



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

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On behalf of Brazil, Colombia, Dominican Republic,  
Ecuador, Haiti, Panama, The Philippines, Suriname, and  
Trinidad and Tobago



## **I- Supporting Sound Policies with Adequate and Appropriate Financing**

1. The countries of this Constituency fully support the Millennium Declaration, not as a vague statement of intentions but as a concrete covenant of mutual support leading towards sustainable and equitable growth and poverty alleviation.
2. Embedded in the Millennium Declaration are specific goals constituting invaluable input to all international initiatives concerned with development. Paramount among these initiatives is the Monterrey Consensus which aims at bridging the gap between what exists today and the better world depicted in the Millennium Declaration. Within the Monterrey Consensus' framework, official development aid (ODA) plays a critical role in rendering concrete the hopes of developing countries. In this sense, this Constituency notes, with concern, that provisions of the Monterrey Consensus relating to increases in ODA are yet to materialize. We cite paragraph 41, which reads "*We recognize that a substantial increase in ODA and other resources will be required if developing countries are to achieve the internationally agreed development goals and objectives, including those contained in the Millennium Declaration . To build support for ODA, we will cooperate to further improve policies and development strategies, both nationally and internationally, to enhance aid effectiveness*".
3. In addition to improved aid volumes, we believe that aid modalities should be adjusted to make the use of resources more effective. Aid should be timely and predictable for countries striving to build a track record of policy performance. Further, aid should be aligned with the recipient countries' own development priorities and processes, as articulated in their poverty reduction or development strategies. In addition, aid needs to be provided in modalities and amounts consistent with the absorptive capacity of recipient countries and with the incremental costs of financing the Millennium Development Goals (MDGs). That being said, aid should be in forms that are most suitable to recipient countries given their needs, restrictions and capabilities. Budget support or sector-wide programs may be appropriate in some cases as countries make progress in improving public expenditure programs. A mix of grants and loans may also be appropriate for countries that have (or risk having) a debt sustainability problem<sup>1</sup>. Aid programs in poor countries lacking strong tax bases should also include funding for recurrent costs. At the same time, work towards building the institutional framework for greater domestic resource mobilization should continue in order to enhance the sustainability of long-needed social interventions.
4. In this sense, this Constituency fully supports the idea of relying on country- owned national strategies, such as the poverty reduction strategies for low income countries. This constitutes an appropriate approach to maximize the effectiveness of ODA, both from the recipient countries' standpoint – since they can count on an instrument to channel resources to well-defined, country-owned programs within a coherent framework – and from the donor

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<sup>1</sup> Discussions related to absorptive capacity also highlight the importance of a successful implementation of the Heavily Indebted Poor Countries Initiative. We welcome the progress report offered to this Committee and look forward to the planned discussion on the matter later this year.

countries' view – as they can better harmonize efforts and target resources to developing countries with relatively sound policies. Even though there is no required set of indicators or goals in the PRSPs and other national strategies, they are expected to be framed against the backdrop of the MDGs, with realistic budget projections which can usefully help determine the levels and modalities of external financing. In the case of low income countries, the gap between realistic PRSP targets and the countries' long term objectives represents an opportunity to discuss with donors the actions and resources needed. We thus acknowledge the importance of the PRSP approach and the widespread support this format has garnered. We note that CASs have adopted key PRSP monitoring indicators and continued PRSP implementation has been defined in all recent CASs as a benchmark for the base case. Poverty Reduction Support Credits are to become an important vehicle of IDA support to low-income countries with strong programs. We therefore encourage Ministries of Finance to become fully engaged in the PRSP process in order to establish links to the budget, otherwise the strategy will fail to take into account the macroeconomic trade-offs and their relationship with the broader goals.

5. We note that progress has been made in the harmonization effort. Nevertheless, much remains to be done, especially in fully aligning bilateral policies with country- owned PRSPs. We urge Ministers from donor countries to clearly signal to their development agencies the importance attached by this Committee to country ownership and to the PRSP process. Furthermore, we propose that every CAS Progress report dedicate a section to assessing the degree of donor harmonization and coordination achieved.

6. Where aid recipients are concerned, we believe that two different kinds of countries have not received proper attention in the discussion, namely low income countries under stress (LICUS) and middle income countries.

