



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
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Statement by

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A. Introduction

1. It gives me great pleasure to participate in this historic first meeting of the Development Committee in this region, whose countries are implementing wide-ranging economic reforms to prepare for the opportunities and challenges of the 21st-century. We look forward to share the lessons of this experience with our international partners, drawing upon our conviction that international cooperation is a valuable common objective.

2. I would like at the outset to commend the World Bank for its active role in helping the Palestinian people, living under occupation in the West Bank and Gaza, to cope with the hardships they face and improve their living standards. I pay special tribute to the Bank staff who are working to make a difference under difficult circumstances. I also note the constructive role played by the Bretton Woods institutions in positioning themselves to assist the people of Iraq in the task of reconstruction and development. Success in both the West Bank and Gaza and in Iraq, while challenging, is nonetheless essential to stability and development in our region and beyond.

3. The June meeting of the G-8 countries showed welcome signs of progress on the political and policy fronts. I particularly welcome the enlarged participation by a number of developing countries, including Saudi Arabia. I look to further cooperation in the future. This indeed would be timely given the current multilateral challenges, especially in the trade area.- The collapse of the trade talks at Cancun last week and the failure to reach agreement on key issues vital to developing countries including subsidies and other barriers to agriculture and non-farm trade, is very disappointing. The advantages of trade liberalization, especially for agriculture cannot be stressed enough particularly due to their potential to reduce poverty and help win the race to achieve the MDGs: agriculture is where the poor are (70 percent live in rural areas) and agriculture is where the protection is. Unless progress is made in resolving differences in this critical area, trade and with it the potential for global economic growth and poverty alleviation will continue to be constrained by narrow interests at the expense of everyone else in both developed and developing countries.

4. I now turn to the papers prepared for the Committee and on which our Chairman has asked us to comment.

B. Supporting Sound Policies with Adequate and Appropriate Financing

5. It is certainly the case that good policies combined with good governance, enhanced access to developed country markets, and effective external aid will produce positive results. It appears appropriate to draw the broad conclusion that more and better directed aid would allow countries with “good” policies, to accelerate progress towards the Millennium Development Goals (MDGs). I have noted the estimates of \$30 billion in additional aid needed annually, a near doubling of the \$16 billion of incremental aid already “committed” by the donor community. While these numbers are important, the focus should be on the main conclusions of the paper and on getting a **better understanding of the existing commitments to provide aid by developed**

countries for achieving the MDGs and defining alternative scenarios of what developing countries could do if that aid does not materialize.

6. Second, the emphasis on the changes needed in the *modalities of additional aid* rightly reflects the asymmetry in power and influence between developed and developing countries in setting the development agenda. The structure of the MDGs attests to this imbalance: the first seven of them call for time bound reforms to be carried out by developing countries to achieve specified outcomes. On the other hand, only one (MDG 8) calls for reforms on the part of developed countries that are not time bound and vague in terms of outcomes, including the policy on aid. I –therefore support the call in the paper to better define aid modalities that favor *predictability, harmonization, and the need to take account of individual country conditions*. **I commend this improvement but believe that the proposed reforms could be better defined by outlining a time bound action plan of policy changes that will be carried out by developed countries.**

7. Third, I share the view that trade is as important as aid for achieving the MDGs. The latest estimate of income gains to low income countries from *feasible* trade reforms, for as much as \$60 billion, confirms the importance of access to developed country markets, and 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 are as much as 900 percent, world income could increase by over \$500 billion and raise an additional 140 million people out of poverty. Greater emphasis is certainly needed on the role of trade. **Better integration of trade issues into the development and growth paradigm, and mainstreaming trade reforms in PRSPs and CASs, is much needed.**

8. Finally, I note that several key gaps are identified in the PRSP process including the need to better assess the linkages between interventions and outcomes inherent in the budgeting process. However, no accountability is established for this reform. Further, the Bank and the Fund need to continue their efforts to strengthen the technical capacities of developing countries to deal with these issues.

C. Enhancing Voice and Participation of Developing and Transition Countries

9. At the last Committee meeting we asked for an update on this issue elaborating on “options with a potential for broad support”. My comments on this paper are in line with this specific request. First, on measures where there is broad support:

(i) *Country Ownership and Perspectives in the Bank’s Work* : this measure reflects the feeling of shareholders that the issue of Voice goes beyond voting and capital structure. I agree with the consensus on this issue and the importance of decentralization, transparency, openness and country ownership to enhance the quality of participation of developing countries in the design and formulation of PRSPs and CASs. Similarly, I encourage management’s intentions to enhance diversity (in the make-up of middle and senior Bank management) as a critical step to enhance the voice of developing countries. In this respect I also look

forward to more specific actions, including, as we have stated many times, improving the representation of Arab nationals.

