



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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Treasurer
Australia

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

The past year has seen regional and civil conflicts, economic uncertainties and slow world economic growth. These circumstances have impacted directly on our constituency members. In such times, when the global economic climate is less helpful to raising national living standards, there are particular rewards for having pro-growth domestic policies and institutions.

In this constituency, we have witnessed a range of economic performance: on the one hand some countries with sound policies sustained strong economic performances; while on the other hand, several countries have experienced fiscal slippages and deteriorating social conditions, leading to a worsening climate for domestic saving, investment and the conduct of business, and declines in their citizens' real living standards.

These meetings help us take stock of global and comparative national and regional performance in the conquest of poverty and in broadening the opportunities for education, good health and employment which our citizens rightly expect. How can the World Bank help its members implement and sustain the policies that will ensure progress towards these objectives?

Supporting sound policies with adequate and appropriate financing

First, we should learn lessons from the global successes that show us that good policies produce superior economic and social outcomes for the poor.

The fastest progress against poverty has occurred in developing countries with good business climates, reasonably good governance and institutions, inclusive social policies and fast growth in trade. Export revenues in developing countries rose from less than 15 per cent of their GDP in 1990 to almost 25 per cent by 2000. Exports of manufactures by developing countries have grown particularly strongly, and have become increasingly important in global trade. Real GDP per capita is forecast to continue to grow faster in developing countries than in high-income countries through to 2015.

The absolute number in extreme poverty has continued to fall. By 2015, the global population will be over a billion higher, almost all of that increase born into developing countries. But notwithstanding that population growth, the number living on less than US\$2 a day is forecast to fall to about 2.1 billion from just over 2.7 billion in 2000.

The fastest progress against poverty has occurred in Asia, which has had relatively low inflows of official development assistance (ODA) per person. Among the 18 populous low-income countries which the World Bank uses as illustrations of economies with relatively good policies and the capacity to productively deploy more ODA, some of the strongest GDP growth per capita through the 1990s occurred in economies with the lowest ODA (both per capita and as a share of GDP).¹

¹ See *Supporting Sound Policies with Adequate and Appropriate Financing*, DC2003-0016 of 13 September 2003.

This underscores that a sound domestic business climate, effective governance, the ability to mobilize domestic resources, and inclusive social policies are the key paths to sustainable growth in living standards, rather than ODA.

More effective aid, well-directed to the developing countries with the policies and institutions to make best use of it, would doubtless assist even faster progress. But at any level of aid, good domestic policies and institutions will ensure the highest payoff.

In this constituency, we grapple with the challenges of raising living standards in a number of small, geographically isolated economies. Such economies are disadvantaged by small domestic markets, high transport costs to neighboring countries and global markets, limited market access, and consequently limited opportunities to generate the specialization, productivity and gains from trade that are the key to sustainable, self-reliant improvement in living standards.

For such countries, the World Bank can play a positive role by helping with technical assistance to build understanding and support for the institutions, values and policies that generate economic growth. Given the small scale of the economies concerned, this may not require large projects costing millions, but certainly will benefit from intensive programs to deploy the lessons learnt in other countries.

We encourage the Bank's work on how best to assist Low Income Countries Under Stress (LICUS), the lessons from which will benefit the many developing countries seeking to improve their performance, and also donors seeking to improve the efficacy of their aid. Already, we are struck by the finding that aid to the post-conflict economies which form a large proportion of the LICUS cases, tends to peak very soon after the cessation of conflict, rather than being sustained in the medium-term over which it can most effectively be used.

Enhancing voice and participation of developing and transition countries

The World Bank has made important practical progress in enhancing the voice of developing and transition countries in the Bank's operations, through improved country 'ownership' of key processes (such as Poverty Reduction Strategy Papers and subsequent Country Assistance Strategies) that form the framework for Bank lending. It has also increased its staff's awareness of country views through decentralization. Decisions to better resource the Executive Directors' offices of some large developing country constituencies also carry the potential to help them improve their voice on the Executive Board of the Bank.

