



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-EIGHTH MEETING
DUBAI, UNITED ARAB EMIRATES – SEPTEMBER 22, 2003

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Statement by

The Rt Hon Baroness Amos and the Rt Hon Gordon Brown MP
Secretary of State for International Development and the
Chancellor of the Exchequer
United Kingdom

It is appropriate that these Annual Meetings should be held in the Middle East, which is currently the focus of much of the world's attention. This is also a region where, despite much economic and social progress over the last twenty years, there are still significant numbers of people living in poverty, the reduction of which is at the heart of the World Bank's mandate.

Supporting Sound Policies with Adequate and Appropriate Financing

The UK has long argued that considerable additional resources will be needed if the international community is to meet its commitment to the Millennium Development Goals (MDGs). We therefore welcome the work carried out by the World Bank to estimate the existing financing gaps of individual countries, and the additional aid flows which could be absorbed where countries are implementing sound policies.

It is clear that there is, indeed, an urgent need to find ways of increasing available resources both in the medium and longer-term, if we are to meet the challenge of sustainable poverty reduction. Already the Bank estimates that a near doubling of the additional commitments made at Monterrey could be used immediately, some \$30 billion annually. And as Bank staff themselves have made clear, even this is an under-estimate of the resources required, with substantially more likely to be needed in the short-medium term, with a current estimate of at least \$50 billion annually. It is also clear that a greater share of these resources will need to be provided in a form that is predictable and able (where appropriate) to finance recurrent costs, in order to facilitate the development of sound and transparent expenditure frameworks over the medium-term.

The UK's proposal for an International Finance Facility (IFF) seeks to make a significant contribution to these objectives by both bridging this financing gap and providing immediate, predictable finance in grant and concessional loan form. We will be asking the World Bank and IMF to do further work on this, and will be seeking to bring discussions about the proposal to a wider group of countries; and we will be taking this forward in Dubai. It is also important to ensure that these additional resources are used in such a way as to maximise their impact. We believe there is a valuable role to be played by the World Bank, together with other relevant institutions, in monitoring financing shortfalls at the country level and providing information to donors, so that global aid allocation patterns can respond adequately to financing needs. We need to ensure that any country seriously addressing the MDGs does not fail due to lack of finance.

Rising levels of development finance will underline the importance of improving aid effectiveness, a key requirement if we are to make progress towards the MDGS. Developed countries will need to make increased efforts to align their programmes behind country poverty reduction strategies, and harmonise their practices with other donors. Increased effectiveness also involves giving developing countries committed to reform greater freedom to use their resources efficiently. The UK has therefore untied all development assistance, and we encourage others to join us. Developing countries will need to implement further reform in the governance and accountability of public institutions, and show leadership in encouraging donors to align their programmes with poverty reduction strategies.

We must also not lose sight of the efforts that we have already been making to deliver on the MDGs. The UK government is committed to making the education Fast Track Initiative (FTI) work. The revised framework emphasises the importance of national education sector plans set within a wider poverty reduction strategy. We will work with this revised FTI initiative to fill education finance gaps, and we plan to increase spending on education to over £1bn over the next five years. We will provide support bilaterally through our country programmes, as well as multilaterally through the International Development Association (IDA) and the European Community (EC).

Failure to meet the health challenges will impact on development, economic growth and the achievement of the other MDGs. The UK recognises the importance of adequate and sustainable financing to meet these challenges. We have made a commitment to predictable multi-year funding to the Global Fund to fight AIDS, TB & Malaria, which represents a real opportunity for poor countries to expand and accelerate their response to the three diseases. The tragedy of HIV/AIDS in particular is reversing the development gains of the past and we must address this issue as a matter of urgency. We look forward to the High Level Forum on Health as an opportunity to scale up our efforts on health - to ensure we learn lessons around health systems reform, and to review the finance necessary to deliver a free basic health care package. No person should be denied basic health care because they can't afford it.

Enhancing Voice and Participation of Developing and Transition Countries

Another key element of improving the governance and accountability of public institutions is enhancing the voice and participation of developing and transition countries in the International Financial Institutions (IFI) themselves. The UK has been a strong supporter of the 'voice' agenda in the Bretton Woods Institutions (BWI), and looks forward to a full discussion of the issues in Dubai. We believe that enhancing voice will require continued effort on a range of issues, and welcome the recognition from both other shareholders and the institutions themselves that further work in this area is necessary. While progress has been made on some aspects of this agenda, it is essential that this is sustained in order for us to fulfil our Monterrey commitments.

We commend the significant steps that have already been taken to strengthen developing country Executive Directors' offices. To ensure such progress on capacity building continues, we would like to see final agreement on the establishment of an Analytical Trust Fund to support the provision of independent research and policy advice to African Executive Directors in the Bank and the Fund. The UK, together with Sweden and the Netherlands, has already circulated a joint approach paper setting out our views on how this advisory research facility should be structured and governed. We hope to see further financial commitment to the Trust Fund at the Development Committee meeting.

