



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-SECOND MEETING
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Statement by

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on behalf of Australia, Cambodia, Kiribati, Korea (Republic of),
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Mongolia, New Zealand, Palau (Republic of), Papua New Guinea,
Samoa, Solomon Islands and Vanuatu

Since the April 2005 meeting of the Development Committee, developing countries have continued to grow at about twice the rate of high-income countries and sub-Saharan Africa is continuing its welcome acceleration of growth. There are, however, wide disparities between developing countries. Following strong growth in 2004, the global economy during 2005 has exhibited more moderate growth, while inflationary pressures remain subdued. However, the downside risks are increasing with wide growth divergences and increasing global imbalances, against a background of record-high oil prices and gradually rising short-term interest rates. At the moment when we want to accelerate progress against poverty, the global growth environment may become less helpful. This should encourage us to think again about how to increase and sustain growth in the developing world.

One-third way towards 2015: a sense of urgency

Since leaders endorsed the millennium development goal (MDGs) in 2000, the world is now one-third of the way towards the target date of 2015. The MDG of halving poverty is likely to be met at the global level, but goals for gender outcomes in education, and for improved maternal and child health are likely to be missed in many regions. Most MDGs may be missed in most of Africa, notwithstanding the strong per capita income growth in reforming economies such as Benin, Burkina Faso, Cameroon, Ghana, Mozambique, Rwanda, Senegal, Tanzania and Uganda.

We must redouble our efforts to reform policies and institutions, improve governance, open up trade opportunities and improve aid flows and debt management. Only higher sustainable economic growth in developing countries can accelerate progress towards the MDGs. Because of the compounding nature of growth, any step-up in sustainable growth countries can achieve early in the remaining 10 years to 2015 will achieve much more poverty alleviation than a similar increase closer to 2015.

Strengthening the development partnership for achieving the MDGs

Aid effectiveness

Real growth in ODA has approached 5% per annum in the last few years, and there have been recent pledges of some 60% real growth over the next 5 years. If the G-8 proposal for debt forgiveness is implemented, some US\$40 billion (depending on final decisions on details) that would have gone in debt repayment by heavily indebted poor countries will instead be left with HIPC governments (especially in Africa). These are very large financial resource increases that will constitute large portions of government budgets and GDP in many of the poorest countries.

Managing and absorbing such financial increases will require careful management and coordination to ensure they do not trigger price increases, real exchange rate appreciation and loss of competitiveness in the tradeable sectors of the economy (so-called 'Dutch disease'), and undesirable declines in governments' revenue self-reliance and accountability to their citizens. It is apparent from research into experience over the last

40 years that these adverse consequences of heavy reliance on aid too often detracted from the ability of ODA to cause a sustained increase in the rate economic growth.

We therefore welcome progress towards implementation of the 12 indicators suggested in the *Paris Declaration on Aid Effectiveness*, which will improve recipients' financial management and procurement systems, better align aid to recipient priorities, better coordinate donor effort (including in analytical work) and improve aid predictability. Signatories to the declaration in this constituency pledge to work to achieve its targets, and are already applying its principles. We endorse the findings of the *Review of World Bank Conditionality*, and encourage the implementation of the improved practices it outlines. Progress requires that the streamlining of conditionality should not now lead to an increase in 'triggers' which may undo the benefits of streamlining. The *2005 Review of the Poverty Reduction Strategy Approach* usefully updates on this vital initiative, which can enhance country ownership and accountability, and help facilitate donor coordination.

The *Infrastructure Progress Report* shows improvement of the World Bank's performance in this vital area, and it is pleasing that increased volumes of lending have been achieved while maintaining good project quality. Further improvements will be vital, as carefully-selected infrastructure investments not only improve productivity, but can be part of a strategy to minimize 'Dutch disease' through lowering the costs of the traded goods sector, and moderating upward exchange rate pressure through the import content of infrastructure projects, which is often higher than for social projects.

New financing initiatives

We are interested in the exploratory work on Advance Market Commitments for new vaccines.

As notified at earlier Development Committee meetings, our donor economies do not wish to participate in any IFF-type mechanism at this time. Nor do we see any attractions in various international taxation options, which we regard as having problems of accountability to taxpayers, and of governance.

We note the preliminary study of additional international aviation taxes. We are concerned that additional aviation taxes would hinder tourism and trade. An international aviation tax could threaten the survival of some airlines in a very competitive industry, currently facing high fuel costs. For the small and remote economies represented in this constituency who seek to develop their tourism industries, airlines taxes would be very undesirable. In our view, aviation tax proposals do not have sufficient support to warrant further work by the Bank or Fund.

G-8 debt relief proposals

The *Heavily Indebted Poor Countries (HIPC) Status of Implementation Report* shows welcome progress since the last report in September 2004 in the take-up of the HIPC

scheme, with 28 countries now having reached the decision point, of which 18 have gone on to reach the completion point. But examination under the newly-agreed Debt Sustainability Framework of those countries that have reached completion point and received enhanced HIPC treatment, suggests they still have large debt stocks.

