly hampers private sector development, the development of a supportive social sector and the growth and development prospects of many countries. The attainment of the Millennium Development Goals hinges on higher growth and more poverty reduction. While on average 7 percent – 9 percent of GDP (depending on the state of development of the individual country) would be needed in less developed countries for investment in and maintenance of infrastructure, only 3.5 percent have on average been spent during the last ten years. Given the investment volume of the last ten years, this implies a financing gap of $1.2 trillion. Parts of the problems are self-imposed by poor countries: e.g., the lack of a positive investment climate holds back private investment in infrastructure; parts of the problem derive from insufficient rates of return to private investors due to a lack of compensating them for graduated pricing subsidies depending on households incomes; but other parts are imposed by the economic prescriptions of our institutions. I would therefore like to insist that policy prescriptions by our institutions to foster a stable macroeconomic framework take fully into account the need to increase the growth potential, in particular through investment in infrastructure. Here, I think we as World Bank Governors should urge our institutions to make progress by shifting, in very specific cases, the perceived trade-off between stability requirements and enhancing the growth potential by infrastructure investment. We should also further explore the possibilities, and especially the necessary preconditions for more public private partnerships (PPPs), which could lift part of the financing constraints of public budgets, if successful. The World Bank has world-wide experience with PPPs and could distill important “lessons learned” from these experiences. Most of the necessary preconditions refer to prudent macroeconomic management, high planning and implementation capacity, and clear policy directions – all things missing in a number of less developed countries. I propose to move forward on these items, in order to eliminate some of the restrictions on building an infrastructure appropriate for growth.

Progress in Involving Developing Countries More Strongly in Development Decisionmaking

On the issue of “Voice” we should really appreciate the progress we have achieved in enabling mainly Sub-Saharan African countries to participate more actively in vital decisions on development. Strengthening of capacity in African Executive Directors’ offices, improvements in their communication with authorities, funding of independent advice and secondment programs for capacity building, more Africans in higher management positions, an improved political dialogue through Poverty Reduction Strategy Papers and the Country Assistance Strategy process have strengthened developing countries’ Voice significantly. I venture to say that this progress “on real issues” is much more effective than the more symbolic acts of an additional African chair or a (marginal) increase in voting power through boosting basic votes or similar proposals. A number of other proposals within the existing mandate of the World Bank, which do not require a change in the Articles of Agreement, which at the present time does not find the required consensus, should and could be pursued: regional training activities within the Global Development Learning Network, analysis and evaluation of Executive Director offices and ensuing improvements, advisory councils, further secondments – all these could bring real change and should be further explored. I have expressed previously my opinion that I do not see value in appointing an outside group of “eminent persons” to explore further options. All the options are on the table: let us be pragmatic and go ahead with those that have real impact “on the ground.”

Debt, the Crippling Legacy of the Past

Finally, let me comment briefly on the very interesting joint Bank/Fund paper on Debt and Debt Sustainability. This paper is proof of the technical prowess of the staff of both of our institutions, but also of the complexity of this very important issue. We see clearly that debt sustainability is highly correlated
with policy performance. While this recognition, in itself, does not solve the debt problem, it will be extremely helpful in moving forward, once the debt problem has been resolved for the most difficult cases. The forward-looking framework provided by the staff is a significant step forward and is apt to guide our institutions’ lending decisions in the future, so they can contribute to solving some of the pressing development problems – and not further contribute to them. But, in further addressing this problem, we must make sure that both our institutions work jointly and closely together vis-à-vis the other development partners. The Boards of both institutions should consult closely and come to joint conclusions on individual countries’ debt risk assessment.

We see that the HIPC initiative has brought some badly needed debt relief to a number of countries. Progress is too slow and incomplete, however. Therefore, it makes sense to extend the sunset one more time, to give a number of very needy countries the opportunity to meet the conditions for eligibility. But we should not surreptitiously water down the existing framework and extend it indefinitely, or to a large number of additional countries. We should bring the present framework to a close, analyze its effects, the financial effects, as well as its incentive effects on improved policy framework and sustainability conditions – and then incorporate these lessons into the new IDA framework which we are discussing at this time. With the help of the new debt sustainability framework, in the future IDA should be the place where the questions of debt and its effect on poverty reduction for the poorest countries should be addressed.

Statement by Mr. Abdulla Hassan Saif, Minister of Finance and National Economy, Bahrain

Our agenda for this meeting includes items of critical importance for the development agenda. We commend the analytical work the Bank has undertaken, having taken into account the deliberations of our Executive Directors. We hope this will contribute to a better understanding of the policies that need to be pursued in order to move the agenda forward.

The first topic, on aid effectiveness and financing modalities, is a timely follow-up of our discussion on this important issue in Dubai. The documentation presented to us provides a good synthesis of the work that has been done and some of the issues that we need to address. It underscores that adequate, predictable and more effective aid flows are critical to achieving the Millennium Development Goals.

What the analysis also shows is a stronger new aid framework is emerging manifested in better policy environment in developing countries, stronger macroeconomic policies, more focus on poverty reduction based on elaborate strategies, closer link of aid to good performers and stronger alignment with country policies and programs. Yet the performance on aid delivery has so far been disappointing, and that even with good policies many low-income countries will not have adequate resources to undertake the infrastructure investments and social spending necessary to achieve growth and poverty reduction.

There are varying estimates of the additional aid that could be used productively from upwards of $30 billion. But the magnitude and quality of aid forthcoming has been far short of expectations. Since Monterrey aid levels have risen by $16 billion. The bulk of this, however, is due to the weakening dollar and inflation in donor countries. Much of the flow has been directed to few countries and focused on technical assistance.

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25 On behalf of Bahrain, Arab Republic of Egypt, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Republic of Yemen.
An interesting analysis is presented on the issue of absorptive capacity showing the complex and dynamic aspects of this concept and how much more is needed to learn on it. As shown, many countries don’t have absorptive capacity constraints and indeed according to Bank studies many countries are well placed to manage a doubling in aid without reaching serious capacity concerns. Other countries, however, encounter significant obstacles to aid effectiveness and there is a need to formulate clear policies to address their constraints. I share in this respect the view that the need to raise absorptive capacity should not be an excuse for holding up on aid mobilization.

In meeting the pressing need for more aid we underscore the view that the simplest way is for donors to increase their aid budget and set a clear timetable to reach the 0.7 percent of gross national income target and we commend those that have already done so. Other mechanisms for new financing to improve flows should certainly be explored and we appreciate the thorough analysis that has been conducted on various issues and considerations involved. On the two main mechanisms being considered, we are doubtful of the potential for global taxes and note the conclusion that none of the proposals is free of serious weaknesses. As pointed out in the analysis, these take time to implement and are likely to face political opposition, may have adverse economic effects and it is unlikely that they would generate significant revenue.

The front-loading mechanism through the proposed International Finance Facility is much more promising, especially in providing for meeting the immediate needs and for better predictability of aid flows. This should be pursued and further work carried out on the many technical issues. We share the concern on the long-term impact of aid flows and on the possible negative implications for the Bank if the IFF were to be part of its legal and financial structure. We also need to ensure the involvement of recipient countries in the decision making on allocations, major policies and operating principles.

Coming to the second set of issues on our agenda it is indeed appropriate that growth and private sector development should become priority areas for analytical work and policy action. Mobilization of greater private sector activity in this area is critical for achieving the poverty reduction and other social goals that are the focus of our global efforts. We commend the analytical work which the Bank has been increasingly undertaking in these fields. We urge that continued attention be paid to the lessons of actual country experience on how to deal with the complex issues involved.

The recent findings on country experience confirm the crucial role of institutions and policies in achieving productivity and income growth. They demonstrate that a better investment climate can benefit the poor. More attention is needed on the microeconomic aspects of investment climate reform. In this respect we note that the World Bank Group has been at the forefront of investment climate reform effort. We support the focus on country specific and firm-level work that can be put into practical use and serve as a guide for policymakers. The document gives a good review of the Bank’s work on diagnosing constraints to private sector development, reform experiences, monitoring results, as well as new lending operations. One of the interesting findings of this work is that incremental reforms can have an impact even before comprehensive reform is implemented. Results can be achieved by focusing on specific constraints which hamper business activity.

In looking at the issues posed on future Bank work, we see considerable merit in extending Bank advisory and capacity building services to countries not just in conjunction with lending programs and indeed to non-borrowing countries. Experience has shown that improving the investment climate can contribute to income generation, employment and poverty reduction as well as to attracting capital flows. On results measurement, the Bank is paying greater attention to monitoring progress on investment climate reform. We encourage further efforts in this direction. Monitoring has proved useful for the implementation of the reform agenda, fits into the Bank’s results based framework and into our global
monitoring program. There are useful lessons here for countries with limited capacity to implement comprehensive reforms.

It is increasingly evident that private sector development is essential in order to meet the huge demand for infrastructure services and the development of infrastructure capacity. This is an area of crucial importance to the achievement of many of the Millennium Development Goals, including the targets on health, water, sanitation, education and gender. It also has a broader overall impact on growth and poverty reduction. In comparison with the huge investment needs there is a large shortfall in infrastructure funding as is highlighted in the document. The financing needs range between 7-9 percent of the GDP of developing countries while actual average investment has historically been half of these levels. This represents a major challenge, including for the respective roles of public and private sectors and the development institutions.

Attention is rightly focused on the balance between public and private sector inputs and the emergence of new public-private partnerships in infrastructure. In the 1990s high hopes were pinned on foreign investment for infrastructure development. Whilst initial levels rose sharply, they fell back later in response to experience on the returns being achieved on the investments, and in particular the predictability of the pricing of utilities’ services. This issue remains with us and has significant political implications for many countries. Whilst it is now clear that the public sector remains the dominant player in the provision of infrastructure services, there is an increasing array of experience of private sector participation which needs to be nurtured and broadened.

The Bank Group can make a tangible contribution to country efforts. It has recently embarked on a much more active role. The Infrastructure Structure Action Plan, which was launched in mid last year, seems to be well on track. We commend the efforts as detailed in the paper tabled for our discussion. The contribution of the Bank to bridging the funding gap has been scaled up to an additional more than $1 billion. This remains modest however in relation to the level of demand and may also be affected by the rate of return the Bank expects on its infrastructure investments.

Several issues have been raised in connection with the Bank’s approach and implementation of its infrastructure plan. The issue of cost recovery of infrastructure services remains a complex and politically sensitive issue. This links also to the issue of how much public sector investment can be sustained while maintaining fiscal balance. We endorse the further efforts by the Bank and Fund to look for ways of safeguarding fiscal balance while introducing some fiscal flexibility for public infrastructure investments. Further work is also needed to meet the demand of sub-sovereign entities and at the same time satisfy adequate risk management for the Bank’s finances. Scaling up of the Bank Group’s contribution to the funding of public sector infrastructure investments should remain high on the agenda. We strongly urge in this respect that additional support for infrastructure should be an important priority for the current IDA-14 replenishment negotiations.

We appreciate the comprehensive Progress Report on the voice issue and commend the Board for its extensive deliberations. As recognized at our meeting last April, this remains a major challenge. In considering this issue we hope we will not lose sight of the basic objective set by the Monterrey Consensus to which we have adhered, namely to enhance participation in the decision making of our Bretton Woods institutions. The task is a complex one as the papers tabled by the Bank have demonstrated. Efforts should move forward on all fronts that offer the prospect of improving the participation of developing countries in the decision making process. This includes issues such as the amount of say client countries have in determining development strategies, programs and projects; whether decentralization leads to a better understanding of country positions and views; the enhancement that might be expected from improving the capacity of countries and their representatives to articulate and
promote their positions; and, more importantly, the vexed issue of the structural issues, especially the voting power in the two institutions.

The Progress Report presents a good coverage of the voice issues and cites a number of measures that have been taken so far which we appreciate. It would be useful to have an assessment from time to time of the impact such measures have actually made in enhancing participation in the decision making process, bearing in mind that this is likely to be a medium to long term process. We would also expect there to be realistic evaluations of the potential of new measures that might be taken.

On the issue of developing country voice in IDA decision making process we note the attention given to the payment of full IDA subscriptions as a means of enhancing IDA clients’ role in the decision making process. This is something we have called for and we welcome the response of many countries. Attention should also be given to how much this incremental increase in subscriptions would contribute in terms of voice, given the current structure of the IDA decision-making process. It is useful to recall in this respect that we expected consideration to be given to the broader issues that our Dubai communiqué mentioned on the IDA14 occasion. We note that an attempt has been made to cover this issue and we look for more elaboration on this in the future.

Finally, on the debt sustainability framework for low-income countries, we fully endorse the efforts to put in place a framework that would ensure the financing needs of low-income countries are met on terms that would not impose future unsustainable debt burdens. The deliberations of the Executive Directors and the IDA Deputies have gone a long way in analyzing the operational and policy aspects of a possible framework. The latest documentation and Board discussion on the topic revealed a number of issues that need further work.

We look forward to this work being completed on remaining issues, including on how to avoid mechanical judgment in assessing country debt sustainability, whether and how to take account of domestic debt despite the data difficulties, and how to address negative exogenous factors that might arise down the road. We note the divergent views on how the Bank and the IMF are expected to collaborate on the debt sustainability analysis process, especially on the prospect of the two institutions preparing different reports to their Boards and possibly giving different signals. In considering how debt sustainability would be addressed by the arrangements contemplated for IDA14 we also expect that he implications for all IDA borrowers should be taken into consideration.

Statement by Mr. Nicolas Sarkozy, Minister of State, Minister of the Economy, Finance and Industry, France

I am struck by the cohesion stemming from the issues on the agenda of today’s meeting, of which I retain in particular the following elements.

On the World Bank’s analysis of infrastructures and the investment climate, I note that both play a decisive role in the growth of the developing countries. In both areas, official development assistance is a powerful catalyst.

As for the report on aid modalities and development effectiveness, I acknowledge that the absorption capacity of poor countries significantly exceeds current official development assistance. The Poverty Reduction Strategies (PRSs), which are an effective tool to harmonise lender initiatives and to facilitate ownership by the beneficiaries, need to be further enhanced. This will optimise the resources devoted to official development assistance.
As regards the Global Monitoring Report presented to the Development Committee in April, I retain that annual assistance will have to be raised by USD 30 to 50 billion a year if we are to achieve the Millennium Development Goals, to which all of us subscribe.

The litany of these reports, and the magnitude and diversity of the borrowing requirements, are overwhelming. These analyses need to be our road map as we approach the fifth anniversary of the Millennium Summit.

With one third of the way completed, we are lagging behind, particularly as regards Africa. Of all continents, this is the only one which seems to be moving backward from the Millennium Development Goals. In this context, the donors would neglect their responsibilities if they limited their efforts to certain types of development assistance, to certain financing tools only. We will be shirking our responsibilities if we refuse in principle to use all mechanisms, whether traditional or innovative, to the benefit of the developing countries.

France is pleased to see that infrastructure financing is back as one of the priorities of the World Bank. I would therefore like for the Bank to demonstrate greater creativity in financing infrastructures, particularly in the water sector. Water supply and sanitation are indeed vital issues for the international community. Proposals for new financing tools and techniques geared to the particular features of this sector are before us. They deserve closer examination.

We must also continue to review proposals with a view to improve the voice and representation of the poor countries in our decision-making process. I would like for us, collectively, to take a pragmatic stance so as to reach operational conclusions at our next spring meetings on the many proposals presented today. It is no longer a question of agreeing on principles, but approving realistic and effective schemes allowing us to meet our commitments.

Faced with the challenge of financing for development, which has been brought to our attention once again today, we need to assume our responsibilities and mobilise all types of assistance. I believe in the efficiency of loans as a tool to provide financing for developing countries. A concessional loan, by definition, creates leverage, therefore allowing a given amount of resources to be translated into a higher volume of assistance. Moreover, the need for developing countries to generate foreign currency resources, in order to satisfy their obligations vis-à-vis their creditors, must not be perceived exclusively as a constraint.

Such countries need these resources first of all to engage in international trade, secondly to access capital markets and, finally, to generate economic growth, which is the only way to help them rise above poverty. This financing model has already proven its worth. The steady economic expansion in India or China shows year after year that World Bank loans, far from plunging these countries into an unsustainable debt spiral, have worked as a catalyst for their development.

The international community, through the initiative for Heavily Indebted Poor Countries (HIPC), has shown its capacity to make vital decisions for countries facing unsustainable debt levels. We must now step up our efforts to allow the remaining countries eligible for this initiative to take full advantage of its benefits.

On such a sounder basis, we must now adjust the nature of the financing provided in order to bring it in line with the repayment capacity of each country, particularly the most vulnerable ones, whose economies are sensitive to exogenous shocks. In collaboration with the other lenders, the multilateral institutions need to offer as many loans as possible and as many grants as necessary to achieve the Millennium Development Goals. By placing strong attention on debt sustainability, the framework
devised by the World Bank and the IMF offers the opportunity to implement these common-sense principles. What remains to be done is to determine sustainable debt thresholds compatible with this objective and to implement this approach as soon as possible, notably in the context of IDA14, whose replenishment France wants to be ambitious.

Indeed, the real challenge after the initiative for Heavily Indebted Poor Countries is no longer bilateral or multilateral debt, but financing development. Countries having benefited from debt treatment under the HIPC initiative currently earmark on average less than 2% of their national wealth to debt service. At the same time, borrowing requirements are immense and the achievement of the Millennium Development Goals, on which the international community reached agreement at the Monterrey Summit, would require from these countries a ten times greater effort, i.e. about 20% of their national wealth.

New multilateral debt initiatives are welcome; they will open avenues to go forward, while in the recent past reaching a consensus on the implementation aspects of the HIPC initiative was for us a challenging exercise. However, these initiatives are not up to the development challenges, since they do not ensure a continued increase of the financial effort for development.

This is why I want to propose an approach based on two principles: mobilising additional resources, since this is the top priority for the developing countries; and granting further debt relief when appropriate.

Mobilising additional resources. We know that the funds needed to achieve the Millennium Development Goals are estimated at USD 50 bn a year for the next ten years. The international community must therefore earmark more resources for this purpose. In that context, France has decided to contribute by increasing its own official development assistance. France currently allocates 0.44% of its national wealth to development. Our Budget Bill for 2005 foresees a 7% increase in official development assistance appropriations. France is committed to earmark 0.5% of its GDP to official development assistance as of 2007 and to join in 2012 the countries which are already providing 0.7% of GDP to development. We urge other countries to do the same.

Hence, we must be realistic: budgetary appropriations can only be raised gradually while the financing requirements for the Millennium Development Goals are urgent. This is why we must not shy away from considering innovative mechanisms. The International Finance Facility as well as global taxes are not theoretical mechanisms but pragmatic and complementary solutions to generate additional resources.

Neither the report submitted to the President of the French Republic by the Landau group nor the conclusions of the quadripartite group composed of Brazil, Chile, Spain and France advocate the creation of an international tax administration. They merely note that with a guaranteed USD 3 billion a year for 10 years, we can send all children in Sub-Saharan Africa to primary school; with USD 2 bn a year we can finance malaria and AIDS research, diseases that are harshly affecting the developing countries, and so on. A stable and predictable resource would therefore have a decisive impact on the developing world. This would not be without precedent. So far 86 countries have joined the IOPC Funds organisation, set up to provide compensation for pollution damage caused by oil spills. This initiative has shown the feasibility and interest of a global tax.

We must now look at all the available tax options, their advantages, drawbacks and economic consequences. There is a broad array of possibilities, ranging from schemes relying on individual generosity to financial transaction taxes or environmental taxes. This approach has sparked a strong interest in the United Nations. The World Bank now needs to take this work one step further and conduct feasibility studies.
This mechanism is probably not a panacea for either the developing countries or the rich countries. It will not be easy to implement. However, its merit is that it is technically feasible and provides us with a solution that is within the reach of our political will to achieve the Millennium Development Goals.

So what we need is more resources but also an increased debt relief effort if necessary. Above all we must be vigilant not to bring the poor countries back into the vicious circle of debt overhang. And we must also be able to provide debt treatment on a case-by-case basis for countries encountering new difficulties despite the HIPC initiative. To this end, a multilateral fund could be set up to refinance the multilateral debt maturities for countries whose debt is no longer sustainable.

The fundamental development decisions were adopted at the Millennium Summit and in Monterrey. Now we need to use the tools at our disposal, and new forms of development assistance, to meet our commitments. No possibility should be ruled out. All solutions deserve to be explored, depending on their suitability to the situation of each beneficiary, each donor. This is the choice that we are entrusted to make now.