While these measures are important, they are not widely understood in those non-government circles which question the legitimacy of Bank decision-making processes, and we should do more to explain their potential. Moreover, their ultimate success will depend on the use that is made of them in years to come by developing countries.

We have made progress over the last year, but more could be done in the future. Developing countries could significantly raise their voting power within the International Development Association by fully taking up their available subscription votes. We support the further development of options for officials from developing countries to take up development

opportunities on Bank staff. Other options could build developing countries' capacity for independent research into Bank issues, and the Bank could continue to increase the diversity of its staff, while maintaining professional standards.

Much could also be achieved within and among existing constituencies. As illustrated in this thirteen-country constituency of developed and developing economies, internal arrangements to consult, to share experiences, to build expertise and to reflect changing economic weights in changing representation patterns can strengthen 'voice' in a practical sense.

Given this experience, our constituency members believe that 'voice' would also be significantly enhanced in an environment that builds greater understanding of the historical, political and cultural backgrounds which influence each member's view of issues that come before the Board. That environment also helps gain a better appreciation of the policy priorities and implementation issues facing each member. This is something that single member constituencies or constituencies consisting solely of developed or developing countries are perhaps less able to appreciate.

In other constituencies where numbers may be considered too large, there may be opportunities to reconfigure existing country groupings into smaller 'mixed' constituencies of developed and developing countries, in cooperation with those smaller or single-member European constituencies that often express concerns about 'voice', and are themselves over-represented in the Bank from the viewpoint of relative economic weight.

Members may be prepared in future to consider more radical re-weightings of quotas and voting power in the IMF and the World Bank, but the issues raised by this course go to fairness of voice for countries beyond the ranks of the developing and transition members. This is exemplified in the experience of fast-growing but relatively under-represented economies such as Korea. Once again, progress would only be possible if some of those developed countries now enjoying over-representation were prepared to relinquish it.

Trade

Engagement in trade has proven a powerful poverty-buster. Not only does the specialization that trade produces create employment, raise productivity and increase income, but also it encourages the adoption of modern business practices and helps build commercial institutions.

That is why Australia and New Zealand, in this constituency, have lowered their trade barriers: multilaterally in successive GATT and WTO rounds; bilaterally in their Closer Economic Relations treaty; and unilaterally in their respective abolition of all duties on imports from least developed countries.

We should use the Bank's timely and forceful analytical work in *Global Economic Prospects 2004* to help restore momentum to the Doha round of trade negotiations after the disappointing failure to make progress at the Fifth WTO Ministerial Conference in Cancun, despite groundwork on a number of issues.

A good outcome from the Doha round would yield strong development benefits, fairly distributed among nations, and in particular to the benefit of the poorer developing countries. Poorer countries are presently most damaged by developed countries' agricultural subsidies and protectionism, and by significant trade barriers against simply transformed manufactures. (These barriers are often also applied by developing countries themselves.) Trade liberalization would accelerate progress against extreme poverty by 2015, with Bank estimates that extreme poverty would be cut by a further 140 million people.² This is probably a larger prize in the battle against poverty than can be won by any other feasible international policies at our disposal.

At Cancun, developing countries judged rich countries had not made meaningful concessions on faster agricultural reform, and had underestimated the implementation problems developing countries faced on some of the commitments initiated at Singapore. This is one clear example where developing countries have begun to exercise the 'voice' that the consensus rules of the WTO have given them. Rich countries may not agree with the message, but the developing world is entitled to assert its interest.

We need to redouble our efforts to bring about a pro-development outcome from the Doha round. This will require more movement by all countries, and especially by those rich countries that most heavily subsidize agricultural exports. The rich countries profess concern with eradicating extreme poverty, meeting the Millennium Development Goals, mobilizing developing countries' domestic resources, engaging the private sector in development and achieving sustainable debt burdens on the heavily indebted poor countries. But without better market access for developing countries through a successful Doha outcome, those concerns will all ring hollow.