7. In our view, humanitarian assistance should be provided to LICUS countries at all times, through appropriate channels and making sure that the resources reach the very poor. In addition to humanitarian assistance, LICUS countries need incentives to strengthen government institutions, a process that may take a long time before initial results are apparent; it may take an even longer time to establish track records. It is also our view that aid flows should not be withheld until a given set of conditions materializes. Starting with humanitarian assistance, aid volume should increase as progress is made in building appropriate institutions. With respect to LICUS countries, we believe that the key concepts in this discussion are flexibility and commitment. The allocation process should be flexible enough to consider the wide range of possible situations that may affect LICUS countries, especially where building a governance track record is concerned. As long as a country has expressed strong commitment to reforms, aid should be provided to enable it to gain access to information on best practices and good policies suitable to its situation.

8. To bring about the necessary flexibility and enhance their commitment, greater involvement of recipient countries in the definition of the IDA procedures is needed. This is an area where practical results can be achieved in enhancing voice and participation of the poor in the Bretton Wood institutions. It is our view that the IDA Board should have a more meaningful role in the definition, implementation and monitoring of IDA policies. This would allow the development community to take full advantage of the carefully designed balance of power

existing within the World Bank and the consensus building nature of its decision making process.

9. Even though there is a propensity to associate poverty with specific geographic regions of the globe, middle income countries are home to large numbers of people living on less than US\$ 1 dollar per day. Indeed, relatively high levels of per-capita income frequently disguise pockets of poverty as a result of unequal income distribution and uneven geographic distribution of economic activity in those countries. It is not realistic to assume that they will be able, on their own, to significantly improve income distribution in a short period of time. This task requires strong support from the development community. Moreover, we must keep in mind that addressing these pockets of poverty is key to the achievement of the MDGs in most of those countries, and a significant step in the global fight against poverty. However, the amount of ODA flowing to middle income countries is not evenly distributed nor is it proportional to the number of the poor living in those countries. Therefore, this Constituency calls for renewed attention to this issue and for a clear strategy to deal with these pockets of poverty.

10. In most middle income countries, fiscal constraints are a significant impediment to faster progress in scaling up social programs and carrying out needed investments in public goods. These investments are key for encouraging private sector activities but they cannot be made at the expense of sound macroeconomic policies. Aid flows, especially concessional financing, can, to some extent, ease these constraints. Moreover, aid can play a catalytic role in this context, helping to direct the domestic resources towards spending for the poor and to target the less favored regions or vulnerable groups within those countries.

11. The successful completion of the Doha round is expected to have an enormous impact on the capacity of middle income countries to address the poverty issues, given the impact of trade on their rate of growth. We note that the elimination of the unacceptable distortions in trade is conceptually different from aid: the former is not a concession from the developed world, whereas the latter is clearly a welcome manifestation of social consciousness.

12. This Constituency has paid special attention to studies focused on low-income countries with relatively good policies, on lower-income countries under stress (LICUS), and on middle-income countries. The studies show that additional aid can play a powerful catalytic role in accelerating the progress already under way towards achieving the MDG outcomes. The richness and timeliness of these studies notwithstanding, this Constituency is convinced that enough analytical work has been done to firmly establish that progress towards the achievement of the MDGs will be accelerated as and when the donor community translates recent commitments into actual outlays, thus moving closer to the ODA-GDP ratio targets enshrined in international declarations. We are also convinced that commitments beyond those indicated in the *Monterrey Consensus* are needed to finance the achievement of MDGs. The Millennium Declaration calls for the immediate delivery of what has been promised and for an urgent discussion on what can be additionally committed.

13. Time is of essence, since the deadline to meet the MDG targets is only twelve years away. Therefore, this Constituency calls for a decisive, determined, and immediate move in the direction of increased aid flows. We are quite aware that, in order to be effective, increased aid

flows have to be accompanied by good policies and progress in reforms, in both developed and developing countries. In this sense, we look forward to the first monitoring report to be presented to this Committee in the Spring 2004. We also acknowledge that further discussion is needed on feasible aid amounts, predictability of flows, appropriate modalities, and support to recurrent costs. We also acknowledge that donor countries face political constraints, as they are accountable for taxpayers' resources and hence require improvements in recipient countries' use of these resources. But never-ending analytical work, interminable discussions, and ever-increasing requirements should not be an excuse for a failure to take immediate action, if the MDGs represent a serious commitment of the international community.