Statement by Mr. John W. Snow, Secretary of the Treasury, United States of America

This meeting of the Development Committee takes place at a time of considerable focus on the conditions necessary for meeting the international goals set out in the Millennium Declaration. Significant progress in meeting some of these international goals has been made -- approximately 70% of the developing world lives in countries on track to meet the reduction in poverty and hunger goal -- but gaps clearly remain.

The Monterrey compact agreed to two years ago sets out a mutually reinforcing set of commitments. Developing countries agreed to strengthen policies, governance and institutions to generate growth and create an enabling environment for development. Developed countries pledged to provide additional resources to those countries that demonstrate a commitment to such actions. And the international institutions were called upon to complement and catalyze national efforts through financial support and technical assistance.

The United States has already followed through on the promise we made at Monterrey to substantially increase aid to those taking needed steps to promote lasting, inclusive development progress. The U.S. pledged to increased official development assistance by 50 percent over the 2000 levels by 2006. We met this commitment in 2003 and by 2006 U.S. ODA is projected to be roughly 70 percent above fiscal year 2001 levels. This includes pledges to substantially increase our funding for the multilateral development banks, including IDA; implementation of the Millennium Challenge Account, and a plan to provide $15 billion for HIV/AIDS over the next five years.

U.S. assistance is based on the concepts of transparency and measurable and monitorable development results on the ground. It is real money that is being provided now and will continue to be provided in a sustainable and predictable manner. It is assistance coming directly from the United States to the countries or institutions that can use it most effectively, as opposed to recent proposals to put in place complex global taxation schemes that would not be democratically accountable to the American people.

The U.S. contributes to development in other ways as well. U.S. growth for this year is strong and demand from the U.S. has been a major factor in growth in many other parts of the world. The U.S.
is also a major source of remittances that fuel growth of incomes and small businesses throughout the developing world. Virtually all economies in the world are now growing, emerging market bond spreads are decreasing, and emerging stock markets have risen by around 40% since the beginning of 2002. But we realize more must be done to build on this success, particularly when it comes to trade. We are firmly committed to a successful outcome of the Doha Development Round and worked hard with other countries to reach an agreed framework that should lead to successful completion of the trade talks.

Role of Developing Countries and the World Bank

Increased resources from the United States and other donors are not enough. It is critical that developing countries put in place the policy frameworks that will allow them to use these and other resources effectively and to set the basis for sustainable financing for development needs over the longer run, in particular from private domestic and foreign resources. This includes putting in place transparent fiscal systems that can account for the receipt and expenditure of donor flows and other public revenues. The World Bank has a role to play in helping countries improve their own systems with a goal of bringing them up to world class standards.

This will also require policies that promote a stable, growing economy and a sound business environment. The World Bank and other MDBs can play an important role in helping countries adopt such policies. The World Bank has a wealth of expertise and information that it can utilize to help countries address barriers to both domestic and foreign investment. The Doing Business Report and Investment Climate Assessments are excellent tools for highlighting key barriers to private investment. The challenge is to coordinate with other donors on practical follow-up action to help individual countries undertake the necessary reforms.

The World Bank can also play a role in catalyzing private sector investment more directly. Its loans, grants, guarantees and other innovative programs can create successful public private partnerships that will create the missing infrastructure that is a major barrier to strong growth in many countries. The U.S. and other G-7 countries have urged the Bank to ramp up its programs that support small and medium enterprises, which are a major source of employment and which face barriers that are in many cases different than those faced by larger enterprises.

Improving remittances services directly benefits households and small businesses. The World Bank has played a critical role in examining remittance corridors in APEC economies, and more broadly, identifying barriers to the competitive provision of remittance services and developing strategies to address those impediments. To meet the Sea Island Summit goal to ‘lower the cost of remittance services through competition, expand the use of and access to remittances services, and enhance the development potential of the flows’, the US and the G7 have encouraged the World Bank to lead efforts, with the appropriate experts, to improve statistical reporting of remittance data. The World Bank can also expand its country work by designing and funding projects aimed to increase access and minimize barriers to competitive remittance services.

The World Bank needs to continue to improve its system of internal and external accountability. A transparent and comprehensive internal governance structure is critical to maintaining the ongoing support of its shareholders and to verify that its funds are used for the purposes envisaged. Similarly, a strong results measurement framework for its operations ensures that they lead to concrete outcomes that raise incomes and growth. This includes a transparent system for monitoring project and program results during implementation so that citizens in borrowing countries can hold their own officials and the Bank accountable for results.
Over time, the world economy has evolved, and the Bank’s governance should evolve accordingly so that countries’ positions better reflect their global weights and so the Board can continue to discharge its duties effectively. Already, change has outpaced that at the Bank. Many fast growing emerging markets clearly are playing roles in the world economy, which far exceed their current IFI weights. Many parts of Europe have joined a currency union, while European representation accounts for roughly one-third of the Board’s seats, and we are all watching moves toward further European integration. And, while many emerging markets are a now a much larger share of the global economy, other countries have fallen behind. We will need to consider how to address these interrelated issues in the coming years.

Debt Sustainability and Grants – Correcting the Past and Ensuring the Future

The international community needs to take prudent and appropriate steps to ensure long-term debt sustainability for low-income countries, which is essential for economic growth and poverty alleviation. The G-8 Leaders emphasized this issue in Sea Island and pledged to consider measures that can further help the poorest countries address the sustainability of their debt. To break the ongoing “lend-and-forgive” cycle, grants and debt relief must be significantly increased. We urge the international community to consider more options to do so, including those that would provide up to 100 percent debt relief from the international financial institutions. Employing both grants and debt relief together would give the poorest countries a chance to reach the International Development Goals of the Millennium Declaration, without adding to debt burdens. The IDA-14 replenishment negotiation currently underway provides a timely opportunity to discuss the merits of these objectives.

The low-income country debt sustainability framework as currently proposed by the Bank and Fund is inadequate to address the ongoing debt problem. The proposed debt thresholds guiding lending decisions are alarmingly high suggesting that poor countries can sustain debt-to-exports ratios of up to 300 percent or devote up to 40% of revenues to debt service. Instead of weighing developing countries down with unsustainable debt loads, the international community should move ahead with an approach that is conducive to economic growth and poverty reduction. Cumulatively, the effects of additional debt relief and increased grants, coupled with sound development policies should give the developing countries that are committed to reform a stronger basis for achieving needed economic growth and a better chance of achieving the international development goals by 2015.

Statement by Mr. Pedro Solbes Mira, Minister of Economy, Spain

Aid Effectiveness and Financing Modalities

We firmly believe that a larger, more predictable and more effective volume of aid can make a significant contribution to accelerate the progress towards the achievement of the Millennium Development Goals (MDGs). In fact, it is in due account of this conviction that Spain has committed to double its current levels of ODA, reaching 0.5% GNI in 2008.

As part of this compromise, the IDA14 replenishment that is now under negotiation offers, in our view, a magnificent opportunity to effectively channel an increase amount of resources. And, therefore, we encourage other donors to also consider this mechanism as a useful and pragmatic option to enhance the flows of development assistance to developing countries.

26 Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, Republica Bolivariana de Venezuela.
We are convinced, however, that despite the significant donors’ pledges to increase ODA made in and post Monterrey, these commitments are by no means commensurate to the magnitude of the challenge that entails achieving the MDGs by 2015. For that reason, we have decided to get actively engaged in the effort to identify new and innovative financing modalities that may enable us to mobilize the substantial additional resources that are still needed. Spain, formed part of the working group that produced the report for the International Meeting on Action Against Hunger and Poverty convened by President Lula on September 20th 2004. This effort has already brought about a number of alternatives, all technically feasible, and what it is needed now is a thorough analysis of each one, try to resolve the problems they may pose and to moving to a decision making process as soon as possible.

Yet, it is imperative to emphasize that this effort to mobilize an enhanced amount of aid flows has to come along and serve to support developing countries’ commitment to firm up a solid track record of macroeconomic and political stability, good governance and strengthened institutions. Both elements have to go closely linked as aid alone will not solve the poverty problem. In fact, the key of success lays, first and foremost, on the ability of developing countries to increase and sustain their rates of economic growth over a long period of time. Only in this way, developing countries will be able to mobilize the primary financing sources of development: domestic resources and foreign direct investment while improving, at the same time, the absorptive capacity to make an effective use of an increase external assistance.

The success will also critically depend on two other conditions. On one hand, on our ability to find a long term solution to the unsustainable levels of debt that many low income countries face -and that constitute a real impairment to their capacity to grow and develop-. And on the other, on a decisive action from the international community on trade. The Doha Agenda provides the framework to work together and a successful conclusion of this Round of negotiations would be a major push forward. Yet, it should be stressed, that for developing countries to be able to reap the benefits of trade they will have to have a sufficient capacity of response and this will require, in many cases, the implementation of a comprehensive behind the borders reform agenda.

**Strengthening the Foundations for Growth and Private Sector Development: Investment climate and infrastructure development.**

We would like to commend the Bank for an excellent work in improving its diagnostic tools to better assess the set of factors that constitute the investment climate. Furthermore, we welcome its strengthened support to assist developing countries in establishing those conditions that the public and private sector need to play their complementary roles: the public sector creating enabling conditions for private sector investment and the private sector investing productively and creating jobs.

Private sector investment is a major driving force of growth, job creation and poverty reduction and, hence, a critical pillar in a country’s process of sustainable development. Unfortunately, however, experience shows that in many countries, governments continue to exercise a not so positive influence on the investment conditions, due to the impact that its policies and behavior has in the costs and risks that firms take into account in their investment decisions. As the Bank has been able to quantify, the cost associated to corruption, inadequate regulatory frameworks, infrastructure disruptions and lack of security in contract enforcement, can amount to 30% of the sales. This is a cost way too high and, therefore, imperative to be reduced.

Improving the investment climate has to be a clear priority for developing countries in the fight against poverty. It, certainly, means setting up and implementing a very broad structural reform agenda that will accompany the countries’ efforts to improve macroeconomic and political stability. Implementing such a broad agenda can in no way mean trying to taken up everything at the same time. Its
implementation has to have a sound sequencing and pace stemming from the countries’ own circumstances and, most importantly, the authorities determination to pursue the reforms. We believe that the Bank has the experience and the knowledge to play a key role to assist countries design and implement this agenda and urge it to strengthen its efforts in this respect.

We welcome the increased attention given to infrastructures as a key determinant of a sound investment climate. Insufficient infrastructures do not only hamper the ability of firms to compete and get productivity gains but can also seriously undermine a countries’ capacity to grow on the medium run.

Developing countries’ infrastructure needs are huge. The fiscal adjustment processes of the last two decades have been implemented notably by means of a cut in infrastructure investment and in many countries this reduction has not been taken over by the private sector. Moreover, in a number of countries the private sector has had to retrench as governments with their policies have not been able to ensure adequate rates of return and, even in some cases, have not respected their contractual obligations.

Designing and implementing stable, effective and transparent regulatory frameworks together with finding appropriate ways to enhance the fiscal space are the two most critical tasks that developing countries have to accomplish to be able to mobilize the adequate level of resources from all sources, public and private, to finance their huge infrastructure needs.

The Bank can play a key role in assisting countries in this endeavor. We believe that the Bank reengagement in the provision of infrastructure services is timely, most necessary and support the flexible and pragmatic approach it has put in place.

Voices and Participation

We believe that enhancing the voice and participation of developing countries and transitions economies in the decision making process of the BWI is a legitimate claim to which we have to respond.

We welcome the measures that are being undertaken by the Bank as they have a real practical relevance. However, we should be more ambitious in addressing this issue and consider those measures of structural nature that, although more sensitive -as they affect the governance structure of the Institution- are far-more reaching in ensuring not only that all countries adequately heard in the decision making processes but, also, that all countries are adequately represented.

Debt Sustainability

We broadly support the proposed framework for debt sustainability in low income countries, a framework that correctly emphasizes that while creditors and donors can help the primary responsibility of achieving a long term exit to an unsustainable build-up of debt lies in the countries themselves.

This new operational framework is still work in progress and has to be subject to further refinements. The thresholds require further thought as setting them too high may end up leading countries to re-enter in the trap they are trying to get out of. In the same vein, we have to let room for flexibility. Domestic debt should also be taken into consideration.

Finally, we urge the Bank and the Fund to work closely together in the DSA so as to be able to put together a common sustainability analysis. We cannot afford the possibility of having the two Institutions reaching to different analysis.
Statement by Mr. Sadakazu Tanigaki, Minister of Finance, Japan

This year marks the 50th anniversary of Japan’s Official Development Assistance (ODA). We believe that Japan’s ODA has made a significant contribution to support the self-help efforts of developing countries. We are particularly pleased to see that many countries in Asia - the focal region for Japan’s ODA - have achieved substantial economic growth mainly through their own policy efforts, utilizing both official aid and private resources, without being overly dependent on aid.

Aid Effectiveness and Financing Modalities

Next year, there will be the UN mid-term review of the progress in meeting the Millennium Development Goals (MDGs) by 2015. We believe that increasing aid volume will not automatically lead to achieving these goals. To improve aid effectiveness and realize sustainable poverty reduction, it is essential that with strong ownership each developing country uses its Poverty Reduction Strategy Paper (PRSP) to localize the MDGs according to each country’s circumstances. On the other hand, donor countries should endeavor to align their support with national development strategies embodied in the PRSPs. Furthermore, in order to secure aid effectiveness, developing countries are required to increase their absorptive capacity. Therefore, we attach high priority to building capacities, for public sector management in particular. Measuring the results of aid is also an urgent task to improve aid effectiveness. To accomplish this task, it is inevitable to start with introducing simple indicators, and then to elaborate a refined measuring system, while building statistics capacity in developing countries.

As for the International Finance Facility (IFF), a concept of frontloading aid funds, while some believe that this is a feasible option and that we should further our work on this concept, we are afraid that delving into this matter and having further discussions might not reach productive outcomes. To begin with, it is difficult for Japan to join this facility because our legal and budgetary systems do not allow our government to make long-term political commitments. Besides, once aid funds are frontloaded, the aid flows in the future will decline drastically. There will be overlaps with existing international organizations. Instead, we should focus our efforts to reach agreements on replenishment negotiations for the existing international organizations as scheduled. In this regard, we welcome the successful conclusion of AsDF9 in May of this year. The on-going negotiations on IDA14 and AfDF10 are extremely important, and we encourage donor countries to make serious efforts to finish these negotiations by the end of this year.

Regarding global taxes, as the Management paper points out, these instruments require careful examination with a particular focus on their effects on efficient resource allocation, the way to secure compliance, the effective collection mechanism, and its political acceptability. Thus, we have various concerns on the feasibility of this proposal. While the proposal itself is of interest, a number of basic problems remain to be solved, such as the rationale for taxation, taxation methods, and implementation organizations. We also have to consider who would make decision on the allocation and use of collected funds.

Investment Climate and Infrastructure Development

The key to poverty reduction is sustainable economic growth. As seen in China, India, and Vietnam, high economic growth and poverty reduction are closely correlated. "Getting a job" is regarded the top priority as a means for the poor to break out of poverty. To achieve this sustainable growth, improvements in the investment climate and infrastructure development are of particular importance. We welcome that our long-held position on the importance of these issues has recently come to be shared among the donor community.
Improvement in the investment climate is essential to secure stable inflows of foreign direct investment and foster Small and Medium Enterprises (SMEs). In this regard, strengthening the financial sector is an indispensable part. Japan has been actively promoting monetary and financial cooperation among the East Asian countries, and has put forth the Asian Bond Market Initiative (ABMI) to utilize domestic savings in Asian countries in regional investments. Furthermore, in November, we will co-host with the World Bank and other organizations the Tokyo International Conference on African Development (TICAD), Asia-Africa Trade and Investment Conference. At this conference we plan to deepen our discussions on the region’s development through the promotion of trade and private investments in Africa, as well as private-sector business exchanges between Asia and Africa.

We also welcome that the IMF and the World Bank will further explore the issue of fiscal space for infrastructure projects to properly treat these expenditures within developing countries’ budgets, recognizing that infrastructure projects could generate further return.

In addition, when supporting infrastructure development, it is essential to take into account the progress in sector reforms of developing countries. We would also like to point out that further study must be conducted on how to recover the cost of infrastructure projects, taking into consideration its effect on the poor, and how to use subsidies to promote private sector participation without risking fiscal sustainability.

With regard to public-private partnerships, it is essential that developing countries establish adequate regulatory frameworks. Although we experienced a number of difficulties at operational level to promote these partnerships, we have to make our best efforts to overcome them. It is necessary to deepen our discussion on delivery of infrastructure service, financing for these services, and promotion of the discussion among policy makers, operators, and users. In this context, we welcome the work of the World Bank Group to explore new tools of support on this issue, such as support at the sub-sovereign level and local currency-denominated loans.

We would also like to mention that the World Bank, the Asian Development Bank, and the Japan Bank for International Cooperation are now carrying out a joint flagship study on infrastructure development in East Asia. We hope that this research’s findings could also contribute to future discussions on infrastructure development support.

Voice and Participation of Developing Countries

To enhance aid effectiveness, ownership of developing countries is no less essential than improvements in efficiency of donors’ support. In this respect, it is important for both the IMF and the World Bank to pay due attention to the voice of developing countries, and to implement the feasible options step by step, thus accumulating meaningful results. It is commendable that, as the first step, the World Bank has achieved decentralization, resulting in the improved quality of policy dialogue in developing countries’ PRSP process. We also welcome that the World Bank has enhanced the capacity of the Executive Directors’ offices with 20 or more member countries in their constituencies by appointing one senior advisor and two advisors additionally. However, as to the structural issues related to the World Bank governance, we firmly believe that the World Bank should discuss these issues, in parallel with the quota review of the IMF.

Debt Sustainability in Low-Income Countries

We welcome that the IMF and the World Bank have started serious discussions on how the IMF and the World Bank would assist the debt vulnerable countries to avoid further debt distress caused by
future fund flows into these countries. In this context, Japan appreciates the ongoing discussion about the framework for the debt sustainability analysis, which is jointly elaborated by the IMF and the World Bank. In operationalizing this framework, we call for a prompt deliberation on specific indicators for policies and institutional environment and debt burden thresholds and look forward to taking an active part in such a deliberation.

When reviewing the lending policies of the Multilateral Development Banks (MDBs) for low-income countries, our decisions have to reflect the debt sustainability analysis. At the same time, we have to be prudent in increasing the volume of grants for the following reasons. First, the MDBs are established as lending institutions. Second, we cannot underestimate the need to maintain financial strength of the MDBs and the concern about donors’ future contributions. Third, the increased grant might cause a moral hazard in low-income countries.

Under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative, Japan has committed, as a bilateral sovereign creditor, to a total of 5.4 billion US dollars - approximately one fourth of the total contribution made by the G7 countries. While some argue that we must reduce debt for HIPCs beyond the current level required in the Enhanced HIPC Initiative, we believe that it is essential to implement debt relief under the existing framework on a country-by-country basis, based on country-specific debt sustainability analyses.

The sunset clause for the Enhanced HIPC Initiative will be extended in this year. We are afraid that the possible moral hazard could happen, if the HIPC Initiative becomes a permanent measure, because heavily indebted countries might be inclined to increase their debt even further. Thus, Japan has serious concerns about the extension of the sunset clause and the enlargement of the number of eligible countries. And we believe we should avoid leaving room for another expansion of the eligible countries in the future, by fixing the number of countries at the end of 2004.

Iraq

Reconstruction and the restoration of security in Iraq are extremely important for its people, and also for the peace and stability of the international community, including the Middle East and Japan. Later this month, Tokyo will host the third donor meeting of the International Reconstruction Fund Facility for Iraq (IRFFI). As a host, Japan will make utmost efforts to steadily implement our assistance that we have already committed. We welcome that the IMF Board approved a credit in emergency post-conflict assistance for Iraq this week, and look forward to an early project implementation through the World Bank-administered trust fund. Japan will also expedite consultations on the Iraqi debt issue with other countries concerned so that we can reach a conclusion in the Paris Club by the end of this year.

