



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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Development Committee Statement

This committee meets at a time of tremendous opportunity for global growth and developing countries. It is also a time of great sadness and challenge here in the U.S. as the forces of nature have wreaked havoc on our Gulf Coast.

Natural disasters like these are painful reminds us that not one of us is immune from the awesome forces of nature. We would like to take this opportunity to express our sincere appreciation to those around the world who have offered support for the victims of this terrible tragedy.

The U.S. Federal Government is committed to helping the region re-build, to helping people re-build their lives. And we want to do so in a way that is fiscally responsible. The relief and reconstruction will be costly, but the Bush Administration is not, and will not stray from our course of federal deficit reduction. With continued economic strength – which we will enjoy with the continuance of the President’s good economic policies – we’ll be able to help our neighbors and continue to reduce our deficit.

Katrina and, now, Rita, have reminded us that the international community must continue to provide the assistance needed by others subject to natural disasters including the victims of last December’s devastating tsunami. It also reminds us that for hundreds of millions throughout the world, the effort to find a secure dwelling and a healthy meal remains a life-long struggle.

Reasons for Optimism

Though the challenges are great, on the broad macroeconomic front there is good reason to be optimistic. While oil prices remain a significant risk, the forecast for global growth remains favorable. Economic growth among developed countries is critical for fighting poverty in developing countries. Not only does it generate a “pull factor” in terms of increased imports, but it also generates additional revenues for development assistance. To put this in stark terms, if the rest of the OECD had grown as fast as the United States over the last decade, an additional \$80 billion would have been generated for official aid (holding the 1995 ratio of official development assistance to GNP constant).

Growth among developing countries also remains favorable. In fact, if current growth projections hold, the worldwide poverty headcount index will fall from 28 percent in 1990 to 10 percent in 2015, far exceeding the goal set out in the 2000 Millennium Declaration. With the exception of Sub-Saharan Africa, which has been devastated by the HIV/AIDS pandemic, indicators of social progress are improving at unprecedented rates. For example, since 1980 developing countries have consistently reduced the mortality rate of children under five, and record numbers of countries have reached the point of universal primary education.

Recognizing that private sector-led growth is a necessary condition for poverty reduction, the most recent Doing Business report issued by the World Bank indicates that, while much more should be done, many governments continue to take steps to remove impediments to investment. Last year, 99 countries enacted 185 reforms to improve their business climates, ranging from strengthening property rights to reducing the cost of exporting and importing goods and services. There are success stories on every continent, from India in Asia, to Brazil in Latin America, to Rwanda in Africa.

Donor Response

The donor countries have responded with large increases in development assistance, new initiatives to fight infectious diseases, and renewed efforts to increase the efficiency and effectiveness of foreign aid. For our part, the United States government has launched a number of new programs, such as the Millennium Challenge Account, the President's Emergency Plan for AIDS Relief, the recently-announced Initiative on Malaria, and the Initiative to End Hunger in Africa. In terms of resources, the United States has nearly doubled Official Development Assistance (ODA) since 2000, from \$10 billion to \$19 billion in 2004. Most recently, at the G8 Gleneagles Summit, we proposed to double aid to Sub-Saharan Africa between 2004 and 2010.

As we stated in Monterrey in 2002, the United States will continue to increase aid to those high performing countries that can demonstrate how our assistance will result in greater growth and poverty reduction. At the same time, the World Bank and other multilateral development institutions must deepen and broaden their continuing efforts to measure the concrete results of the assistance they provide so that resources can be applied most effectively.

But the most significant action that we can take is to maintain a healthy pace for global growth. U.S. fiscal consolidation must continue to be met with much more aggressive policies than to-date to stimulate domestic demand-led growth in Europe and Japan, as well as increased exchange rate flexibility in major emerging market countries. In the aid to gross national income ratio, more attention should be focused on ways to increase the denominator in a sustained manner.

Africa Action Plan

While there are many reasons to be optimistic, to-date Africa has not shared the benefits of increased growth and poverty reduction to the same degree as the rest of the globe. Africa is the one continent which will likely not achieve any of the MDGs. While much has been done over the years to address the rising poverty rates in Africa, in Gleneagles, a much more aggressive course was chosen. All leaders made substantial new commitments to support the fight against poverty, hunger and disease in Africa. The G8 also agreed on measures to improve coordination of additional donor assistance. The Bank's Africa Action Plan (AAP) responds to this charge. It defines concrete, monitorable actions to ensure that the World Bank Group and the development

community focus on achieving measurable outcomes at the country, sector, and project levels.

The AAP is to be commended for its results-driven approach. We particularly support the focus on economic growth through increased productivity as the sine qua non for poverty reduction, and the importance placed on infrastructure development, financial sector reform and improvements in governance. As well, the Plan reflects consideration of the macroeconomic effects of aid. Given the large increases in official assistance pledged for Africa, we urge the Bank to continue to coordinate closely with the IMF on the question of absorptive capacity and the macroeconomic effects of additional flows.

Debt Relief and Challenges Ahead

Agreement on 100% debt stock cancellation of obligations owed by countries eligible for the HIPC Initiative to the World Bank (IDA), African Development Bank (AfDF), and International Monetary Fund represents both an extraordinary opportunity, as well as an enormous challenge. For some forty years, many of the poorest countries have been getting loans for projects to support health, education, and other basic development needs. The result is that for many important projects without near-term financial returns, such as building schools, these poor countries were burdened with additional debt that needs to be repaid by future generations. With the crushing debt burden lifted, countries can focus their efforts on generating economic growth by investing in infrastructure to help move goods from producers to purchasers, and by investing in their people.

