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of the
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On the
Transfer of Real Resources to Developing Countries)



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Statement by

Didier Reynders
Minister of Finance
Belgium

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

On behalf of all the countries of my constituency, I would like to extend my thanks to the authorities of the United Arab Emirates for welcoming us in Dubai and for their warm hospitality.

Developing Countries Must Take Advantage of the Economic Upswing as a Stepping Stone to More Adequate and Appropriate Financing of their Needs

The signs for an incipient turn-around in the world economy are very welcome. While Euro area growth has come to a virtual standstill since the last quarter of 2002, leading indicators point to modest growth in the second half of 2003, which should further strengthen towards potential in 2004. Growth is also picking up in Japan and is quite robust in the US, mainly driven by military and security expenditures. Prospects for developing and transition countries have also improved. But there are still significant uncertainties, affecting consumer and investor confidence.

Among others, this skepticism translates into a persistence of private financial transfers to developing countries being inadequate to finance their development needs and the achievement of the Millennium Development Goals (MDGs). Financial markets and investors still reel from the memory and aftereffects of the recent financial crises, especially in Latin America. While there has not been any contagion of these crises to countries outside the region, private sector flows still shy away from risk, i.e., from emerging countries--with the exception of China and India.

Imbalances in the World Economy persist which fuel these doubts: the US economy is beset by high and increasing twin (budget and current account) deficits, which are unsustainable in the medium run; Europe struggles with budget problems and low growth; Japan still has not resolved the problems of its banking sector and the more general confidence crisis; and emerging and developing countries still have a large amount of structural reforms to implement, in order to propel their economies on a sustainable macroeconomic path which will enable them to fight poverty more effectively.

In this situation it is very important to keep the momentum of poverty alleviation going. This requires renewed efforts by developing countries to pursue appropriate and sound policies and to mobilize additional domestic resources and industrial countries to compensate some of the reduced financial flows by private creditors to developing countries in the form of more and especially more effective official aid flows. Better harmonization of procedures and coordination of bilateral and multilateral donors, stronger alignment with recipient countries' budget cycles and longer-term aid flow commitments are necessary requirements to make aid flows more efficient.

The Monterrey Consensus obligated the developing countries to speed up their structural reforms and improvements in governance and the developed countries to increase their aid flows. Now is the time for both sides to honor these obligations, such that faster progress towards the achieving the Millennium Development Goals can be made and that the improving cyclical situation can be used fully by developing countries to speed up their growth process.

The Bank's estimate that a doubling of the already committed aid flows by the industrial countries represents the lower bound of extra funds needed to achieve the MDGs seems plausible. But it also gives a very worrying signal. It conveys the recognition that growth and internally generated financial flows will by far be too low to achieve the MDGs, even under the assumption that developing countries pursue sound policies. It shows that aid dependence is here to stay for the medium run at least, if we take the MDGs and the time schedule to achieve them seriously.

We in the industrial countries must see this situation not so much in terms of current budgetary expenditures, but rather--from an economic point of view--as investments: better health, better education, less time and money spent on providing clean water, more gender equality in developing countries, all these objectives, incorporated in the MDGs are investments into the world's, and that is our, sustainable and peaceful future. They will--in due time--provide more and better paying jobs, make workers more productive, alleviate the high cost burdens of illness and mortality and thus reduce migration pressures and instability in the world. They will also contribute towards less violence within poor countries and between the countries and thus enable developing countries to embark on a path towards sustainable poverty reduction. The payoff of effective aid policies cannot be overestimated: this is the message we have to give to our ever more inward-looking populations and their representatives in our parliaments.

The striking success of the transition process of the Central European countries within our constituency can serve as an example to others that deep-going structural and institutional change is possible and has very positive results in the medium run.

Industrial countries can ask the developing countries to honor their part of the Monterrey Consensus only if they honor theirs. If both of us comply with our commitments, the world will become a better place for all of us. If one or both of us fail, the negative consequences can be enormous.

We see as worrying that for two years now the net flows from World Bank to emerging and developing countries have become negative. While we understand the reasons for that (echo effect of high lending volume of middle-income countries in the nineties, extraordinarily large prepayments of relatively high-interest loans, low interest rate environment) we maintain that it is important that the Bank should aid especially the least developed countries not only through technical advice, but also through net positive financial flows. We urge the Bank to consider policies and strategies to be able to fulfill its mandate.

