



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)



**SEVENTY-FIRST MEETING  
WASHINGTON, DC – APRIL 17, 2005**

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Statement by

**The Rt Hon Hilary Benn MP  
Secretary of State for International Development and  
The Rt Hon Gordon Brown MP  
Chancellor of the Exchequer  
United Kingdom**

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The year 2005 offers the international community dramatic opportunities and risks. This year, with only a decade to go until the date we are due to achieve the Millennium Development Goals (MDGs), we will be judged on our progress so far in reaching these goals, and on our progress in putting into practice the commitments we made in Monterrey in 2002. Whilst there have been many successes, we have still a long, long way to go. Africa in particular – a continent full of promise, and rich in so many ways, yet weighed down by poverty, illiteracy, disease, and the broken promises of the rich world – is not due to meet many MDGs until next century, on current trends. So now is the time for action. Now is the time to dramatically scale up our support for the poorest people in the poorest countries. There has seldom been such a consensus about what we need to do. We must remove from this generation the burden of debts incurred by past generations. We must remove trade barriers that undermine economic empowerment and develop infrastructure for economic development. And we must work to end the greatest tragedy of our time with a bold financial plan, by committing more aid and launching the International Finance Facility, to allow countries to start making progress now. If we do not seize this opportunity this year, there may not be such a chance again for a long time. Let's make this the year when the rich world finally delivered on its commitments to the poor – and not another year of empty rhetoric and broken promises.

**Global Monitoring Report 2005: from consensus to momentum**

We welcome this report. It is now almost universally agreed – and stressed in the report – that much more aid is needed if the MDGs are to be achieved, and there is strong evidence that a substantial increase in aid can be used effectively by recipient countries. The report is also right to focus on Africa: without doubt it is this region where we need to make the most progress in order to improve the lot of the world's poor.

*Increasing Aid Flows*

We all know that more aid is needed to achieve the MDGs. But this year the calls from the many international reports make the claim more urgent. The Commission for Africa Report, the UN Millennium Project Report and the Secretary General's report, all argue strongly for dramatic increases in aid. This year we have got off to a strong start. We have concluded the largest ever replenishment of the International Development Association. The UK and many other countries – including most recently Germany – have now set timetables for when they will achieve the UN 0.7% ODA / GNI target. Others have already achieved or exceeded this target. These efforts are commendable, and with more countries joining us there is a real prospect that the world might meet the 0.7% ODA target that we have been aiming at for so long. But this aid will not get to countries quickly enough to help them meet the MDGs. We must do something to deliver the

resources that countries need to meet these goals now. That is why the UK has developed the International Finance Facility (IFF) and its pilot, the International Finance Facility for Immunisation (IFFIm). We believe that enough preparatory work on these proposals has now been done for them to be launched this year. We have agreed a work programme on some of the revenue proposals from the Landau Report and other financing measures, to support decisions on a financing package to achieve the Millennium Development Goals. But if we fail to do something this year, the chances of meeting the MDGs will dwindle and soon it may be too late.

### *Debt Relief*

This year, we must write off once and for all the historic but unpayable debts of the past for the poorest countries to the rich, and end an injustice that has lasted far too long. The Global Monitoring Report is right to assert that closure must be reached on current proposals for additional debt relief in 2005.

The Heavily Indebted Poor Country (HIPC) Initiative has done much to rid the world's poorest countries of their debts. But we believe that more can and should be done. We must ensure, for example, that the HIPC Initiative is fully financed and implemented in the most generous way, that it benefits as many countries as possible and that those countries that have not yet completed the Initiative are supported to do so. However, we must also look wider, and work to relieve poor countries of the multilateral debts which account for up to 80% of their total repayments. It is absolutely unacceptable that so many poor countries are still forced to choose between their debt repayments and the investments in health, education and infrastructure which would enable them to reach the MDGs. The UK is providing our share of 100% relief of debt service on International Development Association and African Development Fund loans for all eligible countries.<sup>1</sup> We are delighted that Canada and the Netherlands have also committed to pay their share, and look forward to other donors participating in the near future. In addition, we must relieve debt service payments to the IMF. The IMF has issued a paper looking at the use of gold reserves to fund its costs for deeper debt relief. Following the agreement at the February G7 meeting to provide as much as 100 per cent debt relief for HIPCs, we must now work together to make this deeper relief a reality.

It is vital that all debt relief should be financed through new resources, and should not erode the financial viability of the International Financial Institutions.

