



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**  
**DUBAI, UNITED ARAB EMIRATES – SEPTEMBER 22, 2003**

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Statement by

Trevor Manuel

Chairman of the Development Committee  
Minister of Finance  
South Africa



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**Highlights of Ministerial Statements**

1. This meeting comes at critical juncture, amid many uncertainties. The current global economic outlook, with signs of both modest economic upturn and persistent downside risks, highlights the need for reflection and resolute action on the part of developed and developing countries alike to advance the Monterrey Consensus and move toward achieving the Millennium Development Goals (MDGs). Ministers welcome the opportunity to discuss the status of the commitments made at last year's Financing for Development Conference at Monterrey and the role of the Bank and the IMF in advancing the Monterrey agenda.

**SUPPORTING SOUND POLICIES WITH ADEQUATE AND APPROPRIATE FINANCING**

2. Experience shows that sound economic policies, combined with good governance, good business climates, access to developed country markets, inclusive social policies, and effective external aid, produce positive results. However, the findings of the analytical work conducted by the Bank indicate that even with improved policies, few countries will achieve the MDGs by 2015. Ministers generally agree that a substantial increase in official development assistance (ODA), well beyond existing commitments, is essential for any meaningful attempt to achieve the MDGs. The donor community will have to confront this challenge if the Monterrey Consensus is to be successful. At the same time, ministers stress the need to help developing countries improve domestic resource mobilization, which they view as the only sustainable source of development financing.

3. With respect to increasing the effectiveness of aid modalities, ministers concur that development assistance should be much more timely and predictable, should cover incremental and in some cases recurrent financing needs, and should be provided in ways most useful to developing countries. Ministers urge developed countries to improve aid effectiveness by aligning aid flows to poverty reduction strategy papers (PRSPs) and other country-owned development strategies, devising conditionality derived from these strategies, increasing the proportion of aid that is available for program expenditures, and accelerating the harmonization of requirements for disbursement, monitoring, and reporting. At the same time, ministers encourage developing countries to improve public expenditure management and other standards of accountability.

4. The ODA strategies adopted to date, including concessional financing, are inadequate and in need of modification. Some ministers note the disquieting trend of negative net flows from the World Bank in the past two years and urge the Bank to aid the least-developed countries through net positive financial flows. Some suggest increasing the use of grants, particularly in education and health, in order to avoid lending to countries with unsustainable debt burdens. Several ministers also call on developed countries to support faster progress

toward the MDGs in low-income countries with weaker policies and governance (LICUS-type) and LICUS countries emerging from conflict. Some ministers welcome the idea of an International Finance Facility (IFF), as a way to substantially increase the resources available to meet the MDGs. Ministers urge the Bank to further streamline its procedures and promote donor harmonization and coordination. A critical next step is the adoption of monitoring indicators of progress on harmonization.

## **ENHANCING VOICE AND PARTICIPATION OF DEVELOPING AND TRANSITION COUNTRIES**

5. Ministers welcome the continuing discussion of voice and participation as an important element of the Monterrey Consensus. They note important progress in enhancing the voice of developing and transition countries in the Bank's operations, mainly through improved ownership of key processes that form the framework of Bank lending, such as the PRSP and CASs. They broadly concur with the proposals put forth in the progress report, such as increasing staff diversity, strengthening administrative and technical capacity in Executive Directors' offices, and decentralizing Bank staff and offices to the regions. However, they acknowledge that much more needs to be done and that enhancing voice will require continued effort on a range of issues.

6. Areas with potential for improvement cited by ministers include: enhancing the voice of IDA recipients and the IDA Board in determining IDA's lending policies, while adhering to the Association's governance structure; and strengthening borrower participation in IDA-14 Mid-Term Review and IDA-14 Replenishment negotiations. They welcome plans to expand secondment of staff from developing and transition countries and recommend developing an action plan on secondment, covering financing, capacity building, and linkages with the Bank's diversity initiative. Ministers suggest recruiting more candidates from developing countries into the Junior Professional Associates program and call for increased transparency and staff diversity within the Bank and the IMF.

7. Ministers broadly support an increase in basic votes to the original level of 11 percent as a viable option for increasing the voting strength of developing and transition countries. They support the proposal to encourage developing countries that have not subscribed to their full IDA allocation to do so. Several ministers welcome the creation of a trust fund to help some countries fund subscription payments if necessary. They also support the intention to establish an Analytical Trust Fund to fund research and policy analysis for some Executive Directors.

8. Ministers recognize that consideration of far-reaching structural changes in voting rights and capital structure will require time and that further analysis of the advantages and disadvantages of potential changes in these areas is needed to help build the necessary political consensus.

## **PROGRESS REPORT ON TRADE**

9. Ministers strongly agree that trade liberalization is more efficient than ODA at reducing poverty and promoting economic growth, and that achieving progress on the ongoing Doha trade round should be a top priority of the international community. Ministers commend the commitment of the Bank and the Fund to scale up their involvement in support of the trade agenda, in particular the Bank's recent initiative to help countries take advantage of market opportunities. While expressing disappointment at the collapse of the recent WTO Ministerial Conference in Cancun, several ministers stress that this setback should not weaken resolve to build an open trading system. Some ministers point out that the meeting also highlighted critical issues and avenues that will ultimately lead to increased trade liberalization.

