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)

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Statement by

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On behalf of Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines

Introduction

Yesterday in the International Monetary and Financial Committee we noted the many encouraging signs of improvement in the global economic outlook. In much of the developing world, better macroeconomic performance, higher commodity prices and greater political stability have set the stage for more robust economic growth this year. Stronger growth is a critical factor in reducing poverty worldwide and is ultimately the best means of ensuring that we achieve the Millennium Development Goal (MDG) of halving global income poverty by 2015.

Notwithstanding generally positive global economic trends, there remain significant disparities in regional growth patterns, and we still face the harsh reality that many of the poorest developing countries, particularly those in Sub-Saharan Africa, remain at risk of failing to achieve a number of the MDGs by the 2015 target. The MDG targets also present a significant challenge for countries in South Asia, home to most of the world's poor. Even within developing countries, where the target of reducing the number of people living on less than one dollar a day is likely to be met at the aggregate level, continuing inequalities threaten to leave millions below this meagre threshold. Next year we will face the first MDG target—that for eliminating gender disparity in access to primary and secondary education by 2005—without success in far too many countries.

The Millennium Development Goals Challenge

In the light of these circumstances and the relatively short period remaining until 2015, it is clear that we need to strengthen our efforts to ensure that the promise of the MDGs translates into reality for the world's poorest citizens. We need to assess our priorities for action for helping developing countries, especially low-income countries, reach the MDGs.

Moving Forward on Trade

It is obvious that market access is key to helping developing countries achieve the economic growth required to meet the MDGs. This means moving forward the Doha Development Agenda. Canada and the Commonwealth Caribbean countries believe that, in particular, eliminating export subsidies and significantly reducing domestic agricultural support are key. At the same time, addressing high barriers to trade between developing countries and encouraging greater trade among them is key to achieving economic growth. Ensuring policy coherence between our trade policies and those of international institutions and properly sequencing reforms will allow us to use trade effectively as an engine of sustainable development and poverty reduction.

Sufficient Resources Must Be Available

It is also obvious that sufficient resources are needed to meet the MDG challenges. We look forward to follow-up work by the World Bank to be tabled at our September 2004 meeting on financing issues related to the MDGs. All donors need to come forward and honour the commitments they made in Monterrey in 2002. Canada has committed to doubling the volume of its international assistance by 2010 and is on track to meeting this target. Ireland has adopted the objective of increasing its Official Development Assistance (ODA) to 0.7 per cent of gross national income by 2007. Canada is committed to eliminating all heavily indebted poor countries' (HIPCs') debt owed to it as these countries complete the HIPC process. Ireland has adopted a national debt relief strategy, which, inter alia, has total debt relief as an objective. Given that some HIPCs will not be able to meet Decision Point criteria within the agreed HIPC timeframe, we would reiterate our call to World Bank and International Monetary Fund (IMF) members to consider an extension of the HIPC Initiative's "sunset clause" to the end of next year.

Mobilizing Private Sector Resources

The private sector, both formal and informal, holds the potential to mobilize the greatest resources for promoting the economic growth that is necessary to achieve the MDGs. As stressed in this year's Report of the United Nations Commission on the Private Sector and Development, co-chaired by Prime Minister Paul Martin and former Mexican President Ernesto Zedillo, domestic private sector resources in developing countries have the potential to dwarf foreign private and official transfers. However, structural and institutional barriers to private investment in many developing countries severely limit the potential for private sector growth.

A better enabling environment—one firmly rooted in the rule of law and directed at increasing the returns to investment by poor households such as smallhold farmers—is key to unlocking private sector potential. The World Bank Group, working closely with developing country governments, is a key player in efforts to address institutional barriers to domestic private investment and to support private sector development in member countries. Looking forward, bilateral and multilateral support for private sector development must continue to be linked closely with efforts by developing country governments to improve their investment climates through targeting support to country specific policies and strategies developed in the framework of national poverty reduction strategies.

Improving the Effectiveness of Assistance

Quality, efficiency and effectiveness of investments in poverty reduction are just as critical as, if not more critical than, the quantity of assistance. For both donors and recipients, more needs to be done to improve aid effectiveness. Perhaps the clearest lesson from decades of development experience is that aid is most effective when it is targeted at countries committed to good economic, social and governance policies. Consideration of what type of aid is most appropriate for each country—given their different growth paths—and how this aid could be most effectively used has been largely underplayed in policy discussions of development assistance. More attention needs to be focused on identifying those countries that have comprehensive national poverty reduction strategies and are both ready to absorb increased aid and are able to use it effectively.