Closing

This year, we’re celebrating the 60th anniversary of the IMF and the World Bank. Since the establishment of these institutions, development paradigm have changed considerably: poverty reduction has become the global agenda, and comprehensive approaches, represented by the MDGs, are now widely shared. Adapting to these changes, both the IMF and the World Bank must redefine their roles and vigorously undertake reviews in various fields, such as crisis prevention and resolution or support to low-income countries. While it is important for these institutions to contribute to meet the MDGs, we strongly hope that the IMF and the World Bank, as financial institutions, continue to provide sustainable assistance to developing countries based on economic rationale as a guiding principle.
Statement by Mrs. Agnes van Ardenne, Minister for Development Cooperation, The Netherlands

The World Bank and the IMF are celebrating their 60th anniversary this year. When we look back on what these two esteemed institutions have achieved, we cannot fail to be impressed. They have contributed to global development and financial stability by continuously adjusting their modus operandi to changing circumstances. In the development field, they have been at the forefront of the development of the PRSP framework, the discussion on aid effectiveness and the fight against corruption. Although much has been achieved, more must be done.

This statement first deals with the topic on the DC agenda that will not be discussed.

Debt and Debt Sustainability

Our constituency feels that the Fund and the Bank should continue to take the lead on the issues of debt forgiveness and debt sustainability.

Many low and middle-income countries have immediate debt sustainability concerns. As part of the strategy to tackle indebtedness of low-income countries, the HIPC initiative was started. We support a limited extension of the initiative until 2006 because we believe it should remain a temporary instrument. The provision of additional debt relief (topping up) would be presumed in cases where debt sustainability prospects have worsened because of exceptional external shocks. Assessments would be made on a case by case basis even though the country is continuing to pursue sound economic and poverty reduction policies. It is important that full funding be provided to finance the costs (as identified by the IFIs) for all eligible countries. We would invite the IMF and the World Bank to identify ways to secure that financing in the context of fair and appropriate burden sharing.

HIPC has been a useful tool for dealing with intolerable debt burdens. However, it is now time to focus on the future and to prevent new debt-related problems. We call on the Fund and the Bank to accelerate the joint development and implementation of a framework for debt sustainability in low-income countries which would determine the concessionality of development assistance from all the development partners, including the regional development banks. The framework should be forward-looking and stop borrowing countries from incurring new, unsustainable debt. It is important for us that the framework honour good policies and practices in the borrowing countries and that it apply not only to the Bank and the Fund but also to all lending institutions.

Although the following topics will be discussed during the Committee's meeting, we wish to make the following points in writing.

Voice and Participation of Developing and Transition Countries

Our constituency welcomes the steps taken by the IMF and the World Bank to strengthen the voice of developing and transition countries. That notwithstanding, there is still room for further measures. Initiatives designed to build capacity so that developing countries can engage in discussions on country programmes and wider policy issues deserve our full support. Similarly, constituency office capacity and delegation of responsibilities within the Bank to country level might be further enhanced. Another promising option is to increase basic votes in order to strengthen the relative voting power of developing and transition countries.

27 On behalf of Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Republic of Macedonia, Moldova, The Netherlands, Romania and Ukraine.
For capacity building at country level, we would like to emphasise the importance of further reinforcement of the Bank's and the Fund's representation at country level. That will make it possible for both institutions to respond more appropriately to country-specific circumstances, to participate in donor co-ordination and harmonisation under local leadership and to enhance genuine partnerships for development. Although our constituency is not in favour of increasing the institutions' operational budgets, we would consider an additional budget allocation for this purpose, that is, an investment in enhanced effectiveness, which would be subsequently recouped.

We believe that the discussion on giving a voice to developing and transition countries and having them participate should end with this meeting. All options are on the table and we do not see the need to appoint a group of eminent persons as was suggested by the Committee's chairman.

**The role of the World Bank in prospective EU member states**

A strong Bank and Fund presence is needed in developing countries, but our constituency would also like to see a strong Bank presence in EU accession countries which would benefit from the Bank's experience in assisting previous EU candidates. We recommend that the Bank further explore EU-Bank partnerships there in order to facilitate dialogue with Brussels. The Bank’s involvement could make a great difference when it comes to unemployment and social inclusion.

**Growth and Development**

Our constituency welcomes a discussion of the factors which lead to economic growth even though the fact that economic growth in itself does not necessarily lead to poverty alleviation should not be overlooked.

A sound investment climate is essential if poverty is to be alleviated. This implies good governance. We wholeheartedly welcome the policy recommendations of the *Doing Business* report and the conclusions of the WDR 2005 *A Better Investment Climate for Everyone*. Both reports give evidence that deregulation and a better investment climate attract foreign direct investment, lead to economic growth and inclusion of the poor in the economic process. Another area of Bank involvement is the strengthening of national capital and financial markets so as to channelling the funds necessary for economic growth and ensure that credit reaches those with good business plans but without and who currently do not have access to credit. This applies to both developing and transition countries.

Infrastructure is another important growth factor. Our constituency welcomes renewed attention to investment in water and sanitation, roads, ports and railways and information technology and energy. We feel that the Bank should focus more on renewable energy and work seriously to meet its target of at least 20% annual growth of its renewable energy portfolio over the next five years.

In view of the scale of most infrastructure projects, the Bank has a leading role to play. Bank funding will often be complementary to bilateral funding. Developing countries' demand for infrastructure should be key, but the Bank should remain responsible for monitoring its *safeguards*. Bank projects should lead to a better quality of projects, particularly with regard to sustainability and social impact.

The *Extractive Industries Review* the Board of Directors discussed in August is a case in point. We expect the Bank to review its safeguard policies in that area and to further develop its work on revenue management issues. We look forward to the Bank’s annual report on its involvement with extractive industries.
Aid effectiveness and financing modalities

Our constituency welcomes the Bank's analysis of aid effectiveness and its focus on good governance. We share the Bank's conclusion that for governments to function properly more is needed in terms of institution building at all levels.

We agree with the Bank's conclusion that programmes geared to each country's specific conditions are more effective. With this in mind, we welcome the Bank's adherence to the Rome Declaration and its involvement in preparing for the 2nd High Level Meeting on Harmonisation in Paris in March 2005. We continue to encourage the Bank to take the lead in harmonisation and alignment efforts at country level – on terms commonly agreed on by local authorities, the Bank and other donors. For the Bank to be successful in this area, we feel that further delegation of responsibilities from headquarters to the country offices is needed. As already mentioned, this will allow the Bank to respond more appropriately to country-specific circumstances.

We also welcome the Bank’s and the Fund’s Poverty Reduction Strategy Reviews and agree with the main conclusion that PRSPs should be more flexible, better aligned with domestic processes and more operational. We also agree that the Bank and the Fund can do more to support the PRSP process. PRSPs increasingly succeed in operationalising the MDGs at the country level, but we feel that including a chapter on policy options, a clear political commitment of the government involved, and greater stakeholder involvement could enhance the practical value and effectiveness of PRSPs even more.

We urge the Bank and the Fund to ensure that there is follow-up to the recommendations of their own evaluation departments and report on this topic.

Finally, my constituency again calls on all donor countries to increase their levels of ODA. This is the easiest and most straightforward way to fund the Millennium Development Goals and would make discussion of innovative financing mechanisms redundant. As the Secretary-General of the United Nations has said: "If all donors reached the UN target of 0.7 per cent of GNP, then the search for new sources would become redundant." (Innovative Sources of Financing for Development, Note by the Secretary-General, p. 5 (Document a/59/272)

For the time being, most developing countries' needs and absorption capacity warrant a significant increase in aid flows.

The 0.7% of GNP is open to all countries.

Statement by Heidemarie Wieczorek-Zeul, Federal Minister for Economic Cooperation and Development, Germany

Today, we look back at the 60 years since the Bretton Woods Institutions were founded. Some of the challenges confronting the world back then remain relevant today. Europe can look back at an impressive period of development and, with the entry into the EU of the countries of eastern Europe in particular, the reunification of Europe is on a positive and hopeful path. Yet the world is still faced with the enduring task of integrating all the regions of this world into the global economy and imbuing relations between the countries with the spirit of solidarity. We all have a responsibility to meet this challenge.

In the face of this challenge, the agenda of the Development Committee – absorptive capacity, innovative financing mechanisms, debt sustainability – may sound somewhat banal. But these are
precisely the topics which will be the test of whether we are living up to the standards we have set ourselves. Will we succeed in integrating the poor countries and the marginalised groups of today into the global economy? Will we succeed in shaping an international trade regime and financial system that can benefit everyone?

Absorptive capacity and aid effectiveness

In order to achieve the international development goals, it is vital to boost both the effectiveness and the volume of our development cooperation. Together, we have pledged to give these tasks top priority. Many developing countries could already make effective use of substantially increased donor contributions. And it may be assumed that these contributions, not only, have a direct impact but also act as a catalyst for the implementation of necessary reforms and the mobilisation of additional investment capital.

Although considerable scope is available for increased financing for development to be used effectively, the situation varies from country to country and from sector to sector. Problems of absorption and a lack of development are two sides of the same coin. That is why one of the most basic tasks of development cooperation is to improve absorptive capacity. We appreciate therefore the reflections on absorptive capacity and we fully agree with the main messages. We encourage staff to go deeper in their analyses, bearing in mind that constraints vary from country to country and sector to sector. However, capacity building is not a new invention in development cooperation but has been practised for many years.

Enhancing absorptive capacity depends firstly on donor contributions being more closely integrated into development programs in the countries concerned. We must continue our efforts to better align development cooperation with national development programs and to simplify and harmonise the practices used by the various donors. Advancing this agenda will be an important precondition for enhanced absorptive capacity. The decisions made in Rome on the harmonisation of donor practices and the Marrakech conference on managing for development results mark important milestones. It is now a matter of integrating the decisions into the country programmes.

Secondly, financial transfers must be sensibly combined with advice and technical assistance. That is why it is also necessary for the various donor institutions to work closely together. Developing strategies for strengthening capacities at the national, sectoral and local levels must be an inherent part of a common donor approach and must be founded on a sound and shared analytical basis. It is important in this context that full use be made of the specific potential and strengths of different donor organisations, their comparative advantages and their experience in transferring knowledge and skills. As a financial institution, the World Bank should not regard capacity building as a priority task but should instead work particularly closely with other institutions in this field, such as the bilateral donors or the UN institutions.

Experience of the PRS processes has also revealed a need for closer co-operation between donors. With the second generation of PRSPs starting in a number of countries, it is becoming increasingly evident that improvements in PRSP-related cooperation are needed in order to strengthen countries' ownership and to improve the focus and harmonisation of the dialogue on core development issues between donors and PRSP countries. Germany supports the findings of the Operations Evaluation Department (OED) that a more transparent and open process with other partners would be more consistent with the partnership principle and would enhance discussions on coordinated support, selectivity and comparative advantage. In this context, we particularly encourage the BWIs to better integrate their own periodical assessment of PRSPs into a broader donor assessment.
The questions of how we can improve our cooperation with each other and what implications the challenges outlined have for the international development architecture should be discussed in more detail at the next Development Committee meeting. The issues raised above demonstrate that we must delimit more clearly the institutions' respective mandates, pinpoint their roles and comparative advantages, make headway on the division of labour and, in general, cooperate more closely. The need to provide more grant funding to highly indebted countries makes this more urgent. In practice, this means that more attention must be paid to a more harmonised and coordinated donor operational approach with a clear sharing of responsibilities for each participant involved. Before our next meeting, I would greatly welcome the World Bank’s submission of an agreed proposal for a concrete approach, setting out a division of labour, steps towards more active integration with other multilateral institutions and the scope for intensified cooperation with bilaterals.

Innovative financing instruments

Larger and more predictable increases in ODA can act as a catalyst for a virtuous cycle of actions to meet the MDGs. Therefore, all options to mobilise the required aid resources need to be explored. There is a case for innovative financing, not only to mobilise new funds but because traditional ODA is both volatile and unpredictable. I concur with the conclusions of the Groupe de travail sur les nouvelles contributions financières internationales that we need more continuity in donor commitments over the long run, because human development and the fight against poverty are mainly based on recurrent expenditures in basic social services.

There is a case for global taxes. New international contributions would aspire to the broader aims of greater global stability, more security and more justice in global development, while some of them even have the potential to correct economic externalities. By introducing global taxation it would be possible to put the financing of poverty reduction on a sound and more stable basis. Alternatively, certain global taxes would also be justified to finance the provision of global public goods. The respective financing gap is conservatively estimated to be some 20 billion US dollars. While the existing proposals in the area of global taxation are not yet ready for implementation, either for technical or political reasons, consensus building should be pursued as a matter of priority. Many reports on the issue have been drafted by various groups this year. Now the time has come to reflect on these reports and to assess the merits and demerits of the multitude of instruments, always bearing in mind the feasibility and practicability of implementing the different proposals.

The International Finance Facility (IFF) is a technically feasible proposal for rapidly mobilising the required new resources. It would enable aid disbursements to be frontloaded to help reach the MDGs. However, there are some downsides. The main concern is to ensure that no financing gap emerges in "normal" ODA following 2015. Many countries, especially in sub-Saharan Africa, will still need aid after that date. For those countries, frontloading aid will entail a significant risk unless, in the meantime, other stable sources of finance have been created.

The IFF and international taxes have strong complementarities: The frontloading of aid by means of the IFF could be complemented by an international tax, which could probably only be introduced in the medium term. This way, global taxes could be a solution to the risk of an emerging ODA gap after 2015.

The Growth Agenda

The international community is facing two central challenges. Firstly, we have made a commitment to achieve the Millennium Development Goals. Secondly, we have set ourselves the target of reducing debt to a level that is sustainable for the countries in the long term. The main difficulty here is that the two goals are at odds with each other: if the MDGs are to be achieved, additional external funding
will be required. In many cases, this funding is available only in the form of loans. It is only by increasing growth that we will be able to reconcile the two goals.

Without a boost to the economies of the developing countries and a resultant major increase in economic growth, it will be impossible to ensure debt sustainability in the long term or to achieve the Millennium Development Goals. Poverty reduction will be greater the more successful we are in harnessing the productive potential of the poor by means of broad-impact, pro-poor growth strategies.

The most important prerequisite for this is improved market access for developing countries and, in general, the creation of a fair world trade regime. The WTO framework agreement of 31 July 2004 has been instrumental in this. It promises, for example, the complete elimination of subsidies for agricultural exports, a significant reduction in other trade-distorting agricultural subsidies, a reduction in tariff peaks, which have a detrimental impact on development, and tariff escalation and a rapid solution to the cotton issue. The forthcoming negotiations must now focus on making these agreements ready for implementation by setting concrete reduction rates for tariffs and subsidies and, for example, a deadline for the elimination of export subsidies. This is what will ultimately decide whether we will achieve our aim of a development round, as formulated in Doha in 2001. It is important for the World Bank to continue its research activities on this issue.

The current oil price hinders the economic recovery of the oil importing developing countries. This shows us again how important it is for these countries to decrease the dependency of oil. The Renewable Energy Conference 2004 in Bonn, at which 3,600 representatives of governments, international organizations, associations of industries, and NGO’s from 154 countries participated, has formed a basis for further action. In the next few months, together with the World Bank and others, we will further develop the structure of cooperation. In connection with the “Renewable Energy Global Policy Network”, a world-wide “Financing and Policy Network” is being created to work on developing the potential for renewable energy in developing countries. I reiterate my invitation to all partners to participate in this task.

If growth rates are to be increased, the conditions for private investment must be improved. Germany welcomes the significant work produced on this topic in connection with the 2005 World Development Report. Above all, the administrative requirements for establishing new enterprises should be kept to a minimum.

We welcome the work being done on infrastructure development. In particular, it is necessary to better identify the fiscal space for increased public investment expenditure. The fiscal expenditure targets have to take into account the different nature of the various expenditure categories, in particular the potential positive impact of public infrastructure investments for growth. It is also important to make a realistic assessment, in each specific case, of private sector investment demand. We must avoid making overoptimistic assumptions with regard to the private sector response to the reform programs, which might then lead to overly restrictive fiscal targets.

However, the growth agenda extends beyond the question of infrastructure and the costs of doing business. We have to address this agenda in a comprehensive way. At our last meetings I drew attention to the neglect of growth and investment issues in analytical work as well as in the country programs. This has since been confirmed by the independent evaluations of the Poverty Reduction Strategy (PRS) process. One key finding is that the sources of revenue and growth have received uneven attention.

It is paramount to fill the analytical gaps. There is a lack of knowledge with regard to the linkages between policies and poverty-related outcomes. The Bank’s reduction of sector-specific analytical work to accommodate core diagnostics has contributed to those key analytical gaps. More analytical work is
therefore needed on potential sources of growth and how to mobilise them. As those issues, in particular potential sources of growth and the various macro/micro linkages, are highly country-specific, the gaps have to be addressed primarily at country level. Therefore, the World Bank should, as a matter of priority, help countries build capacity to address key gaps in their analysis of the poverty impact of policies.

Going beyond allocational efficiency. In the past, most development lecturers and practitioners focused on the question of how to improve the allocation of resources, e.g. by liberalising trade and prices, by privatising utilities or by deregulating the economy. In order to set the economies on a long-term sustainable growth path, we need to add to the objective of allocational efficiency three more objectives: adaptive efficiency, productive capacity enhancement and equity.

- Adaptive efficiency. – In an ideal world, institutions do not matter; thus, one can focus on first-best policies. In practice, however, these solutions often lack flexibility and are not coherent with existing institutions and the political economy of the respective countries. Therefore, we have to face the trade-offs linked to this dilemma. In many cases this will mean sacrificing some potential gains in terms of allocative efficiency in favour of robustness, functionality and adaptive efficiency.

- Productive capacity enhancement. – In order to sustain high growth rates, it is vital to increase productive capacity and trigger capital accumulation. Investment rates are far too low in most low-income countries. This highlights the importance of the investment climate but hints also at a possible active role for the state in identifying sources of growth and promoting investments in specific areas.

- Equity and poverty reduction. - There is a growing body of evidence showing that countries with a relatively even distribution of assets and incomes tend to grow faster. Until now, our efforts to combat poverty have focused on enhancing social security, education and health care by increasing and reallocating public expenditure. More attention must now be paid to other areas relevant for poverty alleviation, such as access to land (better titling and property rights), access to finance, more equitable taxation and the legal framework.

The Growth Agenda and Ownership

The growth agenda is intrinsically linked with the concept of ownership. There is no blueprint for success in development. What is required are tailor-made, country-specific solutions. One important aspect in this context is for reforms to be firmly rooted in terms of culture and political economy. Therefore, to sustain higher economic growth rates and achieve a substantial reduction in poverty, a renewed effort is needed to strengthen the ownership of the recipient countries. This huge challenge has to be addressed as a matter of urgency. I suggest having a comprehensive discussion on this issue at our next Development Committee meeting. The main elements of the agenda before us are the following:

- Donor and IFI procedures and reporting requirements should be better aligned with and integrated into local processes and domestic decision-making (e.g. national planning processes). If we really want to make progress on the alignment and harmonisation agenda, we need to clearly define how alignment can work in terms of operational implications for all development partners. Germany therefore strongly supports the recommendations in the PRSP implementation report for securing the linkages with operations. The PRS process should, as far as possible, be merged with a country’s existing planning processes and the World Bank must better customise its support to the PRS process. The Joint Staff Assessment (JSA) should be redesigned so as to better support the PRS process and gradually be
integrated into a Joint Donor Assessment. The objective of those assessments is to offer a candid, transparent and analytically rigorous feedback to the government with regard to the quality of the PRSP.

- As successful growth strategies are rooted in the specific context of the countries, local analytical capabilities must be better tapped into or deliberately built up. It is now generally accepted that efficient institutions are of key importance for development processes and that institutional solutions are highly country-specific. It follows, therefore, that to implement successful growth strategies an intimate knowledge of local circumstances is required. The international community must therefore lend more active support to the developing and transition countries in charting their own paths. With regard to stabilisation, for example, it is crucial that the programs take full account of the underlying determinants of growth and of the factors influencing the response of the real economy to macroeconomic policies. Such an approach requires country-specific assumptions about the underlying economic and structural relationships. This analytical input can only be produced in collaboration with local researchers. In this context, Poverty and Social Impact Analyses (PSIA) are an important instrument; they should be undertaken on a systematic basis.

- Development institutions, in particular the Bank and the Fund, should actively advise on a range of policy alternatives and thus create "policy space" for the countries. Here, it is not so much a question of "policy advice" in the classic sense. Rather, the role of the IFIs is to identify trade-offs, show possible alternative policy options, make experience from other countries accessible and contribute to the establishment of national analytical capabilities. A further streamlining of conditionality and focusing of performance criteria on output indicators would also contribute to ownership.

