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On the
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Statement by

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**On behalf of Austria, Belarus, Belgium, Czech Republic,
Hungary, Kazakhstan, Luxembourg, Slovakia, Slovenia,
and Turkey**

**Statement by
Mr. Didier Reynders
Minister of Finance of Belgium
at the 69th Development Committee Meeting
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The World Economic Situation: A Window of Opportunity

In the Spring of 2004 the economic situation of the less developed countries (LDCs) is providing more than a glimmer of hope. All regions of the world are forecast to grow faster than their population growth, thus achieving increases in the level of well-being for their citizens. Of course, significant regional differences remain. While growth remains unsatisfactory in most African countries and in the Middle East region, it is especially strong in South East Asia and South Asia. Such a positive evolution in Asia finds its origins in an astonishingly robust and sustained growth rate in China and also India, but also in the Southeast Asian countries which have rebounded strongly from the financial crisis. Significant progress is also recorded in Latin America, where the recent crisis effects are being overcome. In addition in the lower-growth regions, growth is especially fragile--which makes sustained progress towards poverty reduction unlikely.

Pro-Poor Growth Needs Targeted Strategies

The improved growth situation and the relatively benign prospects for the coming year must be used for further progress on the anti-poverty agenda. I am glad to hear that the World Bank has adopted the view (finally, I hasten to add) that growth alone is not enough to solve the persistent poverty problem, both in fast-growing and in slower-growing countries. Empirical evidence seems now undisputed that growth does not automatically “trickle down” to the poor. On the contrary, recent data show that in most countries income distribution has worsened during recent periods--and that poverty reduction is only making progress in countries with per-capita growth of around 5 percent. This means that growth strategies must be devised which target pro-poor growth, i.e., by stimulating employment-using growth, by promoting small-scale business development, by bringing the “grey” economy into the open (in this way it would also contribute to the tax base), by designing appropriate tax and transfer systems.

Pro-poor growth then is not only a matter of developing health and social security systems, but also a matter of the design of an appropriate growth strategy.

Millennium Development Goal Gaps: Credibility of World Community at Stake

It makes me very unhappy to hear that the much-touted Millennium Development Goals (MDGs) will not be achieved, according to UN and World Bank assessments. Again, here progress is very uneven, both as far as individual Goals are concerned, and with respect to specific regions. Again, Sub-Saharan Africa, some Southeast Asian and some Caribbean and Latin American countries fare especially bad. The international development community, both donor and recipient countries, stand to lose a lot of credibility, if this dire forecast is allowed to become true. While we are still more than 11 years away from the target date, we must act expeditiously, if we want to fulfill our self-chosen goals, or at least come credibly close to fulfilling them.

We are not talking about a blame game, but about solutions and remedies! With respect to the obligations of the donor countries, to increase their aid flows, I can speak from a position of strength, since of the three donor countries within my constituency, one has already reached the 0.7% target, another one (my own country) has committed itself to reach 0.7% by 2010, and the third one is on its way to meet the EU-agreed commitment. For this reason I do not see any particular need to engage in an ever increasing variety of new financing schemes, especially when in the medium run they do not generate new money, but just pull forward financial flows--which may be lacking later on.

However, many other donors are still far away from fulfilling their promise, and I urge them to do their utmost to do this, and fast. Only if we from the donor countries deliver on our promises can we expect with justification that the recipient countries speed up their progress with respect to improved policy formulation, good governance and strengthening of their institutions.

International Financial Institutions Need to Face New Realities!

With respect to the third party in this bargain, the International Financial Institutions (IFIs), let me say that they also need to speed up their simplification procedures, eliminate waste, slack and bureaucracy within their organizations. They also must adjust more flexibly to the new realities of the development business, i.e., the low-interest rate environment, the increasing availability of private capital market financial resources, the lower income from lending and treasury operations, the increased need for grant financing for the poorest countries. I know that the World Bank is trying very hard in this area, and has made a lot of progress--but much more needs to be done, if the Bank wants to maintain and/or enhance its role as a major player in the development area in the form of a Knowledge Bank. While the complaints of some recipient countries about the onerous burdens of the social and environmental safeguards must be taken seriously, if they impose unwarranted burdens and additional costs on the projects, the Bank must become more convincing in "selling" exactly these safeguards as a unique by-product to its lending which guarantee the social and environmental sustainability of these projects. In recent years the World Bank has built up the necessary know-how to make its financing especially attractive, because it comes with proportionally more technical assistance than other IFIs.

A More Realistic and Fairer Approach Towards Debt Relief

One of the impediments to sustained growth for LDCs is their stifling debt situation. With unsustainable debt levels, frequently incurred in very expensive foreign currency, many countries are saddled with very high interest and debt service flows which crowd out productive investment towards pro-poor growth. As a result in 1997 the Enhanced HIPC Initiative was launched, with the purpose to write off \$70 billion worth of debt to 42 eligible countries. Up to now, 27 countries have received assurances to have around \$51.5 billion of debt cancelled. The funds “saved” from debt service are supposed to be invested in education, health and other social services by the countries concerned.

As the deadline of end-2004 draws close, a number of countries have not yet reached the conditions for the “decision point” (many of those have remained ineligible because of violent internal or external conflicts) and others are stuck between decision and completion point. But even many of those that have reached the completion point, still find themselves with higher than sustainable debt burdens--despite debt relief. Reasons for this are unrealistically optimistic growth forecasts, domestic or external shocks, but also additional lending by the IFIs after the decision point.

The recent analysis by the Fund and the Bank on debt sustainability comes to the conclusion that additional indicators for debt sustainability must be considered and that lending by IFIs must take better account of debt sustainability. While there is general agreement that existing debt initiatives will not suffice for a number of countries, there is general agreement – to which I subscribe – that the present initiative must be completed before new initiatives are started. In the meantime, I agree with the case-by-case approach to “topping up” debt relief for countries which have suffered exogenous shocks beyond their own control, given that they meet all other conditions. But let me point once more to the need for burden-sharing also in this field. We can credibly ask our own taxpayers and parliaments to do more for debt relief only if all other creditors also share in the efforts to reduce the debt burden of needy countries.

Only Jointly Can We Conquer Poverty!

Coming to the end, let me say that I am grateful to the World Bank Management to alert us in time to the appalling gaps in meeting the MDGs. It is in the interest of everybody in this room, and in the interest of all the countries represented here, to make a serious effort to close the income gap and reduce poverty. This is not only a moral obligation, but in the interest of reducing social unrest and political instability. The world today is at a perilous crossroads. Let us embark on the right path together. We can conquer poverty and eliminate misery, if we all really want it.