10. In view of the finding that eliminating trade distortions could increase world income by some US\$500 billion and lift 140 million people out of poverty, ministers strongly emphasize the need for developed countries to do more to promote policy coherence, liberalize their markets, and eliminate trade-distorting subsidies, particularly in agriculture, textiles, and labor-intensive manufactured goods. Many ministers are of the view that unless progress is made in resolving differences in this critical area, the potential for global economic growth and poverty alleviation will continue to be constrained by narrow interests at the expense of everyone else in the developed and the developing world. Restoring the confidence of developing countries is critical. In the opinion of one minister, WTO member states should propose initiatives to break the current impasse.

11. Developing countries also have vital roles to play in advancing the trade agenda by addressing "behind the border" issues, such as trade capacity building and improving the legal, administrative, financial, and customs/transport frameworks, to ensure that domestic production responds to new opportunities. They urge the Bank and the Fund to provide assistance to reinforce the capacity of developing countries in this area. Some ministers also call on developing countries to further open their markets in order to reap the benefits of the trading system.

12. Ministers broadly agree that the Bank's focus for the next three years should be on supporting improved coherence between development and trade policies of developed countries; supporting trade policies in developing countries that take advantage of trade to drive productivity growth and poverty reduction; and undertaking analyses and consultations that facilitate a successful pro-poor outcome of global trade negotiations.

## **GLOBAL MONITORING POLICIES AND ACTIONS FOR ACHIEVING THE MDGS AND RELATED OUTCOMES**

13. Ministers welcome the monitoring initiative and commend recent activities to put in place a framework for assessing progress in implementing commitments to achieve the MDGs. Ministers stress the importance of strengthening developing-country capacity to compile and analyze statistics, and making available a comprehensive MDG-related data base.

14. Many ministers stress the importance of monitoring the activities of developed as well as developing countries. Proposals include the development of a comprehensive measure of trade protection, with emphasis on policies related to agricultural products, product standards, and subsidies, and on changes in market access derived from developed country agricultural policies; the development of a matrix to measure progress on crisis prevention and resolution and on reducing the volatility of capital flows to developing countries; and indicators to monitor pollution in developed as well as in developing countries. A minister proposes that all developed countries draw up annual MDG-8 reports describing their progress in the area of policy coherence for development, which would highlight progress and new initiatives in aid volume and effectiveness, debt sustainability, and market access for developing countries.

15. Several ministers also call for a candid assessment of IFIs and multilateral and bilateral donor activities, to be conducted by peers as well as clients. A minister commends the Bank for its ambitious results orientation, which he said should extend to Bank lending for budget support. To advance this agenda, he asks the Bank to disclose the performance rating system it uses to allocate resources to poor countries, to tie staff performance incentives to development outcomes, and to conduct an external performance audit of IDA-13 results.

16. Ministers welcome the work program underway to upgrade the Country Policy and Institutional Assessment (CPIA) methodology and increase the transparency of its application. One minister urges the Bank and member countries to agree on disclosing CPIAs, while another minister cautions against such disclosure in countries where it could adversely affect their access to capital markets. With respect to metrics and data in key policy areas, some ministers welcome the inclusion of infrastructure and anti-corruption efforts in the list of indicators.

## **PRSP PROGRESS REPORT**

17. Ministers welcome the steady increase in the number of countries completing PRSPs, their growing emphasis on growth-oriented policies, and the recognition of the central importance of country ownership to their effective implementation. Ministers strongly endorse the further development of PRSPs, which they consider to be the key means of improving developing countries' planning of their social and development priorities, of engaging civil society in the process, and of increasing country ownership of the resultant development strategy. Some ministers note, however, that the PRSP process has become unwieldy, slow to adjust to shocks that invalidate projections in the strategy, and too distant from expenditure decision and budgetary processes. They encourage a focus on practicality and operational utility in the development of PRSPs, so that countries' practical needs take precedence over elaborate international standardization.

18. Ministers agree that the focus should now be on implementation of the strategies rather than preparation. They applaud the significant achievements of the PRSP process, including increased popular participation and better integration of government policies, but note that outcomes to date have not been uniformly positive. Emerging challenges include the need for more reliable data; the need to identify potential sources of growth; better linkage between

medium-term expenditure frameworks, budgets and PRSPs; the need to accelerate the pace of donor harmonization; and strengthening the link between PRSPs and the longer-term MDGs.

19. Ministers underline the important role of the Bank and the IMF in strengthening the PRSP process. Some ministers are encouraged by the recent commitment from the IMF to improve the alignment of its programs with country-led processes, and by the Bank's willingness to participate in multi-donor initiatives and to assess the poverty and social impact of key reforms. A key challenge moving forward will be improving policy analysis of growth and shocks and distributional analysis of macroeconomic policies. In order to enhance the effectiveness of the PRSP approach, ministers stress the need to monitor the performance of donors and developing countries and to feed back the results into future PRSPs.