Consequently, we support the broad principles of the June 2005 G-8 proposals for 100% forgiveness of loans from the International Development Association, the IMF and the African Development Fund to HIPCs successfully reaching completion point. For the proposal to deliver its benefits, we consider it is essential for the countries concerned to allocate the resources freed from debt servicing to poverty reduction, and for donors to supply funds to IDA to make good the foregone reflows from HIPCs, additional to existing ODA commitments. We especially welcome the G-8 proposal that those additional funds should be allocated on the basis of performance across all IDA-only developing countries.

It will be vital to monitor the operation of future lending from all sources to avoid the re-accumulation of unsustainable debt in the HIPCs, and to ensure equitable access to IDA finance for both former HIPCs and others. Accordingly, we welcome the timely review next year of the Debt Sustainability Framework.

We urge endorsement of the G-8 proposal, and the prompt finalisation of important financial, legal, accounting and auditing details that are necessary to put the proposals into effect through all three institutions. Our IDA donor members are prepared to pay their share of the G-8 proposal's costs to IDA.

Africa Action Plan

We welcome the formulation of the Bank Group's *Africa Action Plan*, with its emphasis on a results framework for specifying, measuring and managing to achieve specified outcomes, and its efforts to strengthening the private sector drivers of growth. While we wholeheartedly wish the successful implementation of the Africa Action Plan, we note that the challenge now will be to convert the 25 proposed priority actions for the region into sensible action at the level of the 47 very diverse countries of sub-Saharan Africa.

We suggest several World Bank Group priorities for action to assist those African countries most at risk of missing most of the MDGs. First, the plan must address the distinctive challenge of Africa: the higher prevalence than in any other region of fragile states. The Bank's Low Income Countries Under Stress (LICUS) initiative has sought to establish new ways of working with such fragile states, including the important sub-set of post-conflict states. We urge that the LICUS initiative should now be properly financed and placed centrally in the Bank's work in all fragile states. There will be some instances where political failure will preclude Bank involvement by any means, but properly resourced work with LICUS approaches should allow improved performance in many other fragile states.

LICUS or fragile states in Africa and elsewhere suffer such intractable and chronically weak governance that their development challenges can not be addressed through the IDA performance-based aid approach. We would be supportive of focussed Bank work to find new ways of appropriately financing and staffing Bank engagement with LICUS. We consider that exploration of new ways should look to the LICUS challenge globally.

We believe, more fundamentally, that with launching the Africa Action Plan, African countries themselves should scale up their efforts to improve governance, transparency and accountability. Without self-effort to change the old systems, no external assistance can bear fruit. *Doing business in 2006: Creating jobs* shows some success stories in this regard. Rwanda, among others, has achieved the highest level of economic growth in the region since it made it easier to start business by reforming its regulations.

The Doha Development Agenda and ‘aid for trade’

Doha and real resource transfer to development countries

The Development Committee is the “Governors of the Bank and the Fund concerned with the transfer of real resources to developing countries”. Trade is a principal means by which the financial resources from aid and debt relief are converted into the real resources that combat HIV/AIDS and malaria, that build infrastructure, and globally competitive and productive industries in the formal economy. It is those formal-sector industries and their employees, which pay taxes and allow governments to deliver vital services.

Increased ODA and debt forgiveness are being implemented quickly. But it takes time to convert those financial resources into real resources through creating, formal-sector businesses and gaining world markets for exports from developing countries. To reduce that lag, we need a comparable sense of urgency in achieving the Doha Development Agenda as has driven the commitment of increased aid and debt forgiveness.

If we substantially increase the financial resources to developing countries but do not increase the trade opportunities for them to increase their real resources, we risk much worse than wasting aid. We risk worsening the uncompetitiveness of the formal sectors in developing countries, inflicting the worst damage on the weakest economies receiving the most aid and debt forgiveness.

Because of these concerns, we agree with the proposals of the *Trade Progress Report*: Rich countries must make ambitious market openings in agriculture; and poor countries and middle income countries must also participate.

When developing countries lower their own trade barriers, their access to lower cost imports obviously increase their inflow of real resources. But sustainably paying for those imports requires export growth, which is facilitated by reducing protection in others’ markets. Just as importantly, openness to trade helps development by raising productivity. It improves competition, reduces corruption and rent seeking, lowers input

costs to business even outside the tradeable sector, and improves the capacity of local business.

Aid for trade

Behind a successful trade round, 'aid for trade' offers improved supply-side opportunities for developing countries to realize new trade opportunities. We warmly support the *Trade Progress Report's* proposals to enhance aid for trade, and note the proposed expansion of a reformed Integrated Framework of Trade-Related Technical Assistance. We note the governance problems which have hindered the past effectiveness of the Integrated Framework, and emphasise that correcting those problems is an important step to greater effectiveness, which also requires more focus on outcomes, expanded country coverage, better targeting and timeliness, and more responsiveness to partner needs. We support the Bank continuing its useful trade-related assistