



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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Financial flows to developing countries and economies in transition

The net transfer of financial resources to developing countries turned negative in the second half of the 1990s as capital outflows, profit repatriations, debt amortization and interest payments exceeded foreign direct investment, new credit and other capital inflows. The negative transfer, calculated on the basis of IMF data, reached \$192 billion in 2002 and no significant improvement is expected in the current year. Partly as a counterpart, the trade balance in all developing regions was positive in 2002, a phenomenon that will persist into 2003. A similar phenomenon is taking place in countries with economies in transition.

Such a situation would not be a major concern if both exports and imports, as well as investment, in developing countries and countries with economies in transition were growing satisfactorily. This is not the case. In many countries, imports are virtually stagnant and investment rates significantly below those of five years ago. With declining investment rates, development will be thwarted.

Reversing this situation requires the continuation or adoption of sound domestic policies in developing and transition economies. Above all, however, it requires a solid and supportive recovery in the developed economies to exert a measurable pull effect in other countries as well as, as agreed in the Monterrey Consensus, increased international financial cooperation. Continued support from the World Bank and the regional development banks – in the form of both concessional and non-concessional flows – to well-crafted development programmes in developing countries and countries with economies in transition is particularly important. The turnaround of ODA flows in 2002 is encouraging, but it is important that ODA keeps rising, since there is increasing evidence that, under appropriate conditions, it can be very effective in accelerating development.

Supporting Sound Policies with Adequate and Appropriate Financing

The World Bank report on this item indicates that additional aid can accelerate development and increase the prospects for achieving the Millennium Development Goals at the country level through a combination of sound or better domestic policies and governance, higher aid levels and more effective aid modalities.

Recipient countries should use domestic and international resources more effectively and strengthen policies to lessen economic vulnerability. Developed countries should increase aid, open their markets and consider debt relief where necessary. However, aid should be more predictable and, for poor vulnerable countries, mostly in the form of grants to ensure debt sustainability in the long-term. We agree with the report that, while stressing aid effectiveness in countries with sound policies, additional aid can also support faster progress towards the MDGs in low-income countries with weaker policies and governance. In many of the latter countries, particularly those in post-conflict situations, there might be considerable upfront and transitional expenditures that are highly productive and can only be met from aid.

Enhancing Voice and Participation of Developing and Transition Countries

The Monterrey Consensus stresses the need to broaden and strengthen the participation of developing countries and countries with economies in transition in international economic decision-making and norm-setting. The Consensus encourages the Bretton Woods institutions to continue to enhance participation of all developing countries and countries with economies in transition in their decision-making.

This issue was one of those addressed in the meeting of the United Nations Economic and Social Council with the Bretton Woods institutions and the World Trade Organization on the Follow-up to the International Conference on Financing for Development on 14 April. Several participants welcomed the discussions in the Development Committee on increasing the voice of the developing countries. Others were of the view that not enough had been achieved to enhance the participation of developing countries - including in the Bretton Woods institutions - and various proposals were put forward. In his Summary, the President of the Council highlighted the key importance of the participation issue and recommended that the High-level Dialogue of the General Assembly on Financing for Development (to be held 29-30 October 2003) should address, *inter alia*, the issue of “strengthened participation of developing countries in decision-making processes on economic policies”.

International Trade for Development

A fundamental understanding behind the Doha trade negotiations was that a number of improvements were essential to enable developing countries to avail themselves of the opportunities offered by international trade and thereby progress towards internationally-agreed development objectives. The failure to make tangible progress at the WTO Ministerial meeting in Cancun is therefore a setback not only to the global trading system but, above all, to global development. Moreover, this has occurred despite the fact that the international community has decided, at the highest political level, that development, particularly for the world’s poorest, should be a global priority. It is therefore particularly perturbing that the Cancun Meeting disbanded without tangible progress on the protection and subsidies provided to agriculture in the developed countries.

The Doha negotiations must be continued as expeditiously as possible. However, future success requires that they be recognized not as just another round of negotiations on mutual concessions but rather as a universal effort to ensure that the impediments to development in the present international trading arrangements are removed.

Implementation of the Monterrey Consensus

The United Nations General Assembly will hold a High-level Dialogue on Financing for Development on 29-30 October. The Secretary-General's report for this meeting, entitled the "Implementation of and follow-up to commitments and agreements made at the International Conference on Financing for Development" (A/58/216; www.un.org/esa/ffd), was prepared in close consultation and collaboration with the Bretton Woods institutions and other major institutional stakeholders. It highlights areas of progress and lack thereof in implementing the policy actions agreed at Monterrey. It also presents recommendations on policies and processes and identifies issues for further reflection in order to advance and build on the Monterrey Consensus.

In addition to the report of the Secretary General, the outcomes of the Annual Meetings of the IMF and the World Bank in Dubai will be key inputs for the High-level Dialogue. The personal participation in the High-level Dialogue of the members of the Development Committee, as well as the Ministers of each constituency of the Bank and the Fund, will contribute to building on the success achieved at Monterrey.