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)

SIXTY-FIRST MEETING
WASHINGTON, D.C. – APRIL 17, 2000

DC/S/2000-19

April 15, 2000

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Australia[1]

[1] On behalf of the constituency comprising Australia, Cambodia, Kiribati, Korea (Republic of), Marshall Islands, Micronesia (Federated States of), Mongolia, New Zealand, Palua (Republic of), Papua New Guinea, Samoa, Solomon Islands and Vanuatu.

Reducing poverty in the world's poorest countries will never be an easy task: it is indeed the greatest challenge confronting humanity today. The Bank is at the centre of our global response. It deserves our support.

The involvement of the Bank and IMF in the Asia Pacific region over the last three years has been crucial for recovery in the region and in progressing reform needed for sustainable growth and poverty reduction. Most recently, the Bank has acted quickly and effectively in East Timor; its coordination of donors on this occasion has established a model for what should be done elsewhere. I welcome the Bank's re-engagement with the South Pacific, the work undertaken by the Small States Taskforce, and the Bank's renewed dialogue and cooperation with Papua New Guinea. The relocation of the Bank's PNG and Pacific country management unit to Sydney will enhance further the Bank's capacity to meet the needs of its member countries in the region.

Trade and Development

Trade is essential for economic development and further measures to reduce barriers to trade are an essential element in global poverty reduction.

Increasing trade may not be sufficient, by itself, to guarantee development. But when combined with good governance, strong institutions and sound infrastructure, it can play a key role in efforts to raise living standards and reduce poverty.

The Bank's advice to its developing member countries should aim to help them integrate trade liberalisation into their poverty reduction strategies, so that adjustment impacts are appropriately taken into account and the benefits of growth contribute to social objectives. Experience in both developed and developing countries has shown that greater openness to trade contributes to the competitiveness and dynamism of the liberalising economy and provides an incentive and focus for other necessary reforms.

At the same time, many developing countries, including many of the least developed, are significantly constrained by limitations placed by other countries on market access for their major exports. It should therefore come as no surprise that the joint IMF/World Bank paper prepared for our discussion concludes that further global trade liberalisation would be of particular benefit to developing countries.

That conclusion is consistent with findings of a recent Australian study (Global Trade Reform: Maintaining Momentum, DFAT 1999) which identified substantial benefits from cutting global protection. This study estimated over US$400 billion in welfare gains from halving world trade barriers, with US$90 billion from agriculture, US$66 billion from manufactures and US$250 billion from services. Critical for the current debate, the study also showed that developing countries would gain most relative to their GDP.

Further agricultural trade liberalisation is of particular importance for developing countries as many agricultural products still face very high barriers in developed countries through tariffs and other distortions due to subsidies, domestic support and restrictive quota regimes.

Trade Related Technical Assistance

Continued cooperation between the World Bank, the IMF and the WTO on trade-related technical assistance through the Integrated Framework must be a priority. It is important that the Bank and Fund give full support to the Framework and use all avenues to work constructively with other agencies involved as well as with the recipient countries. I welcome the forthcoming independent review of the Framework. This will prove useful in strengthening implementation.

The Bank's WTO 2000 program, which is designed to help developing countries participate more effectively in WTO negotiations, is a valuable one. However, while recognising the importance of capacity building in Africa and South Asia, the particular needs of small states in the Pacific and elsewhere must not be overlooked. The capacity constraints facing smaller states are particularly daunting and severely limit their efforts to participate meaningfully in the negotiations.

Small States Taskforce

As the representative of seven small Pacific island states, with populations ranging from 20,000 to 400,000, I strongly endorse the joint World Bank/Commonwealth Secretariat taskforce report on the challenges facing small states.

The adoption and implementation of sound domestic economic and social policies lie at the heart of the development of small states. Nevertheless, as the report states, most small states face problems that are inherent in their small size and make them particularly vulnerable. Small size, limited domestic markets and narrow resource bases require an extraordinarily high dependence on trade – the small states covered in the report have an average trade to GDP ratio well over 100 per cent – and limited scope for diversification. As a result, they are highly exposed to changes in their export markets and in their terms of trade, while financial markets view them as riskier than larger states for investment. These problems are compounded by remoteness and insularity (a particularly acute problem for the Pacific Island economies), which bring high transport and other costs, and limited institutional capacity in both the public and private sectors. The small size also constrains their capacity to respond to natural disasters, to which many of them are more than usually prone, while some small island states stand to suffer disproportionately from environmental and climate change shocks.

Enhanced trade liberalisation will, when accompanied with appropriate domestic policies, benefit both small and large states. The report does highlight, though, the particular difficulties small states face in adjusting to changes in the global trading regime. These range from difficulties in finding alternative revenue sources through to a lack of capacity to effectively utilise dispute resolution processes.