## **PROGRESS REPORT ON HIPC INITIATIVE**

20. Ministers broadly welcome the progress achieved with the HIPC Initiative, including the increasing number of countries that have reached the decision point for debt relief, and the progress in encouraging more creditor countries to participate, which they deem vital in the process of securing the participation of all creditors in HIPC. At the same time, ministers note that progress in reaching the decision point and completion point has not been as fast as expected. The global economic slowdown increases the risk that countries will not be exiting the HIPC Initiative with sustainable debt levels, and that those countries that have already reached the completion point may see their debt return to unsustainable levels. Some ministers stressed the importance of ensuring that additional voluntary relief provided by bilateral donors is truly additional to any "topping up" of debt relief.

21. Over the long term, ministers stress the importance of ensuring continued debt sustainability while enabling countries to finance their poverty reduction strategies; the need to generate sufficient growth to reduce the debt-service ratio by raising exports; and the need for all creditors to participate in the debt-relief process. Ministers add that debt relief alone cannot guarantee a sustainable debt situation; broader issues, such as governance, and economic and structural policies need to be addressed.

## **IMPLEMENTING THE WORLD BANK GROUP INFRASTRUCTURE ACTION PLAN**

22. Ministers universally endorse the Bank's renewed emphasis on infrastructure, given its vital role in growth, poverty reduction and social service delivery. They commend the action plan's realistic proposals and its description of the complex linkages between infrastructure and the MDGs. Given the huge unmet demand for basic services, they stress the need to use a broad and flexible array of instruments to catalyze reform of the domestic policy environments, and to leverage financing from all sources—public and private, domestic and international, concessional and commercial. However, they stress that future lending should be aligned with PRSP objectives and should support linkages between infrastructure and economic and social development. They emphasize the importance of ensuring maintenance as a prerequisite for any infrastructure investment. And they underline the need to focus on the policy and institutional

environment, and to analyze the links between infrastructure, economic growth and poverty reduction.

23. Ministers also commend the Bank's attention to following up on the Camdessus Panel report on "Financing Water for All." In view of water's importance for development in Africa, a minister asks the Bank to provide adequate human and financial resources toward helping countries with project preparation and implementation, and to finance studies on the development and management of water resources. Another minister asks how the Bank proposes to finance water infrastructure, which was not addressed in the paper.

## **OTHER ISSUES**

### **The Middle East**

24. Ministers find it fitting that these meetings should be held in the Middle East, currently the focus of much of the world's attention. They note that while there has been considerable economic and social progress in the Middle East in the past 20 years, a significant number of people in the region remain in poverty. Further progress is put at risk by continued conflict and by the risk that governments may not take forward the reforms needed to ensure growth. Moreover, trade performance of non-oil exports has lagged behind other regions of the world. A minister calls on developed countries to move swiftly to remove tariff barriers, while he urges Middle Eastern countries to reduce high tariff barriers impeding trade.

### **Supporting Iraq and Afghanistan**

25. Ministers note that the need for assistance to Iraq and Afghanistan is urgent, and that combined, sustained efforts are needed to break the cycle of poverty and oppression in these countries. They commend the Bank's contribution to reconstruction and recovery in Iraq through its work on a social and economic needs assessment and the establishment of a trust fund as a channel for donor support for the country's future development. They also applaud the contributions of the Bank and other donors in the reconstruction of Afghanistan and urge them to increase and expedite their assistance.

### **The Role of ODA in Promoting Peace and Security**

26. Some ministers are of the view that the relationship between peace, security, and development should be part of the debate on ODA, since security is a necessary precondition for sustainable development. They welcome the Bank's efforts to learn more about the relationship between conflict and development and to put its conclusions into practice through arrears clearance, grants for post-conflict countries, and research on violence and conflict in developing countries. They encourage the Bank to strengthen its work on post-conflict issues, including broadening the regional approach to conflict prevention and resolution and formulating and implementing effective development strategies in LICUS countries.

## **Anti-Money Laundering and Combating the Financing of Terrorism**

27. A minister welcomes the Bank's contribution to efforts to combat money laundering and the financing of terrorism (AML/CFT) and looked forward to further work in this area. He adds that the joint Bank/Fund/FATF pilot project for assessing country compliance with international standards for AML/CFT should become a permanent part of IFIs' oversight and surveillance of financial systems.

## **World Bank Administrative Budget**

28. A minister calls on the Bank to increase the transparency of its administrative budget and its focus on strategic priorities.

## **Remittances**

29. A minister notes the crucial role that remittances play in economic development, with recorded flows exceeding ODA. He urges IFIs to devote resources to a systematic analysis of remittance issues, and welcomes the Bank's recent draft report creating a framework for estimating the magnitude of remittance flows and examining incentives for using informal systems.