### *Aid Effectiveness*

Ambitious, country-led poverty reduction strategies (or other national development plans) are the keystone of effective aid. Currently, too much aid remains tied, fragmented, uncoordinated and focused on donor priorities: for example, two-thirds of aid to the education sector globally is given in the form of technical assistance, when many countries in fact need aid to finance their recurrent expenditure in education, to pay teachers' salaries. Developed countries and

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<sup>1</sup> Post-Completion Point HIPCs and IDA-only Low Income Countries with sufficiently robust public expenditure management systems to ensure that the savings from debt relief are spent on reaching the MDGs.

International Financial Institutions must improve the effectiveness of their aid by implementing the commitments on harmonisation and alignment made in the Paris High-Level Forum in March. Bilateral donors should make greater efforts to link their financial commitments to national budget cycles. All donors – including the World Bank – also need to do more to develop transparent systems to monitor progress against the commitments made in Paris. Ensuring that aid remains effective will be a particular challenge as aid levels are increased over the next few years. We must ensure that, for example, the increased funds recommended by the UN Millennium Project are spent in ways that support developing countries' priorities for their own development.

### *Conditionality*

Another crucial part of aid effectiveness is reducing the burden of conditionality. The UK has strong views on this, and we have recently published a policy paper on the subject. Our paper calls for a new approach between donors and developing countries, based on a shared commitment to poverty reduction and achieving the MDGs, strengthening financial management and accountability to reduce the risk of funds being misused through weak administration or corruption, and respecting human rights. Agreed benchmarks for monitoring progress against poverty reduction will provide the basis for our partnerships. These benchmarks will be drawn from existing national strategies, including Poverty Reduction Strategies, and will focus on the impact of the government's overall programme, rather than specific policy choices. We urge other donors to join us in this approach, which we believe significantly strengthens aid effectiveness. The World Bank and IMF decisions to review their approach to conditionality are welcome: as major global development players, their approach has a dramatic impact on developing countries. We encourage these institutions to support programmes which are agreed rather than imposed, and to agree to measure progress against benchmarks which focus on the impact of a country's overall policy programme rather than particular policy decisions.

### *Trade*

Trade is widely acknowledged as a driver of economic growth, and the potential gains to developing countries from increased access to developed country markets, as well as increased South-South trade, can hardly be overstated. In the World Trade Organisation Ministerial in Hong Kong this December, and in the Doha round more generally, we have a key opportunity to improve the lot of the poor. It is vital that we make a success of the Ministerial if we are serious about seizing the opportunities of 2005. Developed countries must make real progress in enhancing developing country access to their markets, reducing agricultural subsidies, and simplifying rules of origin, and provide assistance to enable developing countries should improve their own capacity to trade by improving infrastructure, simplifying tariff and customs systems and improving regional economic integration. But we will not force liberalisation on poor countries. It is vital that developing countries have the flexibility to design and sequence trade reforms within their broader plans for poverty reduction, and that rich countries offer additional support that builds up their capacity to trade. A particular challenge of more open markets will be protecting the most vulnerable countries and people, while helping them to adapt and reap the benefits of freer world trade. The World Bank and IMF have an important role to play in this effort, and the IMF's initiative in establishing a new facility to help countries facing

balance of payments problems as a result of trade adjustments is particularly welcome in this context. But developed and developing countries also need to give this issue serious attention. In recognising the need of developing countries to increase their capacity to trade and take advantage of more open markets, we should consider and promote additional aid. To this end the UK welcomes the joint IMF and Bank paper supporting the need for additional resources for trade integration, channelled through existing mechanisms and linked to Poverty Reduction Strategy Process at country level. This work must be taken forward collaboratively with other development partners, and we look forward to an elaboration of the proposals for the Annual Meetings this year.

### *Delivery of health and education services*

The first MDG target, that of achieving gender equality in education, comes this year: we have failed to meet this target. This is an indication of the work that we still need to do to meet the MDGs in health, education and HIV and AIDS. The UK supports the view expressed in the Global Monitoring Report that greater attention needs to be given to building health and education systems if we are to meet these goals. We welcome the emphasis in the report on providing flexible, predictable finance (preferably through national budgets) to support these national systems, to enable countries to implement sector policies effectively. We encourage the World Bank in particular to make sure that overall financing in health and education sectors is predictable in the medium term. We believe that the Millennium Project and Commission for Africa are right to argue that removing user fees for education and health can have a major impact on attendance at schools, hospitals and health clinics, and can consequently significantly improve health and education outcomes. We urge the World Bank to help those countries that want to eliminate user fees in education and primary health, care to do so, by working with them to identify ways to replace lost revenue, and providing long-term, predictable finance. We also welcome the Bank's engagement with the High-Level Forum on Health, and encourage it to continue with this productive engagement, especially on the health worker crisis in Africa.