For their part, donors need to do a much better job of coordinating their assistance efforts with recipient countries and with each other. The Report of the UN Commission on the Private Sector and Development explicitly called on the multilateral development banks to improve their coordination and to reduce overlap in their activities. The Rome Declaration on Harmonization sets out a clear agenda for improving the policies, procedures and practices of all donors. This approach implies greater donor focus on priorities identified by developing countries in their Poverty Reduction Strategy Papers (PRSPs). The Canadian International Development Agency (CIDA) is increasingly moving in this direction. Programming in CIDA's countries of focus is now based on PRSPs. Ireland and a number of other donors are implementing an innovative new effort to promote the harmonization agenda in Zambia through the Harmonization in Practice initiative. Under this initiative, the donors' group will pool resources, adopt common reporting, auditing and evaluation requirements and seek to deal with their Zambian partners as one.

The International Development Association's (IDA's) Country Policy and Institutional Assessment (CPIA) exercise, which heavily stresses governance and underpins IDA's performance-based system for allocating financing to client countries, could become a valuable tool in helping bilateral agencies better target their ODA funding to good performers. For this reason, we would urge all Bank shareholders to support the publication of CPIA country scores beginning at the outset of the 14th IDA replenishment in 2005. By releasing CPIA scores, the World Bank would be leading by example in promoting transparency, which is a critical element of governance. Release of CPIA scores also will both increase incentives for better performance in IDA countries and increase the accountability of the World Bank for these assessments.

Education for All

Education is one of the most powerful instruments to reduce poverty and inequality and to lay the foundation for sustained economic growth—no country has ever achieved national prosperity with an illiterate population. The Development Committee played a critical role in establishing the Education for All Fast Track Initiative (EFA-FTI), launched to accelerate progress towards achieving the education MDGs. As part of our continuing oversight, we welcome the progress report issued for this meeting. The report effectively outlines both the significant achievements of the EFA-FTI realized within a relatively short period of time and highlights the challenges given our emerging experience with this new practical model of partnership.

We agree that the continued implementation and expansion of the EFA-FTI remains an important mechanism for helping countries achieve the MDG goal of universal primary education by 2015. The EFA Fast Track Initiative links development efforts directly to PRSPs and national education sector plans. It has stimulated policy reforms, led to a more unified policy dialogue and harmonization among donors, and reinforced the link between aid and individual country performance. The EFA Fast Track Initiative has also begun to leverage the transfer of additional aid to participating countries. Canada, for example, will contribute an additional $100 million in funding to Mozambique and Tanzania and $20 million to Honduras over a five-year period in an effort to provide more predictable and longer-term support for these countries' primary education programs. Much more remains to be done, however. We call on other donors to stand ready, as we are in Canada, to honour the Monterrey principle of performance-based aid and fully support the achievement of universal primary education based on a countrydriven approach. If the education goals prove difficult, the road to other MDGs will be harder still.

Long-Term Debt Sustainability for Low-Income Countries

Effective assistance also means that transfers should be provided in a manner that avoids disrupting longer-term debt sustainability in low-income countries. The HIPC Initiative clearly shows the costs to low-income countries themselves of excessive debt. We therefore welcome efforts by the Bank and IMF to develop and operationalize a debt sustainability framework, including the use of grants, to inform financing decisions. We would urge Executive Directors at both institutions as well as IDA Deputies to take a close look at options, including those that address exogenous shocks, with a view to achieving progress by end of this year. We would support a fuller discussion of this issue as well as other initiatives benefiting low-income countries, small island states and Sub-Saharan Africa at our next meeting.

The Particular Challenge of Sub-Saharan African Countries and LICUS

The region of Sub-Saharan Africa poses a special challenge. While many countries have begun to experience positive growth for the first time in over a decade, in most cases rates of growth are still not sufficient to achieve the MDG targets. If current growth trends remain unchanged in the region, only four countries in the region are likely to see annual per capita economic growth of more than 3 per cent. Moreover, armed conflict in some countries and the devastating impact of the growing HIV/AIDS epidemic continue to cast a dark shadow over efforts to improve economic and social prospects. This region is also home to most of the countries in the category with very weak governance, institutions and economic and social policies. These poor performers, also referred to as Low Income Countries Under Stress (LICUS), have the weakest prospects for achieving the MDGs and present the greatest regional and global security challenges. Given their governance failures, many of these countries are not regular clients of bilateral development cooperation agencies. The World Bank, in cooperation with the United Nations and United Nations Development Programme in particular, has a strong role to play in providing these countries with policy advice. The Bank is also a critical source for capacity building and other forms of targeted technical assistance.

The Special Case of Small States

In an increasingly globalized economy, small states constitute a unique category of World Bank clients. The Report of the Commonwealth Secretariat and World Bank Joint Task Force on Small States highlighted that the extreme openness of these countries can increase vulnerability to external shocks. Susceptibility to natural disasters, limited potential for economic diversification, limited capacities in both the private and public sectors, high levels of poverty, growing HIV/AIDS infection, and limited access to private capital all complicate efforts to lessen this vulnerability. Small states are addressing these challenges in earnest and they look to the World Bank Group and other multilateral and bilateral development partners to play a significant role in supporting their efforts. To truly have an impact, multilateral and bilateral development partners must do more to reflect the specific challenges of small states in their country and regional strategies.

The World Bank is playing an important role in providing support to small states for disaster mitigation and risk management, including substantial assistance in combating the spread of HIV/AIDS. Looking ahead, small states see adjustment to the international trading system and private sector development, including critical technology transfer in this increasingly digital age, as key priorities. Increased capacity in information technologies and greater access to the Internet have the potential to offset some of the physical isolation of small states.

The World Bank Group also can be an important force in catalyzing private sector development directly through support for small- and medium-sized enterprises and indirectly though capacity-building initiatives in the financial sector, including the development of venture capital funds. On the trade front, the World Bank must continue to play a strong advocacy role for small states in international fora as well as through its provision of technical and policy assistance on trade issues.

World Bank Activities in Middle-Income Countries

During our meeting we also will focus on the particular challenges faced by middle-income countries. While they are home to well over half of the world's poorest, they also have greater resources and stronger institutions to address development challenges. This raises the question of how the World Bank should approach these countries.

For many middle-income countries, governments often have the ability to raise financing in international capital markets, and international financial institutions should not be competing with the private sector for financing opportunities. Greater access to private capital markets is a positive development and a tangible illustration of the progress that these countries have made in the development process. Middle-income country access to private capital, however, can be sporadic.

In times of market upheaval, private capital flows to middle-income countries often drop off dramatically. This volatility is reflected in the dramatic fluctuations of World Bank lending in recent years to these countries. In times of financial crises, such as that in 1997–98, the Bank is called upon to increase its activities in support of adjustment and of protecting social programs (particularly given the income disparities in some middle-income countries). However, we should not stray from the basic principle that the level of the Bank's operations in middle-income countries must be guided by informed assessments of the capacity of these countries to take on new debt as well as of countries' ability to use Bank financing effectively. Thus, the level of the World Bank's operations must be a function of the need for high-quality interventions that strengthen the prospects for growth. In our view, the Bank should not be setting artificially high notional lending targets.

A recent review of the Bank's engagement in middle-income countries has suggested that complexities in the Bank loan process can diminish middle-income country interest in borrowing. We welcome moves by the Bank to improve the efficiency of lending operations. In particular, the move to use national environmental and social safeguard standards in cases where the breadth and implementation of safeguards meet those of the World Bank would be welcome. Moving to the use of national safeguards would be a strong demonstration of the Bank's support for country ownership. However, the Bank does need to be rigorous in its assessment of the quality of national safeguards. The Bank must be careful to ensure that a lingering disbursement culture does not lead to compromises on safeguard standards for the sake of increasing business volume.

The same review suggests that the Bank should increase both the timeliness and quality of its knowledge services to middle-income countries. This, in our view, is critical. While many middle-income countries have a strong capacity to formulate appropriate policies to respond to changing economic and financial circumstances, the Bank can complement these capacities in order to further development objectives. It can provide useful analysis of issues and policies that are seen as key priorities by middle-income country leaderships. Achieving the right balance between the Bank's policy advisory role and its lending role will strengthen the Bank's relationships with middle-income country clients and contribute to better development results.

Multilateral and other agencies will also continue to remain engaged with middle-income countries. While coordination among the various players has improved, there is still scope for closer collaboration and further harmonization approaches. More specifically, the recent review of the Bank's middle-income country operations suggested much more needs to be done to assess the comparative advantage of the Bank vis-à-vis those of the regional development banks with respect to a broad range of investments.

Looking Forward

It is clear that, given their different problems and development requirements, the Bank will need to continue to develop different approaches to low-income and middle-income developing countries. Greater clarity on these respective roles will help the Bank better orient its activities in support of achieving the MDGs. There is now little more than a decade remaining 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 are daunting. By continuing to work together and by improving the focus of our efforts, we will be successful in guaranteeing a better future for the world's poorest.