## **II. Voice and Participation of Developing and Transition Countries in Decision-Making at the World Bank and IMF**

14. This Constituency has been following closely the implementation of the Monterrey Consensus' recommendation embedded in paragraph 62, that aims at broadening and strengthening the participation by developing and transition countries in decision-making at the Bretton Woods institutions. We acknowledge that, given the nature of the issues, moving forward will require a broad degree of consensus among the membership at the political level. We encourage management of the Bank and the Fund to implement, without further delay, the proposals on capacity building in developing countries, including *secondment*, and on enhanced communications with capitals.

15. Another approach that deserves consideration is the use of the special majority to approve decisions on policy issues. Despite the culture and tradition of relying on decision-making by broad consensus, a special majority of votes on critical decisions could give additional assurance that the voice of developing countries will be heard and considered.

16. Despite the merit of the above proposals, our Constituency stresses that the most straightforward and direct means of increasing the strength and effectiveness of developing countries' participation in the decision-making of our institutions is to increase their aggregate voting power (including an increase in basic votes).

17. Given the links between the IMF and the World Bank's voting structure, we believe that the appropriate sequencing would be to start with a review of the quota formulae. The exercise should aim at reviewing and revising the quota formulae to ensure that they realistically express the relative economic importance of each country and that they perform their intended functions effectively and transparently. The implementation of changes in the voting structure could be gradually phased-in according to an agreed schedule and should incorporate a simultaneous increase in basic votes.

18. Where IDA votes are concerned, this Constituency wishes to point out the discrepancy between votes allocated and actual voting rights, which is a result of not all Part II members having subscribed to the full amounts allocated to them.

19. This situation may reflect, besides the financial constraints faced by developing countries, a lack of interest in the IDA governance structure. This is probably related to the imbalance in the decision-making power between IDA-Deputies and the IDA Board of Directors. We urge that this imbalance be corrected immediately in order to return to the IDA Board of Directors a significant part of the IDA decision-making process. Given the consensus building nature of our institutions, this initiative would greatly contribute to increasing the voice and representation of the developing countries.

### **III- Progress Report on Trade**

20. We are convinced that, in the development process, trade is more important than aid. All countries, developed and developing, should allow reform processes in their industries and sectors and strive to reduce tariffs and remove subsidies, in order to achieve increased trade flows. Developed countries which abide by WTO rules are expected to open their markets to developing country products. This will enable many developing countries that have embraced trade liberalization to optimize the gains from implementing difficult market-opening measures and thus help attain their MDG targets. Successful completion of the Doha Round is, therefore, a high priority along with continued trade reforms in developing countries, including those aimed at addressing logistic inefficiencies and regulatory impediments to free trade.

21. In this sense, the quest for agriculture liberalization is of fundamental importance for developing countries, since a substantial share of their population still depends on it. Agriculture is still the most important unfinished business of the multilateral rules-based trading system. Although agriculture is the area in which developing countries enjoy comparative advantages, they are not in a position to benefit fully from them in view of the many prevailing distortions. Indeed, developed countries count with a wide array of mechanisms including tariffs, safeguards, export subsidies and credits, and trade-distorting domestic support.

22. The outcome of the Cancun Ministerial Conference should not discourage us. We underline that multilateral trade negotiations, which are more efficient and less costly than bilateral negotiations, constitute a process and that Cancun does not represent the closure of this process. On the contrary, that Ministerial Meeting helped highlight critical issues and avenues that will ultimately lead to an increased liberalized trade. We are committed to translate the Doha Mandate into reality. We will persevere to achieve substantial reductions in trade-distorting domestic support, substantial improvement in market access and elimination of all forms of export subsidies.

23. We welcome the constructive role played by the World Bank and the IMF in the international trade discussion and in building a more dynamic international economy aimed at reducing poverty. However, we are concerned by the fact that matters related to trade are often formulated in general terms in PRSPs and CASSs, and are not clearly identified and integrated with other reforms. There is sufficient evidence to correlate trade and development and hence we are convinced that trade is a central issue to be taken into account in the preparation of PRSPs and CASSs, in a realistic, well balanced matter.

24. Finally, we praise the activities carried out by the World Bank in the fields of training, researching, technical assistance, and dissemination of information. These activities, coupled

with a new Bank initiative on trade facilitation, constitute an impressive set of measures in response to the Doha Declaration's request for improving capacity building. The Trade Department's effort to promote awareness of relevant trade issues and to improve the capacity of personnel involved in these issues is to be commended in the highest terms. Moreover, we welcome the Bank's renewed interest in the infrastructure sector, reflected in the New Infrastructure Action Plan. This initiative represents a key step to improve infrastructure in developing countries, including the infrastructure directly related to trade activities.