(ii) *Enhancing Capacity in the Executive Directors' (EDs') offices*: I endorse these efforts and note the steps being taken to recruit additional staff in the offices of EDs with 20 or more member countries, enhance training for all EDs' offices, especially those from developing and transition countries, and to improve communications with capitals. I also welcome the "preliminary work" being carried out on proposals for *capacity building measures at the country level*, including in-country networking and communications building, and the recognition that some need more work before moving beyond the pilot stage. The proposal for *secondment of staff from developing and transition countries* to the Bank is an option that deserves serious consideration. It is a realistic and substantive option for enhancing developing country perspectives in the Bank. **An action plan with broad support for the secondment option should be defined, including financing , capacity building, and linkages with the diversity initiative mentioned above.**

(iii) *IDA voting and capital structure*: I support the proposal encouraging developing countries that have not subscribed to their full IDA allocation to do so. I also support the proposal for further enhancing participation of borrowing countries in the IDA-14 replenishment negotiations.

10. Second, my views on measures that lack broad support: *IBRD Voting Structure and Capital Stock*. Under the circumstances, although there is some interest in this option, it is clear that the potential for broad support does not exist. We need to wait several years for the outcome of the IMF's 13th General Review of Quotas before any consideration can be given to this option. **In the circumstances it would not be productive for us to dwell further on the implications of a shift in the voting structure.**

D. Background Papers

a) *Implementation Report on Monitoring Policies, Actions and Outcomes Needed to Achieve the MDGs*

11. I welcome this progress report en route to the main 2004 Monitoring report set for next Spring. It is clear that the implementation agenda is complex and attention must remain focused on the purpose of monitoring—that is, to reinforce accountabilities and identify priorities for action. I have three points to make here. First, as have been stated in the past, further work needs to be done on the methodology of the CPIA to improve its transparency as a measure of country performance. I also caution against extending the use of this instrument for countries where it could adversely affect their access to capital markets. More broadly, the Bank needs to take the necessary steps to ensure that its use and **public disclosure of indices such as the CPIA does not put it in the undesired position of a rating agency.** I would also like to ensure that Bank management will

observe the disclosure policy of other institutions (IMF, WTO etc.) in reporting information derived from these sources.

12. Second, I support the proposed research agenda but believe it is somewhat ambitious to raise the expectations that on-going research will in the near future be able to establish the link between policy interventions and outcomes.

13. Finally, on *the architecture for monitoring MDGs*, there are issues of governance that need resolution. For example to make the process of achieving the MDGs truly country-led, there is a need to see developing countries play a greater role in the monitoring process, which at the moment is being largely done by the multilateral agencies.

b) PRSP Progress Report

14. Although it is too early to arrive at any definite conclusions about the PRSP framework, the latest progress report identifies significant achievements as well as implementation difficulties. As the report indicates, in a number of cases PRSPs have stimulated popular participation, including from the private sector, and better integration of government policies. In these cases the PRSP process encouraged learning and capacity building. Outcomes have not been uniformly positive, however. Too often PRSPs took overly long to prepare, were of uneven quality, and adopted unrealistic objectives, such as in relation to economic growth. Further work is therefore needed to enhance PRSP credibility and ensure that it is informed by country conditions that impact on growth (such as investment climate and trade assessments) and management of public expenditures, so the PRSP can enhance local capacity instead of taxing it.

c) *Bank Group Infrastructure Implementation Action Plan*

15. I am pleased to note the current re-emphasis by the Bank Group on infrastructure, as evidenced by the recent Action Plan and the follow-up it plans to the recommendations of the World Panel on Financing Water Infrastructure. We have long stressed the importance of infrastructure in facilitating economic development and regretted the decline in infrastructure lending in recent years. I welcome the proposed emphasis on greater responsiveness to country demand, on rebuilding sector knowledge, and on maximizing leverage. **Given the importance of water to the Middle East region, I also support renewed emphasis on financing water infrastructure by facilitating engagement across the public-private spectrum .**

16. In conclusion, I welcome the recent increase in Bank lending to the MENA region. But this falls far short of this region's needs. The Bank could do more and should make every effort to do so.