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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The global environment has shown some clear signs of improvement since we have last met as there has been a pick up in economic activity and easing of geopolitical uncertainties. What we see from the indicators is a global recovery, albeit still fragile, with investment and production recovering in the industrial countries and much stronger growth and a robust outlook for many developing countries. Risks remain, however, as structural problems persist in the industrial countries and there are new challenges. Furthermore, and despite the better prospects for poverty reduction, the achievement of the Millennium Development Goals is confronted with serious challenges. There has been hardly any progress on providing adequate finance and market access. These are the major issues on our agenda today and I wish to make the following remarks:

The analytical work which has been submitted to us on **supporting sound policies with adequate and appropriate financing** is of high quality and produced findings and conclusions that should make a strong case for doing much more in the financing area. The country based approach has shown that the 18 countries that were considered, where the bulk of poor people live, have improved their policies significantly and used aid productively but continue to have substantial unmet development needs. More broadly on policy performance, it is encouraging to note that only a small proportion of poor people live in countries with weak policies.

Nevertheless, the analysis also shows that, even with improved policies, very few countries will achieve the MDG targets. It rightly concludes that countries with good track records should be supported with timely and predictable aid that is aligned with country development priorities and provided directly to countries in the form of cash for program and project finance. The magnitudes of financing needed vary with country circumstances and the analysis shows a range between more than doubling for some countries and only small increases for others. It appropriately indicates that even countries with weaker policies, especially post-conflict countries, require upfront and transitional aid.

This brings to the fore the issue of the magnitude of financing needed to achieve the MDGs, initially envisaged at amounting to doubling of the current levels. This has now proved to be much more challenging and needs a renewed sense of commitment. While $16 billion has been pledged so far, the analysis estimates that $30 billion of additional financing is required, and even this does not take account of a number of factors, including the enhancement of country capacity, public goods including combating HIV/AIDS, debt relief, and responding to possible future shocks. This is in addition to the substantial unmet needs for infrastructure investments for service delivery, which the paper on **Infrastructure Action Plan** estimates at $465 billion a year for the period 2005-2010.

On the basis of all of this it seems clear that the donor community will have to confront this challenge if we are to be successful in implementing the Monterrey consensus. The first steps are to ensure that pledged commitments are disbursed, preferably on an accelerated basis, and that additional commitments are forthcoming. There is also a need to define clear and realistic commitments by the three participants in the Monterrey compact - countries, donors and financial institutions - and to implement the envisaged action plan to monitor respective actions and policies.

We attach significant importance to the **monitoring** initiative that our Committee will be undertaking and we commend the activities of the many institutions and organizations in the past months to put in place a monitoring framework. The implementation plan submitted to us by the Bank provides a sound basis for moving ahead and we look forward to a discussion of the proposed Global Development Review for 2004 at our Spring meeting. Focus should indeed be maintained, as suggested, on the purpose of the global monitoring exercise which is to provide a basis for our Committee to assess progress on the key implementation issues, enforce accountabilities and identify priorities for action. We also expect that the analytical work will maintain an adequate balance on the treatment of the major players, and that reliance on the system of Country Policy and Institutional Assessment will not lead to a disproportionate focus on low-income countries.

Beyond these issues, of providing the analytical basis and a sound process, there is a clear need for much more attention to the **trade agenda**, especially in light of the well-acknowledged substantial contribution it can make to poverty reductions and achievement of the MDGs, and in view of the critical juncture in the Doha Development Round. In this respect we welcome the commitments of the Bank and Fund to scale up their involvement in support of the trade agenda. Particularly important is the work of the World Bank Group on trade capacity building in developing countries. This appropriately seeks to help implement sound trade policies, including regional policies, manage trade reform and ensure effective participation in global trade negotiations. We also welcome the Bank's recent initiative to assist countries in taking advantage of market opportunities by enhancing lending for trade infrastructure and helping vulnerable groups affected by trade reform.

We regret the disappointing outcome of the Cancun Ministerial Conference and strongly urge that this setback will not lead to weakening the resolve to build an open trading system conducive to growth and poverty reduction. We hope that the right lesson be drawn from this experience and multilarial trade negotiation be resumed and lead to elimating trade barrowers for the benefit of both developing and developed countries. Bank research has reminded us that eliminating trade distortion could increase world income by $500 billion and raise an additional 140 million people out of poverty.

A key element in facilitating consensus and ownership of agreed policies on the global scale is to enhance **the voice of developing and transition countries** in the international decision-making process, an issue which was underscored at Monterrey and on which we have already had some deliberations. We welcome the work of the Boards of the Bank and IMF, especially on enhancing capacity at Board and country level and share the conclusion of the paper that no single change is going to address adequately the voice issue, and that a comprehensive effort over time across a range of issues will be required. Along these lines the structural issues, including the one on basic votes and other approaches mentioned, should remain on the table.

The one area which has been gaining more attention and which has potential for early improvement is enhancing the voice of IDA recipients and the IDA Board in determining the lending policies of the Association. These policies have been increasingly set by IDA Deputies with hardly any recourse even to the IDA Board. It is quite feasible to put in place modalities that will give more voice to the IDA recipients and the Board, and adhere to the governance structure of the Association while allowing donor countries adequate say in the use of their resources. We look forward to Bank Executive Directors' consideration of this, hopefully prior to the onset of the forthcoming IDA 14 cycle.

Alleviating the debt burden of poor countries should certainly remain as a priority, especially in view of its link to the MDG agenda, and we welcome the progress that has been made so far in the implementation of the HIPC Initiative. This should allow the HIPC countries to allocate more resources for reducing poverty, the real objective behind the debt relief. We commend the efforts of creditors and donor institutions in sustaining this important initiative. The bilateral donors and regional development institutions in our region have continued to participate in the Initiative. Libya was the most recent bilateral donor that agreed to participate fully in the Initiative. The participation of development institutions in the region continued to be consistent with their obligations, having due regard to their financial integrity and ability to continue extending development assistance to other client countries.

Many challenges remain, however. In addition to the funding issues, fewer countries than expected have reached their completion points, and many indebted countries, particularly those conflict-affected, have not been considered. The slowdown in the global economy, the decline in commodity prices, and other external conditions have led to the deterioration of the external debt indicators and have affected the debt sustainability prospects of many HIPC countries. It is therefore important to do more to help countries reach their completion points and approach the remaining HIPC cases with due flexibility within the framework of the Initiative to assist in decreasing and sustaining the debt burdens of these countries.

Finally, we note that the progress report on the **Poverty Reduction Strategy Papers** has appropriately focused on implementation, and that there is evidence of improvement on this front. The report's candour should be of great use for addressing the challenges that encounter using the PRSPs as an effective instrument of poverty reduction. As shown in the paper, it is an instrument that is charged with multiple objectives and we look forward to giving more attention to the need to avoid overburdening client country capacities.