



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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Highlights of Ministerial Statements

FOLLOWING UP ON RECENT INITIATIVES ON THE DEVELOPMENT AGENDA

Ministers note some encouraging signs. Developing countries have improved their policies and governance, resulting in accelerating economic growth. The “Year of Development” has brought a number of significant initiatives on aid and debt relief, with particular focus on Sub-Saharan Africa. However, there are important risks - persistent country imbalances, terms of trade challenges, and the prospect of the revival of protectionist trade policies, especially if the Doha Round does not achieve its ambitious yet crucial goals.

To meet these challenges, Ministers believe that efforts should focus on ensuring that all partners in the development process implement the commitments made at Monterrey. The Bank Group has a prominent role to play in fostering ownership, building capacity, and developing best practice policy advice, as well as providing, coordinating, and leveraging financial support. Its assistance will continue to be necessary over many years, in part because reaching the MDGs may take longer than originally anticipated. Ministers also welcome the work on enhancing IMF instruments in support of its low-income members, and call for further strengthening Bank-Fund collaboration in this area.

Strengthening the Development Partnership and Financing for Achieving the MDGs: an Africa Action Plan

Ministers welcome the special focus on Africa as timely and important, since Africa is further away from other regions in reaching the MDGs. They applaud the G8 initiative to double aid to Sub-Saharan Africa by 2010, which they find to be an appropriate response to African leaders’ commitments to intensify efforts to promote growth, establish good governance, remove trade barriers, and end conflicts. However, they stress the need for additional efforts to strengthen governance and institutions in poorly performing economies and fragile and conflict-affected states.

Ministers commend the Africa Action Plan (AAP), describing it as comprehensive, appropriate, and providing a good balance between ambition and realism. Ministers highlight the plan’s focus on drivers of growth, capacity building, infrastructure, and governance and look forward to its implementation and further adaptation as conditions evolve. They also welcome the emphasis on effective delivery of aid commitments, strengthened focus on results, coordinating and leveraging of aid, and improving alignment and harmonization. They support the emphasis on the Bank working in partnership with others in implementing the plan.

Several Ministers indicate some areas where the AAP could be strengthened. These include according greater priority to gender equality, emphasizing the importance of trade liberalization, advocating a stronger linkage between trade facilitation and infrastructure investments, and paying more attention to aid effectiveness, including financing recurrent costs where

appropriate. Some Ministers call for more attention to financing of LICUS and post-conflict countries, and to supporting small and medium enterprises.

Some Ministers believe that priority support should be given to countries showing strong leadership and resolute commitment to reform and participatory governance. Some express concern about the quality of data and urge the Bank to place more emphasis on selecting a suitable set of data that is cost effective and feasible for results measurement. Some Ministers welcome plans for further decentralization of staff responsible for the implementation of the AAP.

While some Ministers support the Catalytic Fund as an innovative way of helping the Bank deliver resources for infrastructure, others caution that such a fund may risk adding to the proliferation of funding vehicles and distortions vis-à-vis existing mechanisms.

Debt Relief

Ministers welcome debt relief as an effective and efficient aid instrument that provides predictable net resource transfers at low transaction costs. They agree with the proposed framework for implementation, particularly the strategic provision of grants by IDA based on debt sustainability considerations. They stress the importance of ensuring future debt sustainability in order to break the vicious lend-and-forgive cycle. They emphasize that debt relief must be accompanied by a similar resolve to secure greater market access for developing countries, without which the larger aim of debt cancellation will fail to materialize.

Ministers commend the G8 for the proposal to cancel 100 percent of outstanding debt of HIPC countries to the IMF, IDA, and the African Development Fund (AfDF) and to provide additional resources to ensure that the financing capacity of international financial institutions is not reduced. They note that the success of this initiative depends on finding appropriate solutions to several key policy and technical challenges. Ministers stress the need to ensure that resources freed up by debt relief are used to support countries in implementing their PRS and meeting the MDGs.