World Bank-Induced Country Poverty Reduction Strategy Papers (PRSP) Have Become Universally Accepted Basis for Development and Aid Strategies

The poverty reduction strategy process has contributed to putting developing countries in the "driver's seat" and provides an appropriate channel for integrating the MDGs into their national development strategies while becoming the base on which multilateral and bilateral donors center and fully integrate their cooperation and aid programs.

One of the most encouraging developments of this process is that developing countries are now resorting to a wider participatory approach (including the private sector, civil society, marginalized groups, unions and others in their deliberations) to develop their own multi-year development and anti-poverty strategies. The involvement of civil society improves the quality of the strategies and enhances significantly country ownership, thereby contributing to the success of the joint country–donor activities to support poverty eradication and a healthy and sustainable growth path.

Recently questions have arisen as to the involvement of NGOs and other civil society institutions, about their legitimacy in this process and about the role of elected parliaments in the PRSP process. It is clear that these questions have to be handled country by country, but it is also clear that there must not be a perceived tradeoff between the involvement of democratically elected institutions and NGOs in this process. Rather, both elements of society should ideally be involved in the process. It is important to involve the parliaments so that they can play their role in monitoring implementation. The wider the consultative process within the country, the more widespread acceptance of the reform path and the more sustainable this path will be. It does not help the development process, if after every election the strategy document is changed significantly. For planning purposes and the stamina necessary for a sustainable reform process, security about the priorities and directions of reforms are absolutely essential.

The PRSP document also serves as a very good basis for better donor harmonization and coordination. For this reason it is important that all development partners accept the PRSP as the basic strategic development document of the country.

Better coordination, more consistent planning and wider acceptance--as incorporated in the PRSPs--form the basis for a gradual switch towards higher funding predictability, further untying of aid and more budget support on more concessional terms by bilateral donors. This must go hand in hand with better capacity, accountability and results monitoring of ODA flows.

Progress on HIPC is Slow, but Present Framework Should Stay in Place

As of now 27 countries have been designated as eligible for debt relief. Only one additional country has reached the decision point since the Spring Meetings. In the meantime it has become evident that even the significant debt relief committed so far will be insufficient for many countries to enter on a sustainable debt reduction path. Partly because growth expectations had to be revised downward as a consequence of a decline in commodity prices, partly because new debt has been accumulated since reaching the decision point. Furthermore, a number of countries are still involved in internal or external violent activities and thus are not eligible at this time for HIPC relief. Finally, not all donor countries have contributed their share to debt relief. While opinions have been voiced on “topping up,” additional debt relief and extending the deadline of the enhanced HIPC initiative, we maintain that no change in the framework is warranted at this time. Increased efforts should be deployed towards more equal burden-sharing, especially of non-Paris Club bilateral official and private creditors. To mitigate the risks ensuing from the worsening of terms of trade, the international community should continue to reflect on the possibility of developing stabilization mechanisms and ensure better coherence of its trade and aid policies.

Developing and Transition Countries Should be Given the Possibility to Participate More Effectively in Bank Activities and Decision Making.

As a result of recent demands to enhance the capacity of constituencies incorporating 20 or more countries, two advisors and one senior advisor each were added to the two African chairs on the Bank Board. This has our backing. In addition, we support the proposals to improve access of World Bank shareholders to independent outside advice, to strengthen capacity in home countries by seconding staff of developing countries to the World Bank and to improve communication channels between Washington and home countries. We are convinced that a major step in making developing and transition countries' views on development issues better heard and to give them more weight in shaping policies of the Bank lies in using existing avenues more effectively and efficiently. Further decentralization of the Bank, strengthening of policy dialogue, more staff diversity are steps in the right direction. So is increased participation of borrowing countries' representatives in IDA replenishment negotiations and monitoring and evaluation processes.

Fuller Participation in World Trade Remains an Important Driver of Pro-Poor Growth

The setback of Cancun must not lead us to tire in our efforts to bring more countries into freer world trade to a larger extent. The empirical evidence remains clear: more open countries grow faster. The Bank's task is to help developing countries to become fully equivalent partners in trade negotiations, to help them in their transition towards freer trade, to advise them on how to make trade pro-poor and to play an advocacy role for the importance of trade for economic development, growth and social betterment.

Better Monitoring is Necessary

International institutions and bilateral donors have a tendency to start developing their own separate programs, data bases and statistical requirements within the framework of the MDGs agenda. They should take into account the limited institutional capacity of beneficiaries and be encouraged to avoid duplication and competing requests. The donors should not shy away from a better monitoring of the eighth MDG "Develop a global partnership for development." The World Bank's "Country Policy and Institutional Assessments" (CPIA), which are an essential part of the global monitoring work should be disclosed as soon as possible.