And while there are positive signs in the global economic outlook, many governments continue to construct roadblocks to growth. While the Doing Business report shows that many countries took steps last year to improve the business climate, another 20 countries made it more difficult. It is particularly worrisome that in Africa, where entrepreneurs face more obstacles than in any other region, the reform effort has been the weakest. This year's report on governance issued by the World Bank Institute is also troubling, for it points to deterioration in a number of countries in key areas such as regulatory quality, rule of law, and control of corruption. Moreover, World Bank projects aimed at improving public financial management have had very limited success and there is increasing recognition of the fiduciary risks associated with programmatic lending and budget support programs.

The debt relief agreement will, in part, address these concerns. Additional donor contributions, to offset foregone debt repayments, will be allocated to all IDA-only countries based upon the existing IDA and African Development Fund performance-based allocation systems where governance is a significant factor. But more must be done to fight the corrosive impacts of corruption. Though the harmonization objectives of the Paris Declaration are well intended, we must fight the urge to use country systems for procurement that do not meet existing World Bank policy and documentation requirements, which have set a high international standard that must be retained. And the Bank and the Fund should increase their support for the Public Expenditure and Financial Accountability program, a results-based approach for helping countries improve their

public expenditure, procurement, and financial accountability systems. Finally, while the IFIs can do more to fight corruption, the impact will be limited without strong leadership and support from all the developing countries. As was agreed in Monterrey, developing countries will take responsibility for their own economic progress through good governance and sound policies and the rule of law.

Removing Trade Barriers

Arguably, the greatest step our governments can take to generate increased growth and poverty reduction is through the removal of trade barriers under the Doha Round negotiations. The United States people currently benefit from having one of the least restrictive trade regimes in the world. According to the World Bank's own Global Monitoring Report, the U.S. has among the lowest overall trade restrictions for imports from low-income countries, least developed countries, and Sub-Saharan African countries. This not only benefits U.S. consumers but also exporting countries, the producers who provide the goods, and the individuals and families who see their living standards increase with new and better paying jobs.

The Doha Development Agenda (DDA) places particular emphasis on integrating developing countries into the global economy so that they may increasingly reap the benefits of trade liberalization. As the World Bank has shown, about *three-quarters of the projected income gains from global trade liberalization for developing countries are expected to come from reducing their own barriers*. For developing countries to realize these benefits, however, they too need to reduce their own trade barriers substantially. We therefore welcome the Bank and Fund's support for an ambitious outcome in the DDA, particularly in the core market access areas of agriculture, non-agricultural market access (NAMA), and services.

Liberalization in services could deliver some of the greatest gains from the Doha round and is an essential element to the DDA. The income gains from services trade have been estimated to be much greater than from the liberalization of goods alone. The World Bank estimated that if developing countries were to liberalize four key infrastructure services they could, by 2015, generate income gains four and a half times greater than the gains from goods liberalization alone.

Financial sector liberalization is particularly important for economic growth and poverty reduction, yet the quality and quantity of offers made has been extremely disappointing. Without a change in course, we are concerned that the Doha round could generate almost no new liberalization in trade in services -- a missed opportunity for development and poverty reduction. Therefore all countries, but especially developing countries which stand to benefit the most, should make WTO commitments to provide effective market access in services, including financial services.

The United States is committed to helping developing countries participate in negotiations, implement commitments, and broadly benefit from trade opportunities. To this end, we have nearly doubled our bilateral assistance since 2000 for trade capacity

building to \$920 million. Overall, we agree with and strongly support the premise that Aid for Trade can best be enhanced by leveraging existing mechanisms like the Integrated Framework (IF) and the IMF's Trade Integration Mechanism (TIM). In this regard, we support the commitment of the Bank to provide sustained assistance as part of its current programs for trade-related capacity building for those members that request it as part of their development strategies. Similarly, we believe the Bank and the Fund can work closely with other donors, including members of the WTO, to address regional or cross-country aid for trade needs.

As President Bush stated in his recent address to the United Nations, eliminating trade barriers is the key to overcoming poverty in the world's poorest nations. And so he said, "the United States is ready to eliminate all tariffs, subsidies and other barriers to free flow of goods and services as other nations do the same." While not all may be willing to meet this challenge, we strongly urge other members of the Development Committee and their constituencies, whether they be from high-income, middle-income, or low-income countries, to offer significant, broad trade liberalization measures by the Hong Kong Ministerial so the growth and development potential of the Doha Round can be realized.

Closing

The global economic expansion remains broadly on track, with its attendant benefits to peoples around the world. However, imbalances do exist which the international financial institutions and their shareholders, individually and collectively, must work to address. These imbalances include a world where hundreds of millions still live in extremely impoverished conditions. We have joined with fellow G8 members and many other countries in adopting additional measures this year to assist less developed nations raise living standards, particular countries in Sub-Saharan Africa. We encourage continued efforts in this regard, and the effective involvement of the international financial institutions. But our efforts to succeed will continue to be limited if the recipient countries themselves do not take the necessary actions to improve conditions for investment and sustainable growth, and all of us do not take immediate steps to lay the groundwork for a successful conclusion to the Doha Round.