But capacity-building is only one element in the process of change. To ensure that Voice is mainstreamed within the work of the IFIs, we need to ensure that there is a firm commitment to achieve progress on the more challenging institutional and structural issues, as well as to continued improvement in participatory processes on the ground at country level. Changes to enhance transparency, increase decentralisation and increase the diversity of staff could have a positive impact on the voice of developing countries in the institutions, and must continue. We

would welcome a short report from management on actions they are taking in both the Bank and Fund to move these issues forward from a voice perspective. We would also like to see commitment from staff to strengthening borrower participation in the IDA 13 Mid Term Review and the IDA14 replenishment negotiations. In the context of these negotiations, we would support the discussion of a staff paper setting out a range of options for ensuring full take-up of IDA shares by developing countries.

The UK supports further discussion of possible structural change at the Executive Board level. The UK believes that the creation of a 25th seat for Sub-Saharan Africa on the Boards on both the IMF and World Bank would be an important step to increase the effectiveness and efficiency of the representation of African countries, and should be seriously considered. We would also support an increase in the Basic Vote as part of any future revision of the Articles of Agreement of these institutions.

Progress Report on Trade

The failure to reach agreement at the World Trade Organisation (WTO) Ministerial Conference in Cancun was extremely disappointing and a blow for the Doha Development Agenda. We have lost an opportunity to move ahead on an important pillar of the development agenda, which will bring higher global economic growth and progress towards the MDGs, and we share the frustration of developing countries. It is important to look for ways to get the talks back on track and we hope that developed and developing countries will share our determination to continue working until we have achieved a world trade system which really delivers for developing countries. The multilateral system remains the best vehicle for securing the benefits of trade for all and we must not be pushed off course.

As negotiations move forward, the need for trade-related technical assistance and capacity-building in developing countries can only increase. We therefore welcome the expansion in both depth and scope of the World Bank's trade programme over the past few years. In particular, significant international efforts have been made to ensure that trade-related capacity-building activities support national development programmes. This is a crucial step in helping developing and transition countries exploit new trading opportunities, and should remain a priority for the Bank and other development partners in the future.

It is also widely acknowledged that the weakest and most vulnerable countries may also need support in adjusting to trade liberalisation measures. We strongly support the recent joint initiative by the Bank and the IMF to help countries cope with potential negative impacts of reform, such as preference erosion and loss of tariff revenues. This must also be built on poverty and social impact analysis, in order to address these aspects of reform design. It will be important to ensure that the details of this initiative are worked out in close partnership with the WTO, the United Nations Development Programme (UNDP), the United Nations Conference on Trade and Development (UNCTAD) and bilateral donors to ensure that a common approach is adopted.

Implementation Report of Policies, Actions and Outcomes Needed to Achieve the Millennium Development Goals

The policies and actions needed to achieve the MDGs are clear, and are plainly set out in our commitments at Monterrey. However, as we have seen, moving forward in many of these areas can be difficult and slow. We therefore welcome the work underway to develop a formal framework for assessing progress in implementing our commitments. It will be important to ensure that this framework addresses all aspects of our collective contribution. In particular, we must ensure that assessments of aid quality – particularly progress on Poverty Reduction Strategy Paper (PRSP) alignment and donor harmonisation and coordination – are included in this monitoring process for donors and the International Financial Institutions alike.

Monitoring alone is, of course, insufficient to deliver results, and it is therefore essential that the first Global Development Review contains clear operational recommendations for ministerial action. The framework should also serve to reinforce accountability against Monterrey commitments, and must therefore be widely owned. We welcome the close collaboration with other development partners which has already taken place, and trust that this will continue. It is also essential that assessments of developing country policies are embedded in country owned processes, and we therefore welcome the Bank's recognition of the importance of using PRSPs and PRSP annual reports in making these assessments.

Progress on the Implementation of Poverty Reduction Strategy Papers (PRSPs)

We welcome the recognition that country-ownership of PRSPs is central to their effective implementation. Considerable progress has been made in the last year, with the completion of a further 14 PRSPs, bringing the total number to 32. Moving forward, the annual reports on PRSP implementation will be a key element in embedding the PRSP in national policy making processes, and it is crucial that governments remain in full control of the process.

The IMF and the World Bank have important roles to play in strengthening the PRSP process. Recent commitment from the IMF to improve the alignment of its programmes with country-led processes is encouraging, as is the Bank's willingness to participate in multi-donor initiatives. A challenge in rolling forward PRSPs will be to improve policy analysis of growth and shocks, and distributional analysis of macroeconomic policies. More generally, there needs to be more open dialogue with stakeholders on macroeconomic policy, with governments taking the lead. Given the weak macroeconomic capacity in many countries, some facilitation of this process will be required, and the Fund will need to play a supportive role, helping governments explore options and trade-offs.

We welcome the IMF and the World Bank's public commitment to systematically assessing the poverty and social impact of key reforms. Rapid progress in the Bank's roll out of Poverty and Social Impact Analysis (PSIA) in 40 low-income countries has been encouraging over the last year, and the Fund is beginning to reflect the poverty and social impacts of proposed reforms in its policy advice. However, it will need to do more to commission and use PSIA within its areas of competence.