### *Infrastructure*

One of the central recommendations of the Commission for Africa report this year was that significantly more aid should go towards financing infrastructure in Africa. Africa sorely needs this additional investment – as the New Partnership for Africa's Development (NEPAD) have argued – in order to support its own regional and national, rural and urban priorities, to encourage greater integration of its regions, and to enable it to break into world markets. Sound infrastructure investment is an essential element in generating sustained economic growth and poverty reduction, and the UK welcomes the emphasis on increased financing of infrastructure in the Global Monitoring Report. We also commend the Bank's recent shift in its approach to infrastructure emphasising the delivery of services and pro-poor growth, and the balance between private and public sector financing of infrastructure. In Africa, we feel there is an urgent need for all major bilateral and multilateral donors involved in financing infrastructure to come together under African leadership to share information on needs, programmes and current financing. This should lead us to identify gaps, and to find ways of filling these gaps with additional support.

## *Climate Change*

Climate change is one of the biggest challenges the world faces today. It affects us all, but its impacts are most dramatic for the poor. People who live in temporary dwellings, who depend on the land or who live on the coast are particularly vulnerable to changes in the climate. The adverse effects of climate change could be a significant threat to the achievement of the MDGs; but in the longer-term, its effects may be more fundamental still. Developed countries and International Financial Institutions have more work to do to improve developing country access to affordable and efficient, low carbon energy technologies, which can contribute both to development and to climate change objectives. We commend the World Bank for making its commitments to energy efficiency and renewable energy, but we believe it could go further. We also urge all members of the Development Committee to ensure that new infrastructure in developing countries is designed to cope with current climate variability and anticipated climate change over the life of the investment. One way of doing this at the World Bank could be to develop a climate-risk screening tool, which would ensure that Bank investments mitigate or reduce recipients' future vulnerability to weather events.

## **Financing the Development Agenda**

There is now a strong consensus in the international community that more aid is needed to achieve the MDGs. The time has come for action. We have started on a strong footing this year, with the unprecedented large fourteenth replenishment of IDA. But the UK believes we must go further before the end of 2005, in increasing our ODA and launching the International Finance Facility (IFF). We welcome the World Bank and IMF paper "Moving Forward: Financing Modalities towards the MDGs", and in particular its message that at least a doubling of aid will be needed within the next five years to support progress towards the MDGs. We are grateful to the Bank and Fund for the detailed analysis of the IFF and the IFFIm, in the financing paper. We believe that enough preparatory work has now been done on the IFF and IFFIm for them both to be launched this year. We are also determined to work with others to launch other innovative financing mechanisms which could complement the IFF, including the French and German international taxation proposals. But the IFF proposal is much further advanced, is not dependent on extra funding, and discussions on other financing mechanisms should not delay its launch. We encourage all donors to join us in the IFF initiative, which will raise large flows of development aid for poor countries when they really need them – now.

## **Enhancing the Voice and Participation of Developing and Transition Countries in the International Financial Institutions**

Progress on enhancing the voice of developing countries in the International Financial Institutions (IFIs) has been too slow. Whilst we have made progress on improving voice at the country level, through the Poverty Reduction Strategy process, and also at the institutional level, through greater decentralisation and transparency in the Bank and Fund, we have failed to achieve the necessary progress at the structural level. We commend the UN Secretary-General for his efforts to bring about positive change in the structure of the UN Security Council, and we should learn from this experience as we work towards greater developing country voice at the World Bank and IMF. There is a strong need to work together on this – especially as different

shareholders have different views. All members of the development committee should come together to agree on a package of proposals which can achieve broad support from all parties. Reducing the nature and burden of conditionality is also a way of increasing developing country voice. We look forward to returning to these issues at the Annual Meetings.

## **Conclusion**

This year is a vitally important one for members of the Development Committee and the world's poor. This year we must seize the opportunities we have to speed up and scale up our support for developing countries; if we do not, we have little chance of achieving the MDGs. The plan of action is now clear – the time has come for putting it into practice. Let's act this year, now, urgently. No longer evading, no longer procrastinating, no more excuses. Let's make 2005 a year to remember. Not a year to remember for more grand words and empty promises, but a year to remember as the time when we all finally came together to act for the poor.