It is, therefore, entirely appropriate that the special circumstances of small states be taken into account in the policies and programs of the multilateral trade, finance and development organisations. For the Bank, this should entail a continuation of a flexible approach to the graduation of small states from concessional financing. I also support the report's recommendation that the Bank undertake a substantive forward work program focussed on particular impediments to the development of small states.

The Bank does have a special and valuable contribution to make in the development of small states. This is illustrated well in its strategy for the Pacific. Given the roles being played by bilateral donors and other multilateral organisations, the Bank is not, nor will it seek to become, the major player in the region. But the Bank can engage governments on broader structural and sectoral reform dialogue which other donors are either unwilling or unable to undertake. This reform dialogue is likely to be most effective when supported by strategic lending operations and non-lending services. Further, in its engagement with the countries in the Pacific, the Bank can bring to bear its experience and knowledge of small states development from other parts of the world, particularly the Caribbean and Africa. I am therefore very supportive of the Bank's evolving strategy in the Pacific and see it as critical for the development of the small states in the region. In this context, I also welcome the decentralisation of the Pacific country management unit to Sydney which should significantly improve its effectiveness.

Intensifying Action against HIV/AIDS

HIV/AIDS represents a huge threat to development in many developing countries. As well as causing immense personal suffering, it is seriously damaging some of the central elements of economic growth: the health of the prime age workforce, the capacity of the education system and the functioning of many organs of government. It is placing a huge burden on health care and welfare systems, on government budgets and on households and traditional support systems.

While attention has been focused on those countries where the prevalence of HIV/AIDS is already high, the epidemiology of HIV suggests that all countries, even those where it is not currently a significant health issue should have an active strategy to combat it. Those that do not have a comprehensive strategy need to act now. Clearly, risk-reducing preventative interventions are the most effective and cost efficient. Actions to improve the education and employment opportunities of women can help reduce the spread of HIV/AIDS and mitigate its adverse impact on surviving families.

I welcome the efforts that the Bank is making to deal with these problems within its own programs. The Bank needs to continue to intensify its action in this area, while recognising the central role of UNAIDS and the WHO. The Bank should ensure that HIV/AIDS strategies are mainstreamed into the development agenda and that the likely impact of HIV/AIDS is considered in all Country Assistance Strategies.

Heavily Indebted Poor Countries

Last September this Committee endorsed, subject to the availability of financing, the enhanced HIPC initiative that called for deeper, broader and faster debt relief. The enhanced framework also strengthened the link between debt relief and poverty reduction. The development of country-led Poverty Reduction Strategies is an important instrument in achieving this goal. I am encouraged by the progress made to date. Every effort should be made to bring all eligible HIPCs to their decision points as quickly as possible consistent with effective programs to ensure that the benefits of debt relief flow to the poor.

In support of the enhanced initiative, Australia has contributed additional funds to the HIPC Trust Fund and New Zealand has also agreed to contribute. In both cases this is "new money" honoring the principle of additionality and not at the expense of existing ODA. However, full funding for the initiative is still not secured. The Bank must continue its efforts to mobilize funds internally and donors should quickly complete arrangements in order to make contributions they have pledged. Realisation of donor commitments to the enhanced initiative will also help ensure that IDA resources are not compromised.

The success of the initiative is also dependent on participation by all bilateral creditors in the provision of relief. I encourage all HIPC creditors to ensure that this truly is an international initiative.

Update on the IBRD's Financial Capacity

The improvement in the global financial outlook has reduced demand for Bank lending and lessened the immediate pressures on the Bank's balance sheet.

It is possible that the Bank will require additional capital at some point in the future. But assessment of IBRD's capital requirement must follow a more systematic and complete review of the Bank's appropriate role and mandate. The Bank needs to become more focussed on those areas where its development effectiveness and poverty reduction impact are the greatest vis-à-vis other development partners. There also needs to be a clear resolution by shareholders of how far the Bank should continue to lend in crisis situations to provide liquidity in support of IMF programs now that the Fund has its quota increase in place and access to the New Arrangements to Borrow.

In the interim, I support ongoing review of other means of strengthening our risk-bearing capacity, including serious analysis of the scope for further administrative savings or for changes in loan charges.

One means of better leveraging the IBRD's balance sheet that has been identified is for repurchase/release of that portion of shareholders' paid-in capital that is locally denominated. I understand that a paper setting out the options will be distributed to shareholders in the near future. Clearly each country will need carefully to assess the implications of any change in approach. Within this constituency, the New Zealand Government has recently agreed to convert its paid-in capital to US dollars through a repurchase, thus enabling unrestricted use of these resources, while Australia took similar action some years ago.