We should not underestimate the gains that can arise from investments that strengthen trading capacity such as improving customs and logistics systems, and from unilateral or regional actions to reduce trade barriers. We are heartened by the Bank's stepped-up trade assistance program to facilitate strengthened trading capacity, which can also assist in the transitional adjustments that liberalizing countries may have to make (for example, a decline in revenue from tariffs). Countries which have recently joined the WTO (such as Cambodia in this constituency) may particularly benefit from such assistance.

One of the consequences of strong growth in developing countries' trade in recent years, particularly in the trade in manufactures, is that remaining barriers to south-south trade have assumed significance, and offer their own options for trade liberalization.

Achieving the Millennial Development Goals (MDGs)

Progress towards the MDGs, while promising at a global level, has been uneven both by region and by goal. Uneven progress is only to be expected, and is in part a corollary of country ownership of goals set in national Poverty Reduction Strategy Papers: individual countries may choose national goals that are not aligned either in time frame or in priority with those implicit in the global MDGs.

² Defined relative to the US\$2 a day poverty line. See *Trade and Development After Cancun: Information Note Prepared by the World Bank*.

Where some countries have chosen less ambitious targets, the stronger performance of other countries may both encourage higher goals in future, and illustrate the better policies and institutions necessary to achieve them.

We support the Bank's work to develop, in effective cooperation with the IMF, improved measures for tracking progress towards the MDGs, but caution that these measures should not be over-elaborated at the cost of timeliness or policy utility.

Progress in Poverty Reduction Strategy Papers (PRSPs)

We strongly endorse further development of PRSPs. They are a key means of improving the clarity of member countries' planning of their social and development priorities, engaging civil society in that process, and increasing country 'ownership' of the resultant development strategy.

But the process can become unwieldy in its complexity, slow to adjust to any shocks which invalidate projections in the strategy, and undesirably distant from the national operational requirements of expenditure decisions and budget processes.

We encourage a focus on practicality and operational utility in the further development of these valuable tools, so that developing countries' practical needs of the process take precedence over excessively elaborate international standardization of the PRSPs.

Heavily Indebted Poor Countries (HIPC) and debt sustainability

It is gratifying to see the mounting number of HIPCs that have reached or passed the decision point for significant relief of their heavy debt burdens.

We share concerns that some of these countries may face debt sustainability problems (measured in terms of the ratios of their debt service payments to their export earnings) even after completion of the HIPC process.

From an anti-poverty perspective, the fundamental problem in such cases is the inability to generate sufficient growth to reduce the debt service ratio by raising exports. A poor country without the capacity and market access to expand its exports is likely to remain very poor, even if its entire debt were to be completely forgiven. In such cases, we should be more focused on the trade liberalization and development tasks most likely to initiate the export and income growth that will deliver debt sustainability as a by-product of defeating poverty.

Infrastructure Action Plan

While the role of the private sector in cost-effective provision of infrastructure is important, it seems likely that the very marked reduction in Bank lending on public infrastructure provision during the 1990s went too far. We believe there is a role for the Bank in both encouraging private sector participation, and judicious lending to well-performing public utilities, whose development has been integrated into PRSPs and Country Assistance Strategies. There is

growing international recognition of the importance of infrastructure to both economic growth and poverty reduction.

Accordingly, we endorse the Bank's renewed focus on infrastructure lending in its Infrastructure Action Plan. However this approach should not become volume-driven. The policy framework for infrastructure and the efficiency of its regulation of remain central to the success of activities in this sector. The Infrastructure Action Plan does not directly address the issue of quality and sustainability of investments. Many past investments have suffered from maintenance problems and lacked sustainability. The Bank should continue to focus on policy and institutional issues to ensure better outcomes from lending.