- Finally, developing countries need to gain a stronger voice in the decision-making bodies of the World Bank:

**Voice**

Strengthening the voice of developing and transition countries in World Bank bodies is vital to retaining the institution's credibility. Giving all shareholders the chance to play an active part in decision-making processes is a prerequisite for the acceptance of the measures concerned. The call to strengthen the voice of developing and transition countries in the decision-making processes of the International Financing Institutions can be traced back to the Brandt Commission, which as far back as 1980 noted that "the developing countries do not have an adequate share of responsibility for decision-making, control and management of the existing international financial institutions." A Quarter of a century has now gone by without any fundamental changes. With the 2002 Monterrey Conference on "Financing for Development" and the Monterrey Consensus a new situation has emerged that in my opinion urgent action is needed. Germany has therefore vigorously supported the voice process and proposes three important reforms:

Firstly, Germany advocates the strengthening and rigorous application of the principle of ownership. The PRSP approach has laid the necessary foundations for greater participation by the recipient countries in the relevant programs and measures. Yet our experience, which includes the

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evaluation of PRSPs and PRGFs that has been issued and also an evaluation conducted as part of German
development cooperation, has shown that efforts to strengthen ownership have not gone far enough. The
major elements for further strengthening of ownership have been listed above.

Secondly, Germany advocates substantially increasing basic votes. This would increase the
weight of the recipient countries and, in particular, the relative position of the small developing and
transition countries. Raising basic votes to the original level of around 11% would increase the entire
proportion of votes held by the recipient countries to 43%. In addition to increasing basic votes, there is
also a need to maintain the ratio of basic votes to total votes. This means that changes in paid-in capital
would in the future automatically lead to a change in basic votes, as is already the practice, for example,
at the Asian Development Bank.

Thirdly, it is proposed that the principle of double majorities, as already used in the Global
Environment Facility (GEF), should be piloted for decisions on operational or staffing matters. A double
majority would be defined as a majority of shareholders, on the one hand, and a majority of recipient
country votes, on the other. This method would ensure that adequate account is taken of the recipient
countries' interests. The double voting structure would mean, for example, that all parties would be
equally accountable, without undermining the basic rights of all members. It is proposed that this
procedure be piloted for two years and, if successful, that the necessary legal framework be put in place.

These and other options should urgently be dealt with. Germany therefore supports the proposals
made in the report on this subject submitted by the Board. What is more, a clear timeframe is needed for
the next procedural steps, in order to be able to bring the discussions to a conclusion in the foreseeable
future. It could be worthwhile following up on the discussion. Those options for which a consensus is in
sight should be dealt with as quickly as possible, in order to be able to present visible achievements. I am
confident that an agreement on the question of increasing basic votes, membership votes and special
majorities could be reached in time for the Spring Meeting in 2005. Enhancing voice benefits all member
countries. However, I am of the opinion that it is particularly in the interests of developing and transition
countries to actively promote the process. Otherwise, it would be difficult to succeed on the voice agenda.

Debt Sustainability

The enhanced HIPC initiative is a success story. The HIPC debt relief committed so far represents
a reduction of two thirds in the overall debt stock of the countries concerned and debt relief has helped
countries to substantially increase poverty reduction expenditures. Looking ahead, we need to revisit the
financial requirements for HIPC in order to have a sound financial basis for debt cancellation within the
initiative. In this exercise, however, we need to carefully redefine burden sharing among donors, issues of
creditor participation and options for additional contributions by Bank and Fund themselves.

Furthermore, we now need to look forward and avoid the re-emergence of unsustainable debt.
Germany supports the main thrust of the new operational framework as discussed at the Spring Meeting.
The HIPC Initiative has succeeded in reducing an unsustainable debt overhang. But debt reduction alone
is not enough to get development in the poorest countries back on track. No debt relief package can
possibly guarantee long-term debt sustainability unless debt relief is accompanied by transformational and
structural change in developing countries. Therefore, we need a framework to provide forward-looking
guidance on new borrowing and lending decisions. The operational framework discussed at the Spring
Meeting, which contains country-specific debt sustainability thresholds and takes account of vulnerability
and the strength of institutions, constitutes a sound basis for further discussion.

Some of the remaining details need to be clarified soon in order to make the framework
operational. We should not think about perfection but should rather undertake a staged approach looking
more closely into the indicative threshold debate as we move forward. This will enable us to address the most significant issue: How can we help HIPCs undergo the necessary reforms, emphasising such aspects as sound economic management, improved governance and country-specific growth policies?

Because of their relevance in providing guidance for the operations of all development partners, debt sustainability analyses (DSA) should be jointly prepared by the Fund and the Bank. A comprehensive debt analysis is needed as a basis for country-by-country assessments. It is essential to carefully integrate those analyses into existing operational practices at the World Bank and the IMF. Given the implications of DSAs for aggregate financing and donor coordination, it is important that they be prepared in a transparent and collaborative manner. Therefore, the analyses should be jointly prepared and presented, in connection with relevant strategic documents. Accountability to the respective Boards will not be weakened by the proposed joint preparation of DSAs but strengthened.

Additionally, it will be essential that the countries themselves regularly analyse their debt situations and improve their debt management capacities and that the country debate about debt sustainability issues be opened up. The donor community needs to foster in-depth discussion about the choice of alternative scenarios as a guide to future strategic decisions within the broader PRS Framework. In many cases, for example, debt sustainability concerns could easily be interpreted as limiting the availability of much needed resources for achieving the MDGs. I therefore urge the Bank and the Fund to work closely on the preparation of their own DSA with the country authorities and development partners.
Statements Submitted by Observers

Statement by Mr. Poul Nielson, Commissioner for Development and Humanitarian Aid, European Commission

The European Commission welcomes the focus of the Development Committee in the series of its recent meetings on the Millennium Development Goals (MDGs). These have become the context for all our development work in the 21st century. Yet they remain a major challenge, especially for sub-Saharan Africa which is lagging behind other regions in terms of poverty reduction and most of the other MDGs.

To Reach the MDGs will Demand More Aid, and New Innovative Ways of Delivering It

The MDGs demand, aside from the pivotal efforts by the developing countries themselves, higher levels of aid as well as an improved quality of aid.

The EU countries made a firm and quantitative commitment to increasing their aid levels in Monterrey and are at current trends exceeding this commitment, heading for 0.42% of GNI in 2006 instead of 0.39% as promised. Nevertheless it has also become evident that an even steeper increase in aid levels is required. While it seems that higher aid could be easily compensated by small cuts in the big budget items such as defence, public administration and agricultural subsidies, the reality of the annual budget process in the developed world is such that the constituencies for aid are rather small and major increases in the aid budgets are in many countries hard to get. Therefore, efforts to look for more sustainable sources of funding of development assistance beyond the volatility of the annual budget are welcome. A range of options, including IFF and the introduction of an international tax whose proceeds would go to development are discussed in the papers for the Committee. While further technical work is proposed, and is needed, the central challenge is political: do we agree that aid levels need to rise now? And that innovative source of financing should come on top of and not replace current aid allocations in the developing country budgets?

An equal or even greater need for innovation may be the way how we deliver the additional aid promised and securing at the same time predictability of resource flows, increased country ownership of poverty reduction strategies and incentives through performance based aid allocations. While countries require a stable and predictable source of funding for public services required to meet the MDGs, the current range of instruments at donors’ disposal from projects, sector and general budget support cannot ensure such a steady flow of resources. Wherever suitable conditions exist, the Commission is committed to make increasingly use of budget support. This instrument comes closest to the requirement by allowing the funding of both recurrent and investment needs and reducing transaction costs through the use of national systems. This also improves coherence in planning and accounting. In that context the European Commission welcomes the recent announcement by the Bank to move from adjustment to policy support lending and hopes to be able to exploit the potential of increased coordination between Commission and Bank interventions. Combining the respect for country ownership with conditionality remains a balancing act, in particular for the BWI, and the Commission would welcome a further and more decisive move towards results- rather than policy based conditionality. Also on the down side, the time horizon of current budget support is often too short and disbursements too volatile.

Debt relief, on the other hand, has proven an effective aid delivery mechanism by providing a steady and predictable flow of resources. However it has to-date not been an effective allocation mechanism for aid: debt relief under the HIPC initiative did neither benefit the poorest nor the best performing countries most.
Building on this experience, innovative ways of delivering additional resources should seek to combine predictability with the incentives donors seek to provide and the accountability our Parliaments demand.

In addition to the promise of increased aid levels, the European Union has also committed to concrete steps to improving the quality of aid. Untying of aid and better harmonisation of our aid programmes feature prominently among those. The European Commission has presented proposals in both areas and is currently working with EU Member States on an EU policy on that basis. Progress at EU level necessarily implies global progress as it already affects the bigger part of ODA. We are conscious of this responsibility.

While Growth Also Needs Better Infrastructure

Provision of infrastructure services is a fundamental factor to fight poverty and is a basic input for sustained economic growth. We welcome the World Bank’s Infrastructure Action Plan which builds upon the empirically proven links between infrastructure provision and poverty reduction and in particular its contribution to the MDGs.

The European Commission is a traditional donor in the sector of transport infrastructure and services which accounts for 35% of total earmarked programmable resources from the European Development Fund over the last decade. Following the Johannesburg Summit in 2002, however, the Commission decided to raise its profile in two other sectors by launching the EU Water and Energy Initiatives, linking infrastructure to the MDGs and poverty.

The € 500 million ACP-EU Water Facility is conceived as a catalyst for additional funding to the water sector. Its funds will be primarily used in innovative ways in co-financing arrangements, to provide the grant-funded elements of projects enhancing the access of the poor to water and sanitation services; to finance capacity and institution building, to spur the integrated management of water resources, and to contribute to existing initiatives within a concrete financial framework.

Similarly, the EU Energy Initiative has a particular focus on poverty eradication by improving access to adequate sustainable energy services in rural, peri-urban and urban areas. The Commission is preparing a € 250 million Energy Facility, similar to the Water Facility to honour the commitments taken at the WSSD.

And A More Conducive Business Climate

The European Commission welcomes the increased focus on a conducive business climate as a prerequisite for growth. Support in this area constitutes one of the cornerstones of the EC strategy for private sector development in developing countries. We agree that benchmarking key features of the business environment and monitoring their further development should be a key component of private sector development strategies.

The Investment Facility’s € 2.4 billion managed by the European Investment Bank should be an important factor in the effort to enhance partnerships, joint ventures and equity based investment between EU investors and partners in ACP countries. This should be true not only relating to infrastructure activities but generally in relation to the business development process.

We should not be too optimistic on the scope of Public-Private Partnerships for leveraging substantial private capital for infrastructure financing. Information from the private sector suggests that
while private enterprises are interested to conclude management contracts with developing countries, they are reluctant to finance large-scale infrastructure. Public financing is bound to remain the decisive factor in infrastructure financing in poor countries.

The regional dimension is important and deserves more attention, for business climate and infrastructure provision, in particular with a view to attracting foreign investment and promoting business and trade flows between countries. This is particularly important for many LDCs, landlocked and small economies. For the Commission regional integration is one of its six priority areas.

Trade prospects are an important factor for the business climate and growth prospects. We welcome the important steps forward in the WTO’s Doha Development Agenda. Since 2001 annual new EU commitments for trade-related assistance have reached around €700 million, making the EC the largest contributor in this field. For more businesses to take advantage of the increased trade possibilities expected from the DDA we need to press this process forward even more energetically.

As well as a Solution to the Debt Crisis

The HIPC initiative was an important breakthrough in dealing with debt crisis in low income countries and should be fully completed. We welcome the postponement of the HIPC sunset clause to end-2006 for those countries that still have to enter the initiative. However, we call on the international community to develop urgently credible alternatives for those countries that still risk being left out at the expiry of the sunset clause. These other options must be better tailored to the needs of post conflict countries with high multilateral arrears.

The European Commission is concerned that debt sustainability in post completion point countries has so quickly become an issue again, which proofs that current monitoring arrangements simply are not satisfactory. Monitoring new borrowing is not enough and there is a need to develop adequate answers to external shocks. A new forward looking framework for debt sustainability in Low Income Countries will however only be credible if the independency of the debt sustainability analysis can be assured.

Concerning the proposal of a 100% debt cancellation, the Commission considers that the already mentioned missing correlation with both poverty and performance makes indiscriminate debt relief an undesirable replacement of aid.

As Part of a Coherent Partnership for the MDGs.

Over the last few years, we have reached important agreements. We now all consider the MDGs our common mandate and our common challenge. We all recognise that if the MDGs are to be reached we all need to deliver on Monterrey. I am pleased to state that the European Union is on track for meeting its 2006 target for the increase of aid volumes. Other important donors still have to deliver upon their commitments. We must seize the opportunity of the forthcoming MGD+5 reporting in 2005 not only to renew our commitments, but also to take collectively and in a credible manner, the necessary trade and financial decisions to help our partners in Development achieve our common objectives.

Statement by Mr. Lennart Båge, President, International Fund for Agricultural Development

The adoption of the Millennium Development Goals, and the growing alignment of efforts that they have generated, has created unprecedented possibilities for improving the lives of the world’s 900 million extremely poor people who live in rural areas of developing countries.
The MDGs have helped to focus world attention on the persistence of mass poverty. Efforts are underway, as never before, to understand much more precisely who is poor, why they are poor, and what is needed for them to overcome their poverty. Based on its more than quarter of a century experience in rural poverty reduction, IFAD has much to contribute on this score.

The Monterrey Consensus of the International Conference on Financing for Development establishes the need for dramatic increases in the level and reliability of development resources. It notes, however, that increased and more secure resource flows are not adequate unless policies are reformed and the effectiveness of aid programs are improved. This meeting of the Development Committee provides an important opportunity to share insights and highlight progress that is being made on aid effectiveness.

While a thorough understanding of the institutional reforms needed to make aid programs both more efficient and more effective, the commitments undertaken as part of the Monterrey Consensus provide important guidance. Among the efforts to be intensified by multilateral and bilateral financial and development institutions, are the harmonization of operational procedures – highlighted in the background note for this meeting -- and the enhancement of country ownership of development frameworks and program design.

Greater alignment and rationalization of the operational procedures of bilateral and multilateral development institutions is needed to achieve greater impact, improved efficiency, and reduce the administrative burden on developing country partners. To this end, IFAD recently has deepened its partnership with a number of institutions. Last month our organization acceded to the Financial and Administrative Framework Agreement (FAFA) between the European Union and the United Nations. In June we concluded a Memo of Understanding with the New Partnership for Africa’s Development (NEPAD).

These agreements aim to strengthen the efforts of each party, laying the groundwork for increased collaboration. Taken together, they allow for streamlining of administrative and reporting procedures, exchange of technical information and assistance, and provide for better, more systematic communication.

As part of increased harmonization, IFAD is also working to increase its participation in PRSP processes, to ensure integration of its operations into broader poverty reduction programs. Drawing on its Country Strategic Opportunities Strategies (COSOP)\textsuperscript{29}, IFAD’s participation can create synergies that ensure that rural poverty reduction and enabling conditions are integral to a country’s poverty reduction strategy.

Improved aid effectiveness can also be achieved through the new model for partnership and collaboration, which is at the heart of the Millennium Development Goals. This partnership is based on the recognition that developing country governments and their people must be the authors of their own strategies to reduce poverty. Country ownership needs to extend beyond national governments to the poor themselves, if poverty reduction is to be effective and sustainable. Such ownership -- at both the national and the local levels -- grows out of having control over decisions. Just as new partnerships are according greater decision making power to developing country governments, so those countries will similarly need to devolve decision making power to communities and community organizations.

\textsuperscript{29} The COSOPs describe rural poverty and its context, identify rural poverty-reduction needs, opportunities, and constraints; identify what others are doing and have learned in rural development, incorporating IFAD’s own lessons learned from previous investments.
This represents a demand-drive approach, in which organized rural communities effectively articulate their needs and aspirations. In IFAD’s experience, this approach is more likely to meet real needs and provide real support to poor households -- both essential to sustainable poverty reduction. Engagement of these communities in strategy development and program design and implementation fosters entrepreneurship and creates momentum for further initiative and innovation. IFAD has also found that involvement of the poor helps to reduce the cost of project implementation and development, builds on traditional practices and appropriate indigenous technologies, and strengthens community cohesion.

In addition to improving aid effectiveness, the Monterrey Consensus also calls on multilateral and bilateral development agencies to mobilize additional development resources, through a variety of approaches. IFAD hopes that the discussion at this meeting on innovative new mechanisms for mobilizing additional resources will contribute to broader consensus toward adoption and implementation of such innovations.

IFAD is turning its attention to the challenge raised by the Monterrey Consensus, of increasing investment by the private sector in development efforts that reduce poverty. The Consensus tasks multilateral and bilateral development organizations with supporting such investment. To this end, IFAD recently adopted a private-sector development and partnership strategy. As part of that strategy, IFAD will work to attract investments from agribusiness firms to develop commodity markets, which are of great importance to small rural producers. In Uganda, for example, an IFAD financing of a palm oil production project has helped to leverage a major private sector investment for the development of a crude oil processing and refining plant. The plan will ensure that the producers have a market for their output, while also generating employment in the surrounding rural community.

Another important financial flow that is just beginning to draw attention within the larger development finance debate is remittances by nationals working outside their home countries. The exact amount of the resource flow is unknown, but estimates range from USD 100 to 176 billion per year. These hard earned resources belong to the workers and their families. Supportive policies and institutions could enable these workers and their families not only to meet their immediate consumption needs, but also to save and invest in a way that can benefit their families and their communities. IFAD is working with the Inter-American Development Bank to develop a pilot program in which microfinance institutions are creating opportunities for rural recipients of remittances to invest in productive activities and raise their incomes in sustainable ways.

Recent initiatives aimed at a definitive resolution of the unsustainable debt burden of heavily indebted poor countries are singularly important for creating the conditions for achievement of the MDGs. Without more robust measures, debt servicing will continue to claim essential resources needed for poverty reduction and sustainable development. IFAD shares concerns expressed recently that debt relief or cancellation not be achieved by shifting resources from development assistance. This is, in fact, the trade-off that IFAD’s participation in HIPC is generating, unless IFAD is granted access to the World Bank Trust Fund, as loan resources will necessarily be diverted for debt forgiveness.

Mr. Chairman, IFAD is firmly committed to operationalizing the provisions of the Monterrey Consensus and looks forward to working with its partners to step up efforts toward this end.

Statement by Mr Juan Somavia, Director General, International Labour Office

All of us welcome the recent pick up in the global economy. The challenge is to shape the recovery into a sustainable and balanced pattern of expansion. As the work of the World Commission on
the Social Dimension of Globalization shows, if one takes 1990 as a start point for the new era of globalization, it has not been associated with higher rates of growth of the world economy. \(^{30}\) Since 1990, world per capita growth has averaged about 1% per year compared with over 3% in the sixties, over 2% in the seventies, and about 1.5% in the eighties. As a result, we have had a long term tendency for labour market conditions to deteriorate in many parts of the world. Open unemployment has risen and so have informal economy activities.

Many groups are hit hard. Those who lose their jobs because of sudden shifts in the global economy. Those in countries which are not getting a fair crack at global markets. Older workers without the chance to upgrade their skills or start up a business. Young women and men who can’t get into the labour market. Youth unemployment reached an all time high last year, at 88 million. Youths make up 25 per cent of the working population, but almost half of the openly unemployed. That’s without counting the 130 million young people who are part of the world’s working poor.

“Give me a fair chance at a decent job” is the demand. But for far too many people, the global economy is not delivering. Making sure that there is decent and productive work for youth would be a powerful instrument for achieving the MDGs and kickstarting economic growth.

The global economy is delivering for some – but not for all. Too many people and too many countries are excluded or unable to take advantage of the opportunities. We need locomotives to drive the global economy in all parts of the world – we cannot rely on one or two regions to pull everyone along. The goal is balanced and sustainable global growth. That will call for stronger regional efforts, and regional integration can become a dynamo.

Recent efforts to strengthen regional integration in all parts of the world deserve more support, especially when they aim at both social and economic goals. For example, the recent extraordinary summit of the African Union in Ouagadougou is a regional response to the challenges of globalization, and highlighted how important it is that globalization be a source of sustainable jobs if poverty in Africa is to be substantially reduced.

Employment is the route out of poverty. Not just any work, but productive employment, created by strengthening entrepreneurship, investment and enterprise growth, ensuring that rights at work are respected, linked to adequate systems of social protection, in labour markets where the voices of employers and workers are heard and they work together towards common goals. That’s decent work. We need to make decent work a global goal.