Progress on the Heavily Indebted Poor Countries (HIPC) Debt Initiative

We welcome the progress that has been achieved with the Heavily Indebted Poor Country Initiative (HIPC). However, progress in countries reaching their Decision and Completion Points

has not been as fast as expected. We thank staff for their analysis of the reasons for this, and hope that this will lead to debate on how to speed up implementation.

Due to the global slowdown and the reduction in primary commodity prices, there is an increasing risk that countries will not be exiting the HIPC Initiative with sustainable levels of debt, and that those countries that have already reached Completion Point may see their debt return to an unsustainable level. For this reason, it is important for the UK that agreement is reached on the methodology for calculating debt relief at Completion Point. We need to ensure that the additional voluntary relief provided by some bilateral creditors is truly additional to any 'topping up' of debt relief. In this way, we will be ensuring that relief benefits the poor countries for which it is intended and does not merely subsidise other creditors. Now that we have the Staff report on this issue, we hope that agreement can be reached on this point.

We also welcome the progress that has been made over the past year in encouraging more creditor countries - including Bulgaria, India, Korea and Libya - to participate in the HIPC Initiative. However, it is vital that we press forward to secure the participation of all creditors in the HIPC Initiative, and we look to the World Bank and IMF staff to continue their efforts at moral suasion on creditors.

In the longer-term, the key challenge is how to ensure continued debt sustainability while enabling countries to finance their poverty reduction strategies, in order to achieve the MDGs. It is not acceptable that countries that have demonstrated a strong commitment to sound economic management and poverty reduction, should be denied access to concessional finance. Many HIPCs will remain vulnerable to exogenous shocks for the foreseeable future.

The solution must lie in a new forward-looking, country-specific approach to assessing genuine debt sustainability, and in a more flexible approach to selecting financing instruments in order to ensure that appropriate financing can be made available, consistent with debt sustainability. It is essential that this financing is additional to existing commitments. The UK has proposed the IFF as a mechanism to deliver additional resources up to 2015, which could provide further aid and debt relief. We hope that discussion in Dubai will give a clear direction to this debate.

World Bank Group Infrastructure Implementation Action Plan

The UK believes that well-planned infrastructure projects are an important element of effective development policies. We therefore commend the realistic proposals outlined in the World Bank's Infrastructure Action Plan. Moving forward, it will be important to ensure that the Bank's drive to increase expenditure on infrastructure services is achieved without recourse to indiscriminate project lending. In particular, we would like to see as much emphasis on the maintenance and management of existing and new infrastructure as is awarded to the installation of new capacity. We must also make certain that institutional support, including capacity-building, is completely integrated into investment programmes.

More generally, future IFI lending for infrastructure must be structured and priced with a view to avoiding the crowding out of private funding, where this is a credible alternative. It will also be essential to ensure the long term financial sustainability of infrastructure services, whether this is

to be paid for by taxes or end-users, or a combination of both. This will depend in part on recipient countries accepting increasing accountability for their investment choices.

The Middle East

There has been much economic and social progress in the Middle East region over the last twenty years. But there are still significant numbers of people living in poverty, and there is a risk that further progress will be hindered or even reversed by continuing conflict in the region. There is risk too from governments not continuing to take forward the economic social and political reforms needed to ensure growth, the creation of jobs, more equitable distribution of wealth, and access to services for a still rapidly growing population. Failure to address these issues effectively will result in failing states, and have implications far beyond the region.

The region is not short of development finance, receiving around \$6bn a year, and many countries receive more aid per capita than those in sub-Saharan Africa. However, the effectiveness of aid to the Middle East and North Africa is often compromised, and its effectiveness reduced, by the competing aims of donors. A more joined up approach of donor activity would ensure more effective use of aid. With regards to trade, the performance of non-oil exports has lagged behind other regions of the world. Rich countries therefore need to move faster to remove tariff barriers. At the same time countries in the region need to reduce the high tariffs which impede trade, and discourage inward investment.

Iraq

The UK very much welcomes the role that the Bank is playing in the international effort to provide support, through its work on the social and economic needs assessments, and on the establishment of a Trust Fund as a channel for donor support for the future development of Iraq and the welfare of its people. We look forward to considering these assessments in the Madrid conference next month, alongside our partners in the international community. The assessments should provide a sound basis for an international effort to help the country get back on its feet again after decades of conflict. We encourage the Bank to make its own direct contribution to Iraq's development through technical assistance, and through lending as soon as conditions make that appropriate. We, for our part, are working hard to help create the conditions for the restoration of national sovereignty to Iraq as quickly as is practicable.

In conclusion, there can be no doubt that the agenda for action outlined above is ambitious. If, as we hope, it is here in Dubai that Ministers make a clear commitment to providing the resources to reduce world poverty, then these 2003 Annual Meetings will have been truly memorable.