Ministers stress the importance of safeguarding the long-term financial integrity of IDA, the IMF, and the AfDF. Confining the dollar-for-dollar compensation to IDA 14 would expose IDA to continued uncertainties and risks. Ministers emphasize that resources to fund this initiative should be additional to current ODA levels and urge donor countries to provide upfront, long-term commitments to compensate IDA and AfDF dollar for dollar so that they can continue to assist poor countries in the future. Ministers also noted the importance of preserving IMF's ability to provide concessional financing to low-income countries.

DOHA DEVELOPMENT AGENDA AND AID FOR TRADE

Ministers welcome the report, which highlights the significance of the upcoming Hong Kong Ministerial meeting for success of the Doha Round and addresses the many issues remaining to be resolved before a successful conclusion can be reached. They see the Doha Round as an unprecedented opportunity to free up trade and lay a solid foundation for attaining the MDGs.

They concur with the report that critical to a successful conclusion of the Doha Round is agreement on the three key pillars of negotiations relating to agriculture: improved market access, domestic support, and export competition. Ministers stress that for trade to become a strong lever for growth, good trade policies need to be accompanied by complementary reforms, capacity building, technical assistance, and investment in infrastructure. They call on the Bank and the international community to play an intensive, proactive role at the upcoming Ministerial in Hong Kong in order to help bring about successful completion of the Doha Round by 2006.

Ministers support the Bank's practical proposals to help client countries manage their integration into global markets. They welcome the Bank's initiative to provide aid for trade, which they say will help address supply-side constraints in many developing countries. Ministers support the Bank's ongoing analytical work on trade policy issues, which has assisted developing countries in tackling impediments to enhancing trade opportunities. Some Ministers caution against diminishing the trade liberalization agenda, diverting attention from critical issues such as phasing out of agricultural subsidies, market access, and movement of natural persons as service suppliers. They also believe that the aid for trade discussion should not focus exclusively on the least developed countries.

Ministers support the expansion of the Integrated Framework as a means of helping countries mainstream trade into their PRSs and providing multi-year programs of capacity building and technical assistance. Many Ministers support the proposal to extend eligibility to a wider group of low-income countries.

Ministers endorse further Bank and Fund work on the means to address regional or cross-country aid for trade needs. Some Ministers caution, however, that financing of this fund should not crowd out other development financing.

Ministers concur with the proposal for a strengthened framework for assessing adjustment costs resulting from trade liberalization. Some Ministers, however, believe that multiple channels for addressing adjustment costs already exist, and that the Bank should focus on strengthening the existing mechanisms.

PROGRESS REPORTS

Aid Financing and Aid Effectiveness

Ministers recall that provision of timely aid resources of adequate quality and amount has been at the forefront of the Development Committee agenda since the Monterrey Conference. Nevertheless, they note that while aid flows and future commitments have increased, they still fall well short of the 0.7 percent of GNI target. Moreover, a large portion of aid continues to go to technical cooperation, debt relief, and emergency aid. Ministers support the proposed action plan to enhance the Bank's role in the global monitoring, reporting, and follow-up on aid commitments. Some Ministers request updates to be conveyed to the Development Committee at its Spring 2006 meetings.

Ministers emphasize the need to use scarce development funding effectively. They stress that a combined focus on higher aid volumes and aid efficiency and effectiveness is critical in ensuring that commitments translate into positive outcomes. They welcome the Bank's focus on tangible and measurable results as a major instrument for enhancing aid effectiveness, cautioning that the Bank should ensure that these efforts do not lead to additional bureaucratic procedures or delays in project preparation.

Ministers welcome the progress toward implementation of the 12 indicators suggested in the Paris Declaration on Harmonization and Alignment, which will improve recipients' financial management and procurement systems, better align aid to recipient priorities, better coordinate donors, and improve aid predictability. They stress the need for further progress on harmonization and alignment and call on all countries to adhere to the principles, targets, and indicators agreed on in Paris. Some speakers suggest that the best way of overcoming the problems of donor coordination is to channel more ODA through multilateral agencies such as IDA.

Many Ministers welcome the progress achieved in developing new mechanisms to mobilize aid financing, particularly in the area of vaccines, such as the International Finance Facility for Immunizations (IFFIm) and Advance Market Commitments. A number of Ministers endorse an international solidarity contribution levied on airline tickets, while others question such mechanisms.