The first Millennium Development Goal, to cut poverty by half, cannot be achieved by handouts. People must have the opportunities to participate effectively in the economy through productive jobs which meet their aspirations. Decent work is also a route to gender equality, to educational goals because in a decent labour market children go to school rather than work, to other MDGs such as maternal health and the combat against HIV/AIDS and other key diseases where workplace action is essential.

That is the conclusion of the World Commission on the Social Dimension of Globalization. It took a fresh look at globalization through the eyes of people. It was made up of experienced personalities from all parts of the world and all walks of life. Leading business figures, trade unionists and politicians

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came together with activists from civil society and academics. And it was chaired by two presidents in office, the presidents of Tanzania and Finland.

Despite their differences they reached some strong conclusions. That the potential of globalization for good was immense, but that this potential was not being sufficiently realized. That the problems lay in the governance of globalization. That action has to begin at home, but the world needs a balanced approach on a broad front, involving fair international rules, accountable institutions, and effective national governments.

That action has to be built on dialogue and wide consensus among diverse actors, otherwise it doesn’t get very far. That national governance must be supported by good global governance. That the legitimacy of globalization depends on much greater spreading of its benefits. And that decent work must become a global goal.

In this regard, the Commission called for increased official development assistance together with improved aid delivery, accelerated and deeper debt relief and active consideration of new additional sources of funding to strengthen progress towards the MDGs and shape a more inclusive globalization. The World Commission concluded that a fair globalization was an essential counterpart to the MDGs, because it points to the means by which they can be achieved. And among these means, work and employment are a powerful instrument to make globalization deliver for more people. And it is also an essential means of responding to the call of the Millennium Declaration for “globalization to become a positive force for all the world’s people”. But that can only happen if it leads to the steady creation of productive jobs, to which all have access.

How can we in the multilateral system combine our efforts more responsibly and effectively to make the global economy work better for people? The World Commission calls for the organizations of the multilateral system to work together better in order to draw on all of our knowledge, abilities and perspectives. Each organization has its own mandate, which must be respected, but the whole must be more than the sum of the parts. Today it is less.

We don’t need new institutional frameworks for coordination. We have plenty of those, and too often they don’t deliver. But we do need to sit down and work out more practical, integrated policies which take into account both the economic, social and environmental goals which we all have on our agenda. The World Commission suggested that the main organizations of the multilateral system launch Policy Coherence Initiatives to develop more balanced and integrated policies to achieve a fair and inclusive globalization in specific policy areas. And it suggested that the first initiative deal with investment, sustainable growth and employment in the global economy.

That is a topic which fits in very well with the paper which is on the agenda of this session of the Development Committee on “Strengthening the foundations for growth and private sector development: investment climate and infrastructure development”.

Jobs created by private firms, as the paper says, are key to achieving the MDGs. And investment is at the heart of private sector growth. But investment does not always result in the growth of quality jobs. The World Commission was concerned about excessive incentive competition to attract FDI, and the need for multilateral frameworks for investment to be built through dialogue which took all interests into account. It was concerned that global production systems should not end up with countries negotiating away rights at work in order to get into the market. An important part of the investment climate is for property rights and worker rights to be respected – this forms the basis for a steady growth of good jobs which are the most important source of social stability and expanding consumption, and in turn attract more investment.
I was very pleased to be part of the UN Commission on the Private Sector which prepared the “Unleashing Entrepreneurship” report published in March. It has similar messages to those of the Bank’s “Doing Business” project and complements well the report of the World Commission. The ILO is pleased to collaborate with both the Bank and the UNDP bringing our experience of support to micro, small and medium sized businesses. Our focus is linking entrepreneurship to opportunities for decent work. And the link is through the momentum of productivity growth supporting better working conditions which feeds back into more productivity and expanding consumer markets. As the background papers state there are also many ways for infrastructure development to help. And we can get still more pro poor growth when infrastructure is developed in an employment-friendly ways. I hope we can build this more firmly into the criterion for policy decisions and tendering procedures. Similarly, greater support and opportunities for local companies frequently has a strong effect on employment.

Improving the investment climate is vital. However, perhaps we do need to recognize that there are different aspects of the climate that favour smaller businesses, domestic capital and foreign investors. Some common features, but some differences too. As a forthcoming ILO report demonstrates, if we can accelerate the pace of productivity growth in the small scale entrepreneurial and farming sectors where most poor people work we will be making a big step toward getting the MDGs back on track.

A critical contribution of the ILO is to bring a tripartite perspective to these issues: since workers’ and employers’ organizations, as well as governments, are part of our organization, we are well placed to understand and reflect the views of all the key actors in the real life productive world, and find common ground among them.

I believe that organizations of the UN system, the Bretton Woods Institutions and the WTO can gain a great deal by working together, as the World Commission recommended, on a Policy Coherence Initiative to promote investment, growth and employment. We have the capability to build new approaches that balance better the diversity of economic and social goals. We can achieve convergence and consistency in our perspectives and recommendations if we work together on practical problems. We do a lot of that at the national level, and we need to do more of it at the global level. Discussions among our organizations have already started at technical level, and they suggest that there is a space to work together, although we need to invest more time and effort to map that out. And any new approaches and policy orientations could then be brought back to the governing organs of all of the organizations involved, for analysis on how to best move forward.

From where I am sitting, I see people looking at us and asking “Why can’t these organizations make their knowledge and policy experience converge in practical ways to give me, my family and my community a fair chance at a decent job?” I believe that our future credibility will depend, in part, on how well we are able to respond to that question as a truly effective multilateral team. No single institution can claim to have a solution on its own; but together maybe we can deliver better solutions.

There are other spaces for partnership suggested by the World Commission which we can use as well. The Commission proposes multi stakeholder Policy Development Dialogues on a range of complex but important issues, and a Globalization Policy Forum which would bring together international organizations and a range of other actors, from parliamentarians to local authorities, from civil society to academia, in the search for convergence to address key global economic and social policy issues.
Statement of Dr. Ahmad Mohamed Ali, President, Islamic Development Bank

Introduction

The Islamic Development Bank (IsDB) has the great honor and privilege to participate in the 70th Meeting of the Development Committee to discuss, among other things, Aid effectiveness and financing modalities; strengthening the foundations for growth and private sector development, with emphasis on investment climate and infrastructure development; and voice and participation of developing and transition countries.

The agenda of the meeting also cover other important issues, which require further discussion and are related to the collaboration between Bretton Wood institutions and other multilateral financial institutions, including the IsDB Group. These issues include debt and long-term debt sustainability.

All these issues are of great and immediate relevance to the IsDB and its member countries. Since our member countries are expecting fruitful debate and favorable decisions from this gathering, the IsDB would like to address briefly each of the issues on the agenda and give IsDB’s perspective on them. However, it would be useful to dwell briefly on the recent economic performance of the IsDB member countries and the latest trends in the transfer of resources to developing countries to set the stage.

Recent Economic Performance and Trends in Resource Flows

Following the global economic recovery of 2002, the fifty-five IsDB member countries, like other developing countries, have continued their rising trend of economic performance in 2003. The global GDP growth recovered from the short-lived recession rate of 2.3 percent in 2001 to 3.0 and 3.9 per cent in 2002 and 2003, respectively, and is projected to increase further to 5.0 and 4.3 per cent in 2004 and 2005, respectively. With this broad-based across regions economic recovery, accompanied by improved business and consumer confidence, and coupled with a turnaround in high-tech markets in industrial countries and subdued inflationary pressures, the volume of world trade in goods and services increased from 0.1 per cent in 2001 to 3.3 per cent in 2002 and 5.1 per cent in 2003 and is projected to increase further by 8.8 and 7.2 per cent in 2004 and 2005, respectively, according to the recent IMF estimates.

Concomitant with the world economy, the real GDP growth rate of IsDB member countries as a group increased from 3.3 per cent in 2001 to 4.7 and 5.3 per cent in 2002 and 2003, respectively; and is projected to grow at a rate of 4.9 and 5.3 per cent in 2004 and 2005, respectively. Although the overall economic performance of IsDB member countries in terms of GDP growth rate was higher than the growth rate of the world as a whole, it remained below the growth rate of developing countries. The real GDP growth rate for the developing countries as a whole, increased from 4.1 per cent in 2001 to 4.8 and 6.1 per cent in 2002 and 2003, respectively; and is projected to reach 6.6 and 5.9 percent in 2004 and 2005, respectively. Nonetheless, the IsDB Least Developed Member Countries (LDMCs) were able to surpass and sustain the average GDP growth rate of the developing countries: registering growth rates of 5.6, and 5.2 per cent in 2001, and 2002, respectively; and are projected to exceed 6.6 and 6.2 per cent in 2004 and 2005 respectively.

The decrease in net long-term resource flows to developing countries, including IsDB member countries, continues to be an issue of our concern, given the continued reliance of these countries on external resource flows to achieve accelerating growth and reduced poverty. With official capital outflows slowing down, net private capital inflows to developing countries fell in 2002 from their previous year levels. Net foreign direct investment (FDI) to developing countries declined sharply to an estimated US$147 billion, compared to US$175 billion in 2001. While net FDI flows varied considerably across geographical regions, the decline was centered in Latin America, basically due to the crisis in Argentina.
Although FDI to developing countries are provisionally estimated to rise to US$131 billion in 2003, a sharp decrease in net portfolio investment was observed in 2003, particularly in emerging Asia and the Middle East.

As a share of net resource flows to all developing countries, the IsDB member countries received resource flows amounting to 19 per cent in 2000, 22 per cent in 2001, and 33 per cent in 2002. Net resource flows to IsDB member countries increased from US$25.2 billion in 2000 to US$26.5 billion in 2002. Nearly half of these capital flows in 2002 went to few IsDB member countries. Member countries which received sizeable increase in net resource flows between 2001 and 2002 are Afghanistan (US$859 million), Cameroon (US$784 million), Iran (US$1.6 billion), Jordan (US$304 million), Malaysia (US$2.5 billion), and Mozambique (US$885 million). In contrast, other member countries, including Algeria, Comoros, Gabon, Kazakhstan, Qatar, Saudi Arabia and Turkey experienced major drop in their net resource flows between 2001 and 2002.

There are also serious concerns about the steep decline in official development assistance (ODA) flows to the IsDB member countries over the past several years. In fact, as a share of aggregate resource flows to IsDB member countries, ODA flows declined from an average of 87 per cent in 1990 to 61 per cent in 2001. Despite increase of ODA from OECD Development Assistance Committee (DAC) to US$56.3 billion in 2002, compared with US$52.3 in 2001, their average ODA levels was 0.20 per cent of Gross National Income (GNI) and 0.47 per cent for non-G7 countries. With the exception of some DAC countries, ODA levels remained below the United Nations (UN) target of 0.70 per cent of GNI. The level of ODA in 2003 is estimated to have declined, while most of the net ODA in 2002 was accrued to Latin America and Africa.

Another point of serious concern for the IsDB is the drop in Official Development Finance (ODF) to member countries which has declined for the third consecutive year since 2001. As a share of aggregate resource flows to IsDB member countries, the ODF declined drastically from an average of 87 percent in 1990 to 61 percent in 2001. The IsDB understands that the concessional flows may have been restricted, especially in the Sub-Saharan African countries where aid remains crucial, on account of delays that have occurred in implementing reforms. Nevertheless, the ODF flows should urgently reach the UN target of 0.7 percent of donors’ GNI. Sub-Saharan African countries face more volatile commodity prices than any other developing region. If donors were to follow through with their commitment at Monterrey to increase aid to the UN target of 0.70 per cent of GNI, efforts will need to focus on the administrative and institutional requirements for these resources to be used efficiently, as discussed below.

**Aid Effectiveness and Financing Modalities**

The importance of sound policies in achieving national economic goals and enhancing effectiveness of development assistance can hardly be over emphasized. Lessons from experiences of development partners suggest that foreign aid has been successful in reducing poverty in countries with effective economic management and robust government institutions. Sound policies and institutions that closely correlate with economic growth and poverty reduction include: open trade, secure private property rights, absence of corruption, respect for the rule of law, social safety nets, and sound macroeconomic and financial policies.

The IsDB believes that increasing financial assistance to poor countries with sound policies and good institutions is likely to lead to the improvement of standard of living of millions of the poorest people in the world. Accordingly, the Bank in its financing strategies gives high priority to strengthening institutions through capacity building. The IsDB also supports the global efforts to promote private sector development and market reforms which could contribute to improving growth prospects in member countries. The effectiveness of the IsDB financing also crucially depends on sound policies and
governance. The Bank, therefore, fully endorses the efforts at the multilateral level to further improve soundness of policies for enhancing the aid effectiveness.

The IsDB stands ready to participate in efforts being planned in this area in particular in the joint evaluation of projects and programs for enhancing aid effectiveness to member countries. This will be in accordance with the Bank's existing policies and initiatives of actively seeking collaboration and cooperation with its member countries, regional and international development partners. In this context a number of improvements have been enacted to strengthen the institutional capabilities of the Bank and its management of implementing, follow-up and impact assessment of the projects approved. A specialized department has been created to post-evaluate the operations of the Bank on regular basis. Similarly, an impact assessment study on the Bank's operations over the past years have been launched recently, with the view to critically evaluate their relevance on selection and implementation of projects. In Parallel, efforts were made to gauge the stakeholder' perceptions about IsDB performance through questionnaires and follow up surveys. These efforts aimed to enhance the Bank's development effectiveness.

In this context, the adoption of the new Strategic Framework of the IsDB Group in 2004 is also an important step, with its focus on poverty alleviation, as one of its three strategic objectives, along with promotion of cooperation among member countries and promotion of Islamic financial industry and institutions. In addition, the sectoral focus of the Strategic Framework responds to the changing needs and opportunities in member countries. Such priorities not only reflect the current state of development thinking and needs, but also expected to sharpen and further enhance IsDB's aid effectiveness.

Given the vital importance of the transfer of adequate resources to its member countries and the various difficulties encountered in securing sufficient amounts through its traditional sources, the IsDB recently launched tradable bonds compatible to the principles of Islamic Shari'ah (called Sukuk) which has enabled IsDB to mobilize US$400 million from the international capital market. Building on the success achieved, the IsDB plan to raise more funds from the international markets through this instrument to further enhance the level of its financing and thereby support the developmental activities in these countries. The Bank is also continuing its efforts to alleviate severe challenges faced by the Least Development Member Countries (LDMCs) by providing interest free loans and other concessional financing.31 This will be in line with its commitment to support appropriate development strategies in its member countries in order to help them achieve the Millennium Development Goals (MDGs), particularly the target of reducing the poverty by half by 2015.

Strengthening the Foundations for Growth and Private Sector Development

On this agenda item, the IsDB takes note with satisfaction the significant progress made during the last decades by multilateral and bilateral donors in partnership and agreeing with developing countries, including IsDB member countries, to focus on building good investment climate for private sector-led growth. Empirical research conducted by multilateral financial institutions (MFIs), including IsDB in its member countries, together with experiences of several countries found that good investment climate most influenced private sector decision to invest and produce efficiently. These factors include macroeconomic stability, openness, governance, good institutions and factor accumulation (both human and physical capital). A well-functioning physical infrastructure also matters for supporting private sector investment (as a source of growth) and poverty reduction.

31 The LDMCs include 23 IsDB member countries, namely Afghanistan, Bangladesh, Benin, Burkina Faso, Chad, Comoros, Djibouti, The Gambia, Guinea, Guinea-Bissau, Maldives, Mali, Mauritania, Mozambique, Niger, Senegal, Sierra Leone, Somalia, Sudan, Togo, Uganda and Yemen. As a special case, the State of Palestine is also treated as an LDMC by the IsDB.
The IsDB welcomes the current partnership, which encourages all MFIs to harmonize their operational policies and procedures in order to lower the delivery cost of development assistance. Obviously, better implementation and common operational procedures require that standards should be developed cooperatively, keeping in view the institutional capacities of relatively small MFIs. Accordingly, the IsDB appreciates the most significant accomplishment of the World Bank's Action Plan on Infrastructure Development. In this respect, the IsDB supports various efforts aimed at raising country-level capacity to enhance infrastructure development.

For its part, the IsDB established an Islamic Infrastructure Fund (IIF) in 1998 as a private sector vehicle that focuses on bringing foreign direct investment in the infrastructure development in IsDB member countries. Its objectives are to make equity and equity-related investments in member countries and to promote the use of Islamic financing in infrastructure projects. So far, IIF raised US$930.5 million (US$750.3 million for equity and US$200 for Complementary Financing Facility (CFF)) against its targeted equity capital of US$1 billion and a CFF of US$500 million. Out of the commitments, the Fund has invested US$208 million in four equity-related projects in four member countries.

On the private sector side, the IsDB lays great emphasis on the role of private sector in promoting economic growth and prosperity in the member countries. The Islamic Corporation for the Development of Private Sector (ICD) was established in 1999, as an entity within the IsDB Group, to identify opportunities for the growth of the private sector and to expand access to Islamic capital markets by private companies in member countries. The ICD provides its clients with a wide variety of financial products such as direct financing, asset management, structured finance, and advisory services. The ICD utilizes Shari’ah-compatible modes of financing/financial products such as equity, term financing (leasing, installment sale and Istisna) and quasi-equity in the form of term financing convertible into equity at some stage of the project life. The ICD started its operation in 2000, and, up to the beginning of 2004, a cumulative amount of US$190 million had been approved for 30 operations. Earlier, the IsDB Unit Investment Fund (UIF) was established in 1989, as a private sector window of the IsDB to participate in the economic development of member countries through pooling of the savings of institutional and individual investors and investing these savings in both IsDB member countries and other countries. UIF extend financing facilities through various modes of financing such as Murabaha, Istisna, installment sale, and leasing. By the first quarter of 2004, the total approvals of the UIF amounted to US$1.3 billion.

In parallel, the Islamic Banks Portfolio for Investment and Development (IBP) was established in 1988, in association with other Islamic banks and financial institutions, as a trust fund to mobilize funds for utilizing in the promotion of investment and trade among member countries. The IsDB, as a Mudarib, manages the operations of the IBP which include trade, leasing, installment sale, equity, investment, profit-sharing, and syndication. By the end of the first quarter of 2004, the IBP approvals reached US$3.39 billion for 214 operations, including US$2.19 billion (or 65 per cent) for trade financing via Murabaha. Recently, the Awqaf Properties Investment Fund (APIF) was established in 2001 by Awqaf Ministers, Awqaf Directorates and various Islamic banks, as a trust fund to be managed by the IsDB. The outreach of the APIF is the development of Awqaf properties around the globe. Initially, the approved capital of the APIF, which was fully subscribed, was US$51 million, raised subsequently to US$55 million. So far, the APIF has approved 24 operations amounting to US$93 million, of which more than 60 per cent (or US$58 million) was approved for the development of Awqaf properties in eight member countries.

The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) was established in 1994, with a view to expanding the intra-trade and intra-investment activities by way of providing export credit and investment insurance. ICIEC started operational activities in 1995. At the
beginning of 2004, the total number of policies in force stood at 80, while the total current commitments and the total business insured stood at US$265 million and US$147 million, respectively.

Voice and Participation of Developing and Transition Countries

Better cooperation between the World Bank and the IMF is essential for broadening and enhancing the participation of developing and transition countries in their decision-making process. This enhanced participation is consistent with the current efforts for improving development assistance effectiveness.

The IsDB is confident of the capacity of the Bretton Wood institutions to adopt the necessary changes in order to strengthen the participation of their developing and transition countries.

However, the IsDB does not really face internally this kind of issue since its membership is composed exclusively of developing countries and countries with economies in transition. Unlike some other regional development banks, there are no developed countries as non-regional members in the IsDB. However, some of the issues raised under this subject are also relevant to the IsDB Group. These include mainly the voting structure and strength, the capacity for owning programs and projects financed, the level of decentralization, the degree of transparency, the diversity of staffing, etc.

Like Bretton Wood institutions and other multilateral development institutions, the voting structure in IsDB is dependent on the number of shares subscribed. However, the tradition to rely more on consensus rather than on majority has facilitated the participation of all IsDB member countries in the process of decision-making both at the level of the Board of Governors and the Board of Executive Directors. In addition, the increase in the number of Executive Directors, the establishment of regional offices and the diversity in staffing have improved the participation of LDMCs and member countries in transition from Eastern Europe and Central Asia in the activities of the IsDB Group.

On the other hand, this subject is relevant to the IsDB as far as the relation of its member countries with major international institutions is concerned. The IsDB is fully aware of the concerns expressed by developing countries about the weaknesses of their voice in various forums as well as the solutions that they have already suggested in view of improving their participation in the global process of decision-making. In this regard, the IsDB has already responded at its level by putting in place various programs aimed at enhancing the voice and participation of its member countries in designing the new economic, financial and trade order. For instance, the IsDB continues to assist its member countries in general and the LDMCs in particular, in strengthening their negotiation skills and institutional capacities in order to successfully face challenging negotiations with their partners from developed countries under WTO.

Within the framework of its WTO-related technical assistance program, the IsDB has helped its member countries in coordinating their positions on major issues put before WTO Ministerial Conferences. In particular, it has organized several consultative meetings of the Organization of Islamic Conference (OIC) member countries in order to provide a forum for the exchange of views on agenda items of these conferences.

The IsDB welcomes the efforts of Bretton Wood institutions in enhancing the voice and participation of developing and transition economies in their decision-making process. Needless to say, the IsDB stands ready to learn from the experience of Bretton Wood institutions and other organizations in this important area for the benefit of our member countries.
Long-Term Debt Sustainability

Concerning the fourth item of the agenda on “long-term debt sustainability in low-income countries”, in tandem with the progress in the implementation of the HIPC Debt Initiative, while we would like to express our satisfaction for the success of six LDMCs, namely Benin, Burkina Faso, Mauritania, Mali, Mozambique and Uganda in reaching their completion point under the enhanced HIPC Initiative, eight more IsDB member countries which are eligible to receive debt relief have not reached their completion points, suggesting that the process is still not as fast as was originally expected. It is to be noted that since the launching of the enhanced HIPC Debt Initiative in 1999, only eight out of twenty-seven eligible developing countries have reached their completion points. On the basis of the set eligibility criteria, nineteen IsDB member countries in 2003 qualified for debt relief under the enhanced HIPC initiative. Of those, fourteen IsDB member countries were under the joint HIPC and the IMF Poverty Reduction and Growth Facility (PRGF). This implies that these countries are under different stages of obtaining debt reduction under the HIPC initiative.

So far, thirty seven indebted countries are eligible to receive debt relief under the enhanced HIPC initiative. The total cost of the HIPC initiative to all creditors is currently estimated by the World Bank at US$53.4 billion in 2003 Net Present Value (NPV) terms, with the multilateral creditors' share of US$24.4 billion, or 46 per cent. To date, there are twenty seven countries that have been declared eligible to receive debt relief estimated at US$34.7 billion in 2003 NPV terms, with twelve countries having reached their completion points. For these countries, multilateral creditors' share of debt relief is estimated at US$17.5 billion.

For its part, the IsDB has already committed itself to support its fourteen member countries, which have qualified so far for debt relief under the enhanced HIPC initiative. For these countries, the cost to the IsDB is estimated at around US$141 million in 2003 NPV terms. In this context, the IsDB has approved and in some cases fully implemented debt relief packages for Benin, Burkina Faso, Cameroon, Chad, Gambia, Guinea, Mali, Mauritania, Mozambique, Niger, Senegal, Sierra Leone and Uganda.

While for Mozambique the IsDB has no exposure at the country's decision point, debt relief packages for three other member countries, namely Guinea, Sierra Leone and the topping-up for Burkina Faso were also approved by the IsDB Board of Executive Directors. Currently, the IsDB is engaged with Guinea-Bissau in a dialogue to find an appropriate mechanism to deliver the IsDB's share of debt relief. Debt relief packages have been fully implemented for Uganda, Mauritania and Niger, and recently Benin. The implementation of the debt relief packages for Burkina Faso and Mali are currently in progress. Moreover, five countries (Comoros, Cote d'Ivoire, Somalia, Sudan and Togo) are still to be considered for relief.

Other Business

Progress in Achieving the Millennium Development Goals

Regarding the first major item on other business, on the progress in Achieving the Millennium Development Goals (MDGs), many IsDB member countries are on track of achieving major health-related MDGs and reducing the number of people suffering from hunger. However, the IsDB expresses concern about the significant gaps in the achievement of the MDGs by the membership from Sub-Saharan African and the CIS countries, particularly the target of halving the number of people living below US$1 a day by 2015.

Accordingly, the IsDB supports the efforts for developing a framework for monitoring policies and actions aimed at achieving the MDGs, encouraging and forging international initiatives to support
targeted programs for achieving the MDGs targets in least developed countries (LDCs). The IsDB is confident that all these efforts will contribute to accelerating the progress and mitigating the risks towards attaining the MDGs. No doubt, this acceleration is crucial for the credibility of multilateral commitments made in various fora, including the Doha WTO Ministerial Conference, Monterrey Conference, Johannesburg Conference, Rome High-Level Forum on Harmonization, the November 2003 FTI partnership meeting in Oslo, and more recently the Ouagadougou Action Plan, adopted by the African Heads of State and Government at the Extra-Ordinary Summit of the African Union, held in Burkina Faso during 8-9 September 2004.

The IsDB is supportive of the conceptual framework for the monitoring of the essential policies and actions for achieving the MDGs; assessing the status of their implementation by developing and developed countries; the general approach and the idea of instituting a regular reporting mechanism to the Development Committee, including the Global Monitoring Report. In reality, the priorities for action highlighted by this year's report, as proposed in the 2004 Spring Meeting of the Development Committee, are already subject to a large consensus. No doubt, better progress in achieving the MDGs may be made possible if priority is given to accelerate economic growth, enhance the capabilities of the poor to participate in growth, improve the environment for the private sector by strengthening the rule of law and infrastructure, improve the quality of governance and the capacity of public sector, increase the effectiveness of the delivery of affordable services to poor people, provide better market access to developing countries, and improve aid effectiveness.

While the IsDB is confident that adequate solutions will be found for resolving the technical issues related to the development of a monitoring and reporting framework for tracing the implementation of agreed policies and strategies, it expresses its interest to be associated with this process along with all concerned development partners. In this context, we fully agree with the idea to give the leadership for monitoring work in a specific area on the basis of institutional comparative advantage and expertise. As one of the partner agencies, the IsDB stands ready to contribute to undertaking impact analysis of its developmental assistance towards achieving the MDGs targets within its available financial and human resources. Among others, the IsDB may participate in enhancing the statistical capacity building of its least development member countries (LDMCs) through its technical assistance and cooperation programs as well as developing impact indicators for IsDB operations, based on its new Strategic Framework.

In this context, a number of improvements have been enacted to strengthen the institutional capabilities of the IsDB and its ensuing strategic plans for all its entities and affiliates. Indeed, these entities are about to finalize their new strategic plans. Meanwhile, the IsDB will continue to distill and learn from the experience of Bretton Woods institutions and other multilateral institutions in monitoring policies, actions and outcomes related to the achievement of the MDGs. Obviously, learning from this experience is relevant for the IsDB Group, which is currently embarking on studying ways and means for increasing the developmental impact of its development assistance.

**Harmonization of Operational Policies**

Concerning the harmonization of operational policies, IsDB has been actively associated in this endeavor with other partner Multilateral Development Banks (African Development Bank, Asian Development Bank, Inter-American Development Bank and the World Bank) since the 24-25 February 2003 High-Level Forum, held in Rome. The importance of harmonizing operational policies, procedures and practices with partner countries to improve development effectiveness and contribute to meeting the MDBs can hardly be over-emphasized. In fact the IsDB has been a member of the eight member Arab Coordination Group since 1976. Through our collective efforts to harmonized approaches, particularly among the MDBs, the transaction costs of doing development business will be significantly reduced and more importantly scarce capacity of partners will be freed and, in turn, channeled and utilized in more
productive activities. Such simplification and harmonization of processes will not only reduce their associated costs, but also enhance fiduciary oversight and public accountability.

In this process, the IsDB is revising its guidelines related to procurement and consultancy services. The IsDB also participated in related fora, such as the World Bank Fiduciary Forum, held in Washington, 8-11 March 2004 and the Fourth Meeting of the MDBs on Financial Management, hosted by the Inter-American Development Bank, 4-5 March 2004. Consequently, the IsDB Group is revising and streamlining its guidelines on financial management, procurement and disbursements; with the aim of reaching common operational approaches. Such a daunting task, would, among other things, reduce the burden on partner countries and at the same time rationalize the costs of doing business.

In conclusion, all the items on the 70th Meeting of the Development Committee are helpful and important to the IsDB and its member countries, particularly for the Least Developed Member Countries in their quest for achieving the Millennium Development Goals. Indeed, the rich discussions in this meeting will provide an opportunity for the IsDB and its member countries to share development knowledge and institutional experiences, with the view to further coordinating and focusing concerted efforts in enhancing the effectiveness of our development financing. The discussions in the 70th Meeting of the Development Committee would not only help in advancing consensus on strengthening the foundation for growth and private sector development through improved investment climate, but also through development of an efficient and functioning infrastructure.

Statement by Mr. Richard Manning, Chairman – OECD Development Assistance Committee (DAC)

Introduction

This note is designed to provide additional background information relevant to items I and II of the agenda of the Development Committee: Aid Effectiveness and Financing Modalities, and Strengthening the Foundations for Growth and Private Sector Development.

Aid Effectiveness And Financing Modalities

Aid Architecture

There are signs that we may be moving into a period of significantly expanding aid, with potential for scaling up of programmes across a wide range of sectors in a large number of poor countries, with varied levels of capacity. The instruments and processes of aid are evolving. It is clear that if we are to be effective and above all to help our partners lead and manage the aid process in their own countries, then we will need a more joined up aid effort. This clearly applies at country level, and I comment on that further below. But it also applies to the institutional architecture at the global level. The 22 DAC countries supply a very high proportion of the financing for an ever more complex multilateral system that delivers 30 per cent of ODA, with a wide array of institutions often playing crucial leadership roles. Yet decision making regarding the funding and direction of the multilateral system is fragmented between different ministries and departments in most DAC capitals, with inadequate consideration of the impact of incremental decisions on the multilateral system across the MDBs, the UN and the special funds. A number of studies are now looking at these issues of aid architecture. In the DAC we will be taking them up under our work programme for the next biennium. An important objective will be to get a better fix on what is actually happening in terms of decision making and funding in the system, so that we and all the players in the system are more aware of what the trends and issues are. That should in itself help us towards more optimal decision making.
As noted in my report to the Spring Meeting, there is now growth in ODA. But the amount of additional finance received by countries to help them reach the MDGs is still modest, as much of the increase is in the form of debt stock cancellation and emergency and reconstruction aid. Further increases are planned for 2006, as promised by donors at Monterrey in 2002. Table 1 shows the latest DAC projections for 2006, with a further increase in ODA between 2003 and 2006 of some 27%, equivalent to $18 billion at 2003 prices and exchange rates, assuming that DAC members deliver publicly stated commitments. While this is considerable, it is still well short of the increased external funding that analyses show to be required if the MDGs are to be met in 2015.

It is encouraging that since the Spring Meeting, two more countries have set a timetable for achieving the UN target for ODA of 0.7% of GNI—Spain and the United Kingdom, bringing to 11 (out of 22) the number of DAC member countries which have either met this target or announced a date by which they aim to do so. If these longer term commitments, together with those already made by other DAC members, are met, a further $15 billion of ODA would be available by 2010, taking total ODA over $100 billion. At 0.32% of GNI it would still be below the long term trend rate of 0.33% of GNI which DAC members routinely provided up to 1992. But as there are nine DAC members with no plans yet to increase their ODA after 2006, there is scope for this amount to increase substantially. As part of the major review of progress in 2005, it will be timely to consider more widely, as was done in the context of Monterrey, the case for such additional medium term commitments of ODA (say, to 2010) to help countries meet the MDGs, and how to speed up the volume of additional finance actually received by developing countries. In this context, the IDA 14 replenishment is an important “here and now” test of donors’ intentions for enhanced resource transfer through multilateral channels.
Table 1. DAC Members’ ODA prospects after Monterrey: Latest projections for 2006

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<td>Austria</td>
<td>503</td>
<td>0.20%</td>
<td>0.33%</td>
<td>2006</td>
<td>877</td>
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<td>Belgium</td>
<td>1 887</td>
<td>0.61%</td>
<td>0.7%</td>
<td>2010</td>
<td>2 120</td>
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<td>Denmark</td>
<td>1 747</td>
<td>0.84%</td>
<td>&gt;0.7%</td>
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<td>1 838</td>
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<tr>
<td>Finland</td>
<td>556</td>
<td>0.34%</td>
<td>0.44%</td>
<td>2007</td>
<td>708</td>
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<td>France</td>
<td>7 337</td>
<td>0.41%</td>
<td>0.5% (0.7% by 2012)</td>
<td>2007</td>
<td>8 955</td>
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<tr>
<td>Germany</td>
<td>6 694</td>
<td>0.28%</td>
<td>0.33%</td>
<td>2006</td>
<td>8 380</td>
<td>0.33%</td>
<td>1 666</td>
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<tr>
<td>Greece</td>
<td>356</td>
<td>0.21%</td>
<td>0.33%</td>
<td>2006</td>
<td>642</td>
<td>0.33%</td>
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<td>Ireland</td>
<td>510</td>
<td>0.41%</td>
<td>0.7%</td>
<td>2007</td>
<td>813</td>
<td>0.61%</td>
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<td>Italy</td>
<td>2 393</td>
<td>0.16%</td>
<td>0.33%</td>
<td>2006</td>
<td>5 092</td>
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<td>Luxembourg</td>
<td>189</td>
<td>0.80%</td>
<td>1%</td>
<td>2005</td>
<td>250</td>
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<td>Netherlands</td>
<td>4 059</td>
<td>0.81%</td>
<td>0.8%</td>
<td>2006</td>
<td>4 240</td>
<td>0.80%</td>
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<td>Portugal</td>
<td>298</td>
<td>0.21%</td>
<td>0.33%</td>
<td>2006</td>
<td>510</td>
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<td>Spain</td>
<td>2 030</td>
<td>0.25%</td>
<td>0.5% (with 0.33% in 2006)</td>
<td>2008</td>
<td>2 899</td>
<td>0.33%</td>
<td>869</td>
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<td>Sweden</td>
<td>2 100</td>
<td>0.70%</td>
<td>Long term goal 1% (at least 0.87% in 2006)</td>
<td>2 785</td>
<td>0.87%</td>
<td>685</td>
<td>33%</td>
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<tr>
<td>United Kingdom</td>
<td>6 166</td>
<td>0.34%</td>
<td>0.47% (0.7% by 2013)</td>
<td>2007-08</td>
<td>8 242</td>
<td>0.41%</td>
<td>2 076</td>
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<tr>
<td><strong>EU Members, Total</strong></td>
<td><strong>36 825</strong></td>
<td><strong>0.35%</strong></td>
<td><strong>0.39%</strong></td>
<td><strong>2006</strong></td>
<td><strong>48 350</strong></td>
<td><strong>0.43%</strong></td>
<td><strong>11 525</strong></td>
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1 Assumes average real growth in GNI of 2% p.a. [3% for Canada, 4% for Greece, zero for Japan, and 2.75% for UK] from 2003 to 2006.
2 ODA/GNI ratio for 2006 interpolated between 2003 and year target scheduled to be attained.
3 Finland aims to achieve 0.7% by 2010 ‘subject to economic circumstances’; Spain aims for a minimum of 0.5% by 2008, with the intention then to aim for 0.7% by 2012.
4 As aid volume determined in annual budgets, assumes same ratio in forward years.
5 Assumes 5% nominal GNI growth and 2% inflation to 2006, and includes estimated $4 billion expenditure from Millennium Challenge Account in 2006.

Source: OECD September 2004

**Aid Effectiveness through Harmonisation and Alignment**

Since the Rome Declaration and the underlying good practice principles were endorsed at the Rome High Level Forum eighteen months ago, the good news is that the international community has increasingly focused on improving aid procedures, practices and policies to achieve better development outcomes. Over 60 partner countries and 40 bilateral and multilateral agencies are now engaged in harmonization and alignment activities. Simplification of procedures and practices, joint analytical work, enhanced focus on delivery of results in planning and in implementation of agreed upon development strategies, delegated cooperation, using common documentation and procedures in procurement, financial management (accounting and reporting), are finding their way in country operations. Moreover, the applicability of these good practices to funding provided by Global Funds, and under difficult partnership conditions, is also beginning to be addressed. I am pleased to report that these efforts are being guided and supported by the OECD-DAC Working Party on Aid Effectiveness and its members --bilateral agencies, the World Bank, the IMF, the regional development banks, UN agencies, 14 partner countries -- working closely together and with other partner countries.

However, measured against the commitment to operate significant changes to ways donors manage and deliver aid in our partner countries, the news could be a lot better. There is not yet sufficient traction or momentum in applying good practice broadly and systematically. Good practice has not yet
become general practice. This assessment is based on the results of the survey undertaken by the DAC Task Team on Harmonization and Alignment in the 14 partner countries associated with it, information from the DAC country facilitation work, and from other partner countries harmonization and alignment efforts consolidated by the World Bank. There is still considerable effort needed by donors--bilateral and multilateral--working with our partners, if we are to scale up aid effectiveness collectively.

We need to do much more to achieve closer alignment of donor assistance behind country strategies and priorities. Increasing the volume of aid will not be enough to reach the MDGs by 2015. In addition, significant progress will have to be made in ensuring appropriate medium-term financing--domestic and external--of partner countries’ development programs (including recurrent costs). Achieving this will, no doubt, require reforms in the way donors provide development assistance. It means, for example, that donors will need to take steps to program, design and time aid flows over a medium-term planning horizon consistent with partners' national development strategies. It also means partner authorities should be able to count upon reliable information on the volume of aid flows, disbursement modalities and conditions for its release. In the same vein, partner countries will need to intensify their efforts to mobilise domestic resources by strengthening fiscal sustainability and creating an enabling environment for public and private investments. In this context, an effective, efficient, transparent and accountable public financial management system for mobilising public resources and managing their use by government is essential. The DAC is actively pursuing a dialogue with donors and partner countries in these areas with a view to elaborating good practice papers on how donors can best provide more efficient and predictable delivery mechanisms.

I am encouraged to see that in a number of countries, with the support of the Special Partnership with Africa, interested donors and the country authorities are actively engaged to reach these objectives. Nevertheless, the transaction costs just to reach agreement on memoranda of understanding are proving to be considerable and there is still a lack of operational models that are more broadly replicable.

A key challenge lies in making concrete progress towards donor alignment with country procedures and systems. Collectively we must find ways to deliver and manage our aid programs that build rather than dissipate capacity. We need more targeted and harmonized capacity development programmes, relying more on multi-donor funding using common procedures. A good test of development impact is whether aid, over time, strengthens country systems. Meeting and enforcing accountability requirements through donor-specific procedures, and proliferation of project management units working outside government systems, go against good practice in alignment and sustainability. The World Bank in its recent paper to its Board has raised some of the issues surrounding the use of country systems in its own operations. In this area, rapid dissemination of lessons learned, adaptation to country specific circumstances, and wider adoption in operations must be encouraged.

Management for Results

In Marrakech, in February of this year, donors and partner countries together agreed on core principles for management for development results, as well as on an Action Plan to jointly take stock of current experiences and good practices in areas such as enhancing the results’ focus of national development strategies, alignment of cooperation programs with those results, harmonisation of M&E systems that keep track of progress in realisation of results. Currently work on this action plan is being implemented in a number of task forces under the Joint Venture on Management for Results.

Management for results needs to be underpinned by national statistical systems capable of monitoring and evaluating Poverty Reduction Strategies and of reporting against the MDGs. From the Millennium Declaration in 2000 to the first major stocktaking in 2005, some progress will have been made in improving countries’ statistical systems, thanks in part to the efforts of many international
initiatives. However, most data used for monitoring the MDGs are still the result of statistical modelling—often by international agencies based on little or no national observations—rather than real measurement. The aim is that by 2010, the next major stocktaking will be based on nationally-owned and produced data that is used, in the first instance for setting and monitoring national policies and programmes. For this developing countries need significant further external support to develop their statistical systems. Moreover, donors themselves need better statistical information from developing countries to help them measure more accurately the impact of their aid.

The Paris High Level Forum, March, 2005

In less than six months, the donor community, together with the partner countries, and civil society will be coming together for the Paris High Level Forum. This will be an occasion to assess and account for progress against the commitments made in Rome by both donor and partner countries. This is the time for the international donor community to build on the good progress being made and push ahead. Discussion on issues impeding progress should be open and transparent with a view to agreement on a time-bound set of actions necessary to accelerate and scale up harmonization and alignment. In preparation for this, four main regional workshops are being planned—two in Asia, one in Africa and another one in Latin America and the Caribbean. Several of them will specifically discuss the Marrakech core principles and the first results of the various task forces under the Joint Venture on Management for Results. Together with on-going work in the DAC Working Party on good practice papers, case studies, analyses, and a major progress report on harmonization and alignment, these workshops will provide important building blocks for the Paris High Level Forum. I look forward to reporting on the outcome of the forum at the next Development Committee Meeting in April, 2005.

Strengthening the Foundation for Growth and Private Sector Development

Through its Network on Poverty Reduction (POVNET) the DAC is paying particular attention to the “growth agenda” in its efforts to reduce poverty. The focus is on how to use aid to help generate long term sustainable growth, and maximise the impact of that growth on poverty reduction. Together, this is the DAC’s pro-poor growth (PPG) agenda.

The private sector, agriculture and infrastructure are three areas where better ODA leverage will help this agenda. Sustainable growth is not feasible without a strong and dynamic private sector. Agriculture represents a major part of developing country GDP and the majority of poor people are in rural areas. The quantity and quality of infrastructure is a major bottleneck to the role of poor people in generating and participating in broad-based growth.

POVNET is thus working on these three themes, with particular attention to what donors need to do better, more and in more sustainable ways to have a real impact on pro-poor growth. For the private sector, the focus is on issues such as incentives for investment, fostering openness to trade and investment (regionally and globally), making markets work better for the poor, and reducing the costs and bureaucratic barriers to doing business, including those related to the informal sector. For agriculture it is on looking at issues such as the likely impacts of global value chains (and supermarkets), how to deal with risk and vulnerability and how to strengthen diversified livelihoods strategies. For infrastructure it is focusing on how infrastructure can better serve the poor in terms of productivity, access and their involvement in infrastructure decisions and investments.

The enabling environment remains critical to strengthening pro-poor growth. The 2005 WDR rightly focuses on issues such as costs, risk and competition. But in addition, other efforts are needed. On the supply side these include to strengthen the ability of enterprises to identify and take up new business opportunities arising from a better enabling environment and globalisation. DAC work in this
area is focusing particularly on trade capacity building, in response to the Doha Development Agenda. But many countries are just not attractive locations for mobile investors—because of poor geography (land locked, no rich mineral deposits, hard climates) and poor economics of business (weak markets, high costs, low returns, etc). POVNET is looking at the issue of how to connect up these countries with other areas via ICTs, regional infrastructure projects, etc.

Donors still have a lot to do and need to do it with other key players. For example, policy incoherence (in both OECD and developing countries) is a major barrier to pro-poor growth. Donors spend a lot of ODA related to this agenda, but there are questions about whether it really targets the key bottlenecks and is sufficiently strategic in its overall impact. DAC is currently working with the OECD Investment Committee on a Policy Framework for Investment in developing countries. One element of this is looking at synergies between ODA and investment – how ODA can be better used to promote the investment that is critical for pro-poor growth.

Statement by Mr. Suleiman J. Al-Herbish Director-General of the OPEC Fund

The second item featuring on the agenda of this 70th Development Committee Meeting – Strengthening the Foundations for Growth and Private Sector Development: Investment Climate and Infrastructure Development – underscores the importance of investment in infrastructure for economic growth and sustainable development, and its linkages to the provision of social services and the attainment of the poverty alleviation and related millennium development goals (MDGs). International efforts to reach the MDGs have helped donors to re-orient and focus on some areas of critical under-investment, including many types of infrastructure.

The infrastructure needs of developing countries are enormous. It is reported that some 4 billion people have never made a phone-call; about 2 billion people do not have modern energy or sanitation, and 1.2 billion people lack access to clean water and roads. The costs of both new infrastructure investment and maintenance are estimated at US$250-US$300 billion a year, or 7% of developing countries annual GDP, with available finance falling critically below demand. Some 70% of infrastructure financing is publicly-funded, and some 20-25% is accounted for by the private sector. The remainder (5-10%) is provided in the form of official development assistance (ODA), including development co-operation extended by the OPEC Fund for International Development (the OPEC Fund).

Poor infrastructure remains a major obstacle to reducing poverty and strengthening productive capabilities, in, particularly, the fifty least developed countries (LDCs), 34 of which are in sub-Saharan Africa. These countries - the traditional focus of the OPEC Fund - are characterized by low per capita gross domestic income, high external debt, weak institutional and human resource capacities, and low levels of economic diversification. Inadequate telecommunications coverage and service reliability, chronic power shortages, and poor transportation systems impose a burden on firms in LDCs, and hinder their access to input and technologies, their ability to reach new markets, and their international competitiveness. Meeting the social, physical and commercial infrastructure needs of LDCs is urgently required to enable these countries to climb the development ladder and escape the poverty trap.

The need for infrastructure development is driven in part by moves towards a new trade geography, as called for at UNCTAD XI, Sao Paulo, Brazil, June 2004, and greater South-South collaboration and regional integration, such as the New Partnership for Africa’s Development (NEPAD). Efforts to translate NEPAD into a practical program that could help African countries meet the MDGs and related development challenges have boosted the demand for infrastructure development in LDCs, including sustainable energy sources, water supply, education, health, transportation, and information and communications systems.
LDCs depend heavily or entirely on external financing and lack domestic (public and private) resources to meet their annual infrastructure investment needs – estimated at 9% of their annual GDP. Foreign private participation will be required to help increase market efficiency by improving the quality and adequacy of infrastructure services in these poor countries.

Foreign Direct Investment (FDI) remains the dominant and most stable source of external financing for development. FDI can bring in the capital, skills and technology countries need to set up competitive service industries, and can help link LDCs to global value chains in services. Such chains comprise international infrastructure service production networks that are increasingly important to integrate LDCs into the global economy by enhancing access to international markets. As a result, governments in many low-income countries have been seeking ways to expand the menu of options to deliver infrastructure services.

The private sector has come to play an important role in providing infrastructure services to developing countries, which will account for most future incremental infrastructure demand. However, foreign private investment in developing-country infrastructure has dropped sharply since 1997, mainly reflecting a decline in investors’ confidence following the Asian financial crisis. Attracting foreign private investment in infrastructure development remains a major challenge for, particularly, the LDCs, which together received only US$7 billion in FDI inflows in 2003. FDI flows to Africa as a whole grew by 28% to US$15 billion in the same year, supported by more favorable national policies and FDI regimes, improved investor confidence and investment in natural resources, as well as negotiations on free trade agreements among groups of African countries and other countries and regions.

FDI inflows to the developing countries rose by 9% to US$172 billion in 2003, despite an overall decline in global FDI inflows by 18%, to US$560 billion. FDI outflows from developing countries today account for about 10% of total outward FDI, a possible indication of the dawn of a new FDI geography, in parallel with the gradual emergence of a new trade geography.

World FDI flows also saw a dramatic shift towards the services sector, which today accounts for about 60% of global inward FDI stock. Demand growth has been particularly dynamic in infrastructure services, including electricity, telecommunications, and water services, reflecting policy liberalization, privatization, and heightened awareness about the role of infrastructure services in poverty reduction. The value of total inward FDI stock in electricity, gas and water rose from US$10 billion in 1990 to US$144 trillion in 2002, mainly due to a large increase in FDI in electric power generation and distribution.

LDCs could adopt a wide range of measures to overcome the bottlenecks they face in enhancing private sector involvement in infrastructure development. There is a broad-based international consensus on these measures, which include the establishment of an enabling environment for FDI and private sector activity; strengthening governance and corporate social responsibility; fostering public-private partnerships; protecting the environment and the interest of local communities; improving the quality and dissemination of data on investment opportunities in infrastructure development, and strengthening national ownership of the development agenda. As agreed at Monterrey, such efforts should receive stronger support from developed countries through increased market access, debt relief, and ODA, including improved measurement and reporting of the development impact of infrastructure projects, donor co-ordination, and mainstreaming. The African Development Bank, which plays a central role in coordinating donor efforts to address the infrastructure needs of LDCs under the NEPAD, could take a lead role in this endeavor.
Apart from keeping track of a project’s progress and compliance with agreed covenants, the adequacy, accuracy and utility of systems and procedures developed for project monitoring and investment administration are critical in serving the objective of evaluating a client’s continued creditworthiness, and in mitigating political and financial risk. This is also necessary to build and disseminate institutional knowledge, draw lessons from experience and best practice, and fine-tune infrastructure financing by DFIs according to local needs and priorities.

For almost three decades, the OPEC Fund supported infrastructure and infrastructure service projects through both its public and private sector windows in response to strong and rapid growth in demand for infrastructure investment from its client base.

As of December 31, 2003, more than 60% of our institution’s cumulative public sector lending was dedicated to building new and maintaining existing infrastructure, including transportation (25.6%), energy (19.1%), water supply and sewerage (7.4%), health (6.5%), and telecommunications (0.4%), in addition to projects with multi-sectoral outcomes. Efforts to improve access to infrastructure services to the poor have translated into a broad range of projects implemented in, particularly, the poorest countries in collaboration with other DFIs. Modes of implementation have included innovative mechanisms for financing, such as Social Investment Funds.

In 2003 alone, transportation attracted the lion’s share of OPEC Fund lending for the sixth consecutive year, with a substantial 41.5% of commitments. As in previous years, this assistance was delivered in partnership with all relevant players in the field as to enhance aid effectiveness, and to ensure the necessary national ownership and commitment to the project.

The Fund has also stimulated private sector participation in infrastructure development through its Private Sector Facility (PSF), which became fully operational in 1999. The chosen strategy has been to invest in smaller-scale infrastructure projects which are more flexible and less risky, in line with stated strategic objectives such as additionality and comparative advantage. Small and informal enterprises, particularly in rural areas, are hurt most by the inadequacy of public infrastructure. The Fund’s PSF aims at assisting those enterprises by investing in four broad areas. These include: (i) small and medium sized enterprises (SMEs) in a broad range of sectors, (ii) financial infrastructure and local capital markets, (iii) industrial and agro-industrial projects, and (iv) small-scale infrastructure and utilities.

To conclude, participation by both the public and the private sector in infrastructure development remains a prerequisite for stronger and more participatory economic growth, and for enhancing access to key social services for the poor. Concerted efforts will be required to meet the large and growing needs in this area at the local, state, and municipal levels. The Fund welcomes coordinated and complementary action on the part of DFIs in a joint effort to help bridge the financing gap and overcome prevailing bottlenecks in the financing, preparation, operation, and maintenance of infrastructure projects. Strengthened by almost three decades of experience in South-South collaboration and infrastructure development worldwide, the Fund stands ready to continue to make public and private sector financing available for infrastructure development, particularly in the world’s poorest countries, in partnership with all relevant stakeholders.

Statement by Mr. José Antonio Ocampo, Under-Secretary- General for Economic and Social Affairs of the United Nations

On September 20 in New York over 60 Heads of State and Government joined President Luiz Ignácio Lula da Silva, of Brazil, President Jacques Chirac of France, President Ricardo Lagos of Chile, President José Luis Rodriguez Zapatero of Spain and UN Secretary General Kofi Annan to renew their determination to act against hunger and poverty, and to reaffirm the pivotal role of the United Nations and its Millennium Declaration in this task. In a joint declaration at the conclusion of the meeting over 100
governments noted that while some progress has been made, the general balance worldwide in achieving the agreed development goals is still disappointing. If resolute and urgent actions are not taken, such goals will not be reached by 2015, especially in Sub-Saharan Africa.

The Monterrey Consensus represented a compact among member states that all must act to ensure financing for the internationally agreed development goals and, more generally, to achieve reforms in the international financial and trading systems, and in the domestic policies of developing countries that are mutually consistent and reinforcing. However, to date implementation has been uneven. The International Monetary Fund and the World Bank have been active participants and are considered as major stakeholders in the Monterrey process. We must continue to ensure that the actions of these institutions are beneficial to the interests of all constituents and contribute to the elimination of the development deficit.

It is now generally agreed that a doubling of ODA flows from their 2001 levels would be the minimum required to achieve the Millennium Development Goals by 2015. Additional financing will be required to allow them to achieve debt sustainability and the stable growth required to support permanent increases in per capita incomes. While the international community has taken important steps to increase their official development assistance (ODA) towards the goal of 0.7% of their GNI, much more needs to be done, and it needs to be done more quickly. While the majority of developing countries have taken important steps to improve their domestic environments in preparation for increased financing for growth, the overall progress has been disappointing and the increase in financial flows has not been sufficient to ensure reaching the MDGs. Indeed, some have referred to this as the Monterrey “development deficit”.

The issue of how to fill this gap, as well as the broader issue of how to guarantee stable financing major international objectives—what some analysts have come to call “global public goods”—has led to a renewed interest in innovative sources of financing. This issue is the subject of attention in this meeting of the Development Committee, as it will be in the General Assembly of the United Nations. In this context, you have on the table many recent initiatives and detailed conceptual studies, including the Joint Brazilian-French-Chilean-Spanish initiative referred to earlier; the UK proposal for an International Finance Facility, the report of the Chirac Commission, the UNU/WIDER report requested by the General Assembly of the United Nations, prepared under Professor Tony Atkinson from Oxford University, and the staff report prepared for this Committee. All these will need to be carefully examined and decisions must be taken on what issues should be pursued in depth.

There are also other areas where immediate actions would make a major contribution towards meeting the Millennium Development Goals. As President Wolfensohn has noted, “debt reduction for the most highly indebted poor countries is a crucial element in putting countries back on their feet, and that the funds released can be used effectively for poverty programs.” But the experience of the HIPC process is that it has been frustratingly slow and many countries that have completed the process have seen their benefits eroded. More decisive and rapid measures to provide low income countries with a clean slate upon which to complete their commitments to improved governance and good economic management and social support could be implemented extremely rapidly.

In the same context, both the IBRD and IDA have in the last two years experienced positive net flows of funds and have accumulated financing capacity that could be implemented rapidly with the appropriate political backing. This Committee can play a vital role in making the case for increased multilateral support and generating the appropriate political backing.

The Monterrey Consensus notes that progress could be accelerated by improving the voice and representation of developing countries in the governance structures of the multilateral financial institutions. While it is gratifying to see that these institutions have taken this call seriously, perhaps a
more bold and innovative approach to the problem could be productive. As is now well known, the actual
distribution formula was arrived on the basis of criteria that are controversial and, in any case, reflect past
rather than current conditions. An alternative might be to start with a frank discussion of the constraints
on a desired representation of groups of developing countries, and then proceed to address them. It may
also be useful to raise the possibility of designing different quotas for financial contributions, for the
distribution of Special Drawing Rights and for votes. Without a major change in approach the entire
exercise risks becoming bogged down in minutiae.

Moving rapidly to increase aid flows now makes reaching the MDGs by 2015 more probable, but
this should not detract our attention from the fact that achieving the MDGs only deals with the most
glaring effects of underdevelopment. The major task is not that of ensuring steadily increasing flows of
official aid through 2015 and beyond. It is to provide the economic basis that will allow developing
countries, particularly the poorest among them, to enter a process of self-sustained and equitable growth.
This will require the combined and coordinated actions of governments and the private sector. While the
Monterrey Consensus recognizes that developing countries bear initial and final responsibility for their
development, it also draws attention to the importance of the need for an international enabling
environment.

The most important factor in this area is pursuit of the development dimension of the Doha
Ministerial Declaration to provide increased market access and expanding export markets. An
encouraging sign, after a long period of stalemate, has been the decision by the General Council of the
WTO on how to proceed with the Doha Work Programme by setting forth a framework for future
negotiations on trade liberalization. A major step forward was the agreement on modalities on agriculture.
Despite the progress, many difficult issues remain and more swift action needs to be taken to fulfill the
goals set out in the Doha Development Agenda and to promote growth in developing countries. The
elimination of agricultural export subsidies and the reduction of production subsidies, particularly those
that are trade distorting, remains a priority item in the agenda. There is an urgent need to reduce tariff
peaks and tariff escalation in industrial countries and to agree on a mechanism to reduce tariffs in
manufactures that does not affect developing countries disproportionately. Unfortunately, as tariff barriers
have come down, developed countries have increasingly resorted to non-tariff barriers; these need to be
curtailed. Priority should also be given to the international provision of services that use unskilled labour,
particularly through the facilitation of the temporary movement of workers.

An appropriate domestic business climate is also important and depends on the design of business
regulations that provide the appropriate balance of support for business and protection of the consumer
through ensuring transparent market competition. Building such climate also requires a frontal attack on
corruption. In this regard, it is encouraging that there are currently 111 signatories and 4 parties to the
United Nations Convention against Corruption.

It is now generally accepted that one of the greatest impediments to growth in the poorest
developing countries is the absence of entrepreneurial activity, indeed a lack of a strong private business
sector. The United Nations has recently received the report of the Commission of Private Sector
Development co-Chaired by the Prime Minister of Canada, Paul Martin and the Former President of
Mexico, Ernesto Zedillo, with the title of “Unleashing Entrepreneurship: Making Business Work for the
Poor”. It is important that their recommendations be adopted. It is also relevant to remember that an
attractive local business climate is also important in retaining qualified skill workers attracted by the
greater opportunities in developed countries.

While supporting entrepreneurship is a necessary condition in a good business climate, it is not
sufficient on its own. Different business activities have different prospects for increasing real incomes and
employment. Building a strong business sector must also produce an appropriate balance of agricultural,
industrial and service sector activities. In addition, it requires the appropriate domestic financial structure
to ensure financing of new activities. In this respect, I would like to call you attention to the fact that in
anticipation of the International Year of Microcredit, the United Nations has launched a multistakeholder
consultation on inclusive finance. This, together with other initiatives, including those of the G-8, should
serve to prepare a global market-based finance initiative to stimulate sustainable, pro-poor financial
sectors.

Governments play an essential role in building an appropriate investment climate through the
provision of social and economic overhead capital. Of particular importance in this regard is the provision
of adequate infrastructure. The World Bank’s Action Plan in this area is an important recognition that it is
inconsistent to leave this vital task to the private sector. It is thus more than appropriate for the Bank to
seek to aid government infrastructure investment plans and to act as a catalyst for public-private
partnerships.

It is now clear that one of the reasons for the lack of infrastructure investment in developing
countries has been the restrictions that have been placed on overall levels of government expenditure in
the pursuit of sound macroeconomic fundamentals. But this represents borrowing future real growth to
meet short-run financial stability and, as recent research, including major studies by the World Bank, has
shown, this is self-defeating in the long run. It is thus imperative that means be found to make policies
that produce sound macroeconomic fundamentals compatible with the substantial increases in investment
in human capital and social and economic overhead capital.

The design of appropriate fiscal rules has received in this regard a great deal of attention in recent
years. On the basis of ongoing debates, it is important to stress three basic principles. First, any fiscal rule
should facilitate the countercyclical role that public sector finances must play in any economy. To do so,
all rules should be set on the basis of the structural stance of fiscal policy. It is also essential that
multilateral financing be made available to support such countercyclical spending in developing countries
subject to sudden stops in private external financing. Second, rules should clearly differentiate between
current and investment spending. In this regard, setting the deficit targets on the basis of the primary
structural balance or surplus, in some variant of the “golden rule” of public sector finances, seems
superior to the overall fiscal targets that have been widely used in the recent past, and that have led to
widespread reductions in public sector investment during crises. Third, adequate attention should be given
to avoiding the fiscal risks associated with both weakly managed public sector firms and with public-
private partnerships. However, this requires rules that do not discriminate against public sector investment
vis-à-vis private sector investment in infrastructure. Thus, rules that place stringent conditions on what
type of public sector firms are excluded from the fiscal targets and, on the contrary, do not fully
incorporate the risks that public-private partnerships may imply for public sector financing, are
inappropriate. The best rule could thus be one in which some current structural deficit target is adopted
together with some form of debt target that takes into account the present value of the contingent
liabilities that the public administration has incurred vis-à-vis both public sector firms and public-private
partnerships.

Such changes are important not only because of their impact on the domestic economic
environment, but because they also provide a response to the calls by many developing governments that
are subject to support from the IMF for additional short-term policy space to respond more actively to
internal and external shocks that cause unacceptable reductions in growth and employment.

As noted in the Monterrey Consensus, all of these issues are interconnected and the importance of
policy coherence is paramount in achieving development based on mobilization of domestic resources
with participation in the global trading system. This can only be done with the cooperation and
participation of national governments in developing countries to implement the appropriate domestic
policies, of national governments in developed countries to meet their aid commitments through financial assistance and through opening their domestic markets to developing country exports, and of the multilateral and regional financial institutions in providing finance and technical support.
Washington, D.C., October 2, 2004

DEVELOPMENT COMMITTEE COMMUNIQUE

1. As we celebrate the 60th anniversary of the Bretton Woods Institutions and approach the fifth anniversary of the U.N. Millennium Declaration, we recommit ourselves to supporting efforts by developing countries to pursue sustainable growth, sound macroeconomic policies, debt sustainability, open trade, job creation, poverty reduction and good governance. These actions need to be reinforced by stronger international action and partnerships, including reforming trade, more and more effective aid and stronger private flows in order to make progress on the Millennium Development Goals. We remain concerned that most MDGs will not be met by most developing countries.

2. Global economic growth is strong, supported by exceptionally robust growth in developing countries, as the world benefits from the significant reforms undertaken by many countries over recent years. Private sector driven growth resulting in new jobs and higher tax revenues, which can be used to finance poverty-reducing public expenditures, is critical to the success of country-led efforts to reduce global poverty. Success in the Doha Development Agenda can only complement these developments and we stress the importance of translating the recently agreed WTO frameworks into tangible results. We urge all countries, developing and developed, to participate fully in the negotiations and urge the IMF and World Bank to continue to support work to this end, and to help developing countries assess the impact and to provide additional support to address potential adjustment costs.

3. To help developing countries take advantage of the new opportunities that can arise from a better economic setting and to strengthen the foundations for economic growth, we welcome the renewed focus being given by the World Bank Group to private sector development, improving the investment climate and strengthening financial sectors, and urge the Bank to continue to translate this into country operations. Complementing macroeconomic stability, capacity building and a greater results focus in public services and institutions and improving the quality of governance, successful private sector investment, social development as well as gender equality are key to accelerating pro-poor growth. We note the important role played

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1 As endorsed by Heads of State and Government in the U.N. General Assembly on September 8, 2000.
by remittances in this context. We urge the Bank to intensify its analytical work on the potential sources of growth and ways to mobilize them and to help countries build the relevant analytical capacity.

4. Strengthening the foundations for growth will also critically depend on addressing large infrastructure needs in many countries. We welcome the Bank Group’s plans to scale-up activities in implementing the Infrastructure Action Plan and urge accelerated support of country efforts in accordance with the Bank’s safeguards. We emphasized the importance of addressing maintenance and other costs to ensure the sustainability of infrastructure investments. We also stressed the need to pursue—together with the IMF—efforts to increase fiscal space for public infrastructure investments within limits of fiscal prudence and debt sustainability. We also endorse further Bank engagement to meet infrastructure needs at the regional and sub-sovereign levels, enhancing application of risk mitigation instruments, and continuing efforts to offer a more complete and seamless client product line across the World Bank Group; accordingly, we urge the Bank to present options to its Board to move this agenda forward concretely. These actions will be particularly important in enhancing the Bank’s support for development in middle-income countries, as well as in low-income countries.

5. These and other actions required to lay the basis for sustained stronger growth are critical to our ability to achieve the MDGs, as is progress in providing effective health systems (in particular tackling HIV/AIDS, malaria and other communicable diseases), education for all and other basic social services. We noted the special needs of low-income countries under stress (LICUS), where technical assistance is especially necessary to strengthen weak policies and institutions. We look forward to reviewing progress in all these areas in the second Global Monitoring Report at our next meeting.

6. We agree that reform efforts in developing countries must be supported by improved aid effectiveness, increased aid and other financial flows, and coherent policies to achieve development results. The international community has agreed to harmonize and align their support behind country-owned development strategies, streamline the use of conditionality, increase the focus on results, and use country systems where appropriate. We are committed to using the Second High-Level Forum on Harmonization in Paris next spring to translate these agreements into clear and specific commitments and timetables and call for the development of indicators and benchmarks to monitor the participation of all partners in this effort at the country level.

7. We must also enhance our efforts to help developing countries build capacity and address absorptive capacity constraints. We welcome the progress achieved to date in implementing the Poverty Reduction Strategy (PRS) process as indicated in recent independent evaluations. We note the important challenges that remain in implementing the approach fully and effectively both at the country level and in the Bank and Fund and among other development partners, and welcome the revisions to the PRS architecture to help achieve this. One area which deserves closer attention in next year’s PRS report is the continued efforts by the Bank and Fund to streamline their aggregate conditionality. We also call on the Bank to review its own policy and practice on conditionality and report at our meeting in Fall 2005.
8. The provision of additional, predictable and timely financial assistance to countries committed to sound policies, remains a critical issue, particularly for sub-Saharan Africa. We urge those donors, who have not yet done so, to make concrete efforts towards the target of 0.7 percent of GNP as ODA. We welcome the progress announced by some countries, including, in some cases, the setting of clear timetables to achieve this objective. We also reaffirm our commitment to a substantial and timely replenishment of IDA, recognizing the critical timetable to reach the MDGs.

9. To address the needs for additional stable and predictable financing to help developing countries undertake ambitious investment plans to meet the MDGs and to finance associated recurrent costs where appropriate, we reviewed proposals to complement increased aid flows and commitments with innovative mechanisms. We welcomed the World Bank and IMF analysis of these options, notably the International Finance Facility, global taxes and voluntary contributions, including the analysis of their technical feasibility. We also took note of the international meeting on Action Against Hunger and Poverty convened by President Lula on September 20th 2004 in New York. We ask the Bank and the Fund to continue their work and report at the next meeting on how to take such options forward. We also encourage the Bank to explore the potential for increasing leverage through blending aid with other flows, including MDB lending.

10. Debt sustainability is an essential underpinning for growth. We reviewed progress under the enhanced HIPC Initiative, welcomed the recent decision to extend the sunset clause and urged full creditor participation. We welcome the development of a forward-looking debt sustainability framework that aims to help low-income countries manage their borrowings and avoid a buildup of unsustainable debt, while pursuing the MDGs. We stressed the need to provide resources to low-income countries on appropriate terms, including the degree of concessionality and level of grant financing. We look forward to further work on the remaining issues by the Bank and the Fund to make the framework operational as soon as possible. We underscore the need for joint Bank/Fund Debt Sustainability Analyses (DSAs) (based on a clear division of labor) to provide countries, and their development partners, with clear and coherent analysis and guidance. We also urge the Bank and the Fund to accelerate their work on means to help mitigate the impact of exogenous shocks on low-income countries and to report to their Boards at an early date.

11. We also reviewed reports from our Boards with respect to their work on enhancing the voice and participation of developing and transition countries in our institutions. This work takes place within a broader context of reflections on how best to address governance issues within the international community. We welcomed the progress to date in making Bank and Fund operations more responsive to borrowers’ needs. We urge the Boards to cooperate closely together in exploring all relevant options and to strive to achieve consensus amongst all members. We look forward to receiving a report regarding the feasibility of these options, to allow us to address the necessary political decisions at our next meeting.

12. The next meeting of the Committee will be held in Washington, D.C., on April 17, 2005.
NOTICE OF MEETING

The 70th meeting of the Development Committee will be held on Saturday, October 2, 2004, commencing at 2:30 p.m. in the Preston Auditorium, The World Bank Main Complex, Washington, D.C.

PROVISIONAL AGENDA

I. Aid Effectiveness and Financing Modalities

II. Strengthening the Foundations for Growth and Private Sector Development: Investment Climate and Infrastructure Development
   a. Elements of the Growth Agenda: Investment Climate and Infrastructure
   b. Infrastructure Development: Update on Implementation of the World Bank’s Action Plan

III. Voice and Participation of Developing and Transition Countries

IV. Debt and Debt Sustainability

V. Other Business

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1 The President of the World Bank and the Managing Director of the Fund will each provide a statement, in advance of the meeting, focused on agenda topics and other items. There will also be a Chairman’s Dinner for Members (7:00 p.m. – 9:30 p.m.) in Room MC13-121 of the World Bank Main Complex.

2 This item is provided for information. Ministers wishing to comment, may do so in their written statements.
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)

DEVELOPMENT COMMITTEE MEETING

Saturday, October 2, 2004
Washington, DC, United States

CONSTITUENCY LIST
## DEVELOPMENT COMMITTEE

October 2, 2004
Washington, D.C.

Trevor Manuel, Chairman
James D. Wolfensohn, President, World Bank
Rodrigo de Rato, Managing Director, International Monetary Fund

Thomas A. Bernes, Executive Secretary

<table>
<thead>
<tr>
<th>Members</th>
<th>Executive Directors</th>
<th>Countries</th>
<th>Group</th>
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</thead>
</table>
| Ibrahim Al-Assaf  
Minister of Finance  
Saudi Arabia | Yahya Abdullah Alyahya  
(Bank)  
Sulaiman M. Al-Turki  
(Fund) | Saudi Arabia | 1 |
| Hilary Benn (Mr.)  
(attending)  
Secretary of State for  
International Development  
United Kingdom | Tom Scholar  
(Bank and Fund) | United Kingdom | 2 |
| Bohoun Bouabré  
(not attending)  
Minister of Economy and Finance  
and Minister of State  
Côte d'Ivoire | Paula Gomes  
(Bank)  
Damian Ondo Mañe  
(Fund) | Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Côte d'Ivoire, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Republic of Congo, Rwanda, São Tomé and Principe, Senegal, Somalia (informally), Togo | 3 |
| P. Chidambaram  
Minister of Finance  
India | Chander Mohan Vasudev  
(Bank)  
B.P. Misra  
(Fund) | Bangladesh, Bhutan, India, Sri Lanka | 4 |
| Peter Costello  
(not attending)  
Treasurer of the Commonwealth of  
Australia | John Austin  
(Bank)  
Michael J. Callaghan  
(Fund) | Australia, Cambodia, Kiribati, Republic of Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Papua New Guinea, Republic of Palau, Samoa, Solomon Islands, Vanuatu | 5 |
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<tr>
<th>Members</th>
<th>Executive Directors</th>
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<tr>
<td>Joseph Deiss</td>
<td>Pietro Veglio (Bank)</td>
<td>Azerbaijan, Serbia &amp; Montenegro, Kyrgyz Republic, Poland, Switzerland, Tajikistan, Turkmenistan, Uzbekistan</td>
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<tr>
<td>Federal Councillor</td>
<td>Fritz Zurbrügg (Fund)</td>
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<td>Minister of Economic Affairs</td>
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<td>Oscar Knapp</td>
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<td>Delegate for Trade Agreements</td>
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<td>Head, Directorate “Development and Transition”</td>
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<tr>
<td>Ralph Goodale <em>(attending)</em></td>
<td>Marcel Massé (Bank)</td>
<td>Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines</td>
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<tr>
<td>Minister of Finance</td>
<td>Ian E. Bennett (Fund)</td>
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<td>Aileen Carroll <em>(attending)</em></td>
<td>Marcel Massé (Bank)</td>
<td>Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay</td>
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<tr>
<td>Minister International Cooperation</td>
<td>Ian E. Bennett (Fund)</td>
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<td>Horst Grebe López</td>
<td>Alieto Guadagni (Bank)</td>
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<tr>
<td>Minister for Economic Development</td>
<td>Guillermo Le Fort (Fund)</td>
<td>Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay</td>
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<td>Bolivia</td>
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<td>Bertel Haarder</td>
<td>Thorsteinn Ingolfsson (Bank)</td>
<td>Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden</td>
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<tr>
<td>Minister for Integration and Development Cooperation</td>
<td>Jon A. Solheim (Fund)</td>
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<td>Ministry of Foreign Affairs</td>
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<td>Jin Renqing</td>
<td>ZHU Guangyao (Bank)</td>
<td>China</td>
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<td>Minister of Finance</td>
<td>WANG Xiaoyi (Fund)</td>
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<tr>
<td>Minister of Finance</td>
<td>Li Yong <em>(Vice-Minister of Finance)</em></td>
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<tr>
<td>Russian Federation</td>
<td>Alexey G. Kvasov (Bank)</td>
<td>Russian Federation</td>
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<tr>
<td>Aleksei Kudrin</td>
<td>Aleksei V. Mozhin (Fund)</td>
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<td>Minister of Finance</td>
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| Nor Mohamed Yakcop  
Minister of Finance II  
Malaysia | Rapee Asumpinpong  
(Bank)  
Ms. Sri Mulyani Indrawati  
(Fund) | Brunei Darussalam, Fiji, Indonesia,  
Lao People’s Democratic Republic,  
Malaysia, Myanmar, Nepal,  
Singapore, Thailand, Tonga, Vietnam | 12 |
| Ngozi N. Okonjo-Iweala  
Minister of Finance  
Nigeria | Louis A. Kasekende  
(Bank)  
Ismaila Usman  
(Fund) | Angola, Botswana, Burundi, Eritrea,  
Ethiopia, The Gambia, Kenya,  
Lesotho, Liberia, Malawi,  
Mozambique, Namibia, Nigeria,  
Seychelles, Sierra Leone, South  
Africa, Sudan, Swaziland, Tanzania,  
Uganda, Zambia, Zimbabwe | 13 |
| Fathallah Oualalou  
Minister of Finance & Privatization  
Morocco | Tanwir Ali Agha  
(Bank)  
Abbas Mirakhor  
(Fund) | Islamic State of Afghanistan (informally), Algeria, Ghana, Islamic  
Republic of Iran, Iraq, Morocco,  
Pakistan, Tunisia | 14 |
| Antonio Palocci Filho  
Minister of Finance  
Brazil | Octaviano Canuto  
(Bank)  
Murilo Portugal  
(Fund) | Brazil, Colombia, Dominican  
Republic, Ecuador, Haiti, Panama,  
Philippines, Suriname, Trinidad and  
Tobago | 15 |
| Didier Reynders  
Deputy Prime Minister and  
Minister of Finance  
Belgium | Kurt Bayer  
(Bank)  
Willy Kiekens  
(Fund) | Austria, Belarus, Belgium, Czech  
Republic, Hungary, Kazakhstan,  
Luxembourg, Slovak Republic,  
Slovenia, Turkey | 16 |
| Abdulla Hassan Saif  
Minister of Finance and  
National Economy  
Bahrain  
Alternate Member  
Ghassan El-Rifai  
Minister of Economy and Trade  
Syria | Ismail Aljazzaf  
(Bank)  
A. Shakour Shaalan  
(Fund) | Bahrain, Arab Republic of Egypt,  
Jordan Kuwait, Lebanon, Libya,  
Maldives, Oman, Qatar, Syrian Arab  
Republic, United Arab Emirates,  
Republic of Yemen | 17 |
| Nicolas Sarkozy (not attending)  
Minister of Economy, Finance and Industry  
France  
Alternate Member  
Xavier Darcos (attending)  
Minister of Cooperation, Development and Francophone Affairs  
Ministry of Foreign Affairs  
France | Pierre Duquesne  
(Bank and Fund) | France | 18 |
| Domenico Siniscalco (not attending)  
Minister of the Economy & Finance  
Italy  
Alternate Member  
Antonio Fazio (attending)  
Governor of the Bank of Italy | Biagio Bossone  
(Bank)  
Pier Carlo Padoan  
(Fund) | Albania, Greece, Italy, Malta,  
Portugal, San Marino, Timor-Leste | 19 |
<table>
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<tr>
<th>Members</th>
<th>Executive Directors</th>
<th>Countries</th>
<th>Group</th>
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</table>
| **John W. Snow (2:30-4:00)**  
Secretary of the Treasury  
United States  
John Taylor *(4:00 to 6:00)*  
Under Secretary of the Treasury | Carole L. Brookins  
(Bank)  
Nancy P. Jacklin  
(Fund) | United States | 20 |
| **Pedro Solbes Mira *(not attending)***  
Second Vice President of the  
Government and  
Minister of Economy and Finance  
Spain  
Alternate Member  
David Vegara Figueras *(attending)*  
Secretary of State for Economic Affairs | Per Christer Kurowski  
(Bank)  
Luis Martí  
(Fund) | Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, República Bolivariana de Venezuela | 21 |
| **Sadakazu Tanigaki**  
Minister of Finance  
Japan  
Alternate Member  
Hiroshi Watanabe  
Vice Minister of Finance for  
International Affairs  
Ministry of Finance | Yoshio Okubo  
(Bank)  
Shigeo Kashiwagi  
(Fund) | Japan | 22 |
| **Heidemarie Wieczorek-Zeul**  
Federal Minister for Economic  
Cooperation and Development  
Germany | Eckhard Deutscher  
(Bank)  
Karlheinz Bischofberger  
(Fund) | Germany | 23 |
| **Gerrit Zalm *(not attending)***  
Minister of Finance  
Netherlands  
Alternate Member  
Agnes van Ardenne *(attending)*  
Minister for Development  
Cooperation  
Ministry of Foreign Affairs  
The Netherlands | Ad Melkert  
(Bank)  
Jeroen Kremers  
(Fund) | Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, former Yugoslav Republic of Macedonia, Moldova, Netherlands, Romania, Ukraine | 24 |
<table>
<thead>
<tr>
<th>Organization</th>
<th>Representative</th>
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<tbody>
<tr>
<td>African Development Bank</td>
<td>Mr. Omar Kabbaj, President</td>
</tr>
<tr>
<td>Arab Bank for Economic Development in Africa</td>
<td>Mr. Medhat S. Lotfy, Director General</td>
</tr>
<tr>
<td>Arab Fund for Economic and Social Development</td>
<td><strong>Absent</strong></td>
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<tr>
<td>Arab Monetary Fund</td>
<td>Dr. Jassim Al-Mannai, Dir General, Chairman of the Board</td>
</tr>
<tr>
<td>Asian Development Bank</td>
<td>Mr. Tadao Chino, President</td>
</tr>
<tr>
<td>Commonwealth Secretariat</td>
<td>Mr. Winston Cox, Deputy Secretary General</td>
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<tr>
<td>Cooperation Council for the Arab States of the Gulf</td>
<td>Mr. Nasser Al-Kaud, Director of Finance &amp; Monetary Integration</td>
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<tr>
<td>Council of Europe Development Bank</td>
<td>Mr. Raphaël Alomar, Governor</td>
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<tr>
<td>Development Assistance Committee</td>
<td>Mr. Richard Manning, Chairman</td>
</tr>
<tr>
<td>European Bank for Reconstruction &amp; Development</td>
<td>Mr. Willem Buiter, Chief Economist</td>
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<tr>
<td>European Commission</td>
<td>Mr. Poul Nielson, Commissioner for Development &amp; Humanitarian Aid</td>
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<tr>
<td>European Investment Bank</td>
<td>Mr. Philippe de Fontaine Vive, Vice President</td>
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<tr>
<td>Food and Agriculture Organization</td>
<td>Mr. Charles Riemenschneider, Director of the FAO Liaison Office for North America</td>
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<tr>
<td>Inter-American Development Bank</td>
<td>Mr. Enrique Iglesias, President</td>
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<tr>
<td>International Fund for Agricultural Development</td>
<td>Mr. Lennart Båge, President</td>
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<tr>
<td>International Labour Organisation</td>
<td>Mr. Juan Somavia, Director General</td>
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<tr>
<td>Islamic Development Bank</td>
<td>Mr. Ahmad Mohamed Ali, President</td>
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<tr>
<td>Nordic Development Fund</td>
<td>Mr. Jens Lund Sorensen, President</td>
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<td>Nordic Investment Bank</td>
<td>Mr. Jon Sigurdsson, President and CEO</td>
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<td>OPEC Fund for International Development</td>
<td>Mr. Suleiman J. Al-Herbish, Director-General</td>
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<tr>
<td>Organization for Economic Co-operation and Dev</td>
<td>Mr. Michael Roeskau, Director, Development Cooperation Directorate</td>
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<tr>
<td>United Nations</td>
<td>Mr. Jose Antonio Ocampo, Under Secretary General for Economic Social Affairs</td>
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<td>United Nations Conference on Trade and Development (UNCTAD)</td>
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<td>United Nations Development Programme (UNDP)</td>
<td>Mr. Michael Marek, Director, UNDP Washington Office</td>
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<td>West African Development Bank</td>
<td>Mr. Boni Yayi, President</td>
</tr>
<tr>
<td>World Health Organization</td>
<td>Mr. Xavier Leus, Director</td>
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<tr>
<td>World Trade Organization</td>
<td>Mr. John Hancock, Counselor, Trade and Finance Division</td>
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