Infrastructure and the World Bank

Ministers support the Bank's infrastructure agenda and agree that improved infrastructure is crucial in enhancing growth prospects, accelerating poverty reduction, and achieving the MDGs. They welcome the US\$1 billion increase in lending for infrastructure while maintaining good project quality. Ministers stress that the enhanced focus on infrastructure must emanate from country priorities. They encourage the Bank to seek stronger cooperation with other partners working in infrastructure. Some ministers welcome the use of country systems for infrastructure programs as long as they are equivalent to Bank standards. Ministers encourage the Bank to continue work on the impact of infrastructure investments on poverty alleviation and on the impact of fiscal space on infrastructure investment and growth. They also stress the importance of incorporating infrastructure projects into PRSPs.

Review of World Bank Conditionality

Ministers endorse the key findings and good-practice principles that have emerged from the review and encourage their implementation. Chief among these principles are that conditionality is most effective if it reflects the borrower's ownership of a reform program, that conditionality should be based on actions within governments' control, that streamlining of conditionality should not lead to an increase in the number of triggers, that the accountability framework should be coordinated with country authorities, and that progress reviews should be transparent. Ministers support initiatives to avoid overlapping or contradictory conditionality among development partners.

Voice and Participation of Developing and Transition Countries

Ministers note some limited progress within the Bank Group in enhancing voice and participation of developing and transition countries, particularly in areas such as secondment arrangements. However, they emphasize that the deeper structural challenges await resolution in order to enhance the legitimacy, transparency, accountability, and ownership of the decision-making process in the Bretton Woods institutions. Some Ministers call for a speedy completion of the IMF's review of its quota formula, focusing on more adequate bases for computing GDP, such as purchasing power parity and the level of reserves. Some ministers stress that any further actions on voice should not politicize decision-making in the Bank and the Fund or jeopardize the tradition of governance by consensus.

The 2005 Review of the PRS Approach

Ministers welcome the PRS review's findings and applaud the international community for its progress in establishing the PRS approach as a unique platform for policy dialogue, donor coordination, and aid effectiveness. The results include agreement on a common monitoring framework to track implementation results, streamlining of aid delivery mechanisms, and predictability in resource flows linked to performance. Ministers urge continued work to improve the quality of PRSs by refining targets and indicators, broadening their policy content, strengthening their analytical foundation and their results focus, and improving participatory processes. Some Ministers stress that the next generation of PRSs should be more clearly linked to achieving the MDGs. A Minister suggests focusing future annual reviews on specific aspects of the PRS process, such as progress on scaling up aid, capacity building strategies, streamlining procedures, and strengthening the quality of PRS growth strategies. Another Minister proposes making Annual Progress Reports the basis for internal and external accountability and goal setting.

HIPC Initiative: Status of Implementation

Ministers welcome the progress under the Enhanced HIPC Initiative, including an increase the number of countries that have reached the decision and/or completion points and the positive impact of debt relief on poverty-reduction efforts. They note with concern, however, that countries continue to have large debt stocks. Ministers encourage a more cooperative attitude on the part of non-Paris Club and commercial donors, whose involvement in the initiative has declined. Ministers highlight the importance of fully financing HIPC, including for the additional countries likely to be declared eligible under the sunset clause extension. They urge finalization of the list of potential beneficiaries so as to be able to calculate the associated financial implications.

Climate Change, Energy, and the World Bank

Ministers welcome the paper and note the increasing importance of climate change and energy efficiency in the context of sustainable development. Ministers welcome increased efforts by the Bank in this area. They stress the importance of further strengthening the Global Environment Facility's activities and of reaching agreement on the 4th replenishment of the GEF as early as

possible. Some Ministers welcome the emphasis on the energy sector and agree that the Bank should scale up efforts in the field of renewable energy to facilitate access to clean and cost-effective energy in developing countries and improve the environment. They commend the Bank's commitment to increase lending for renewable energy by 20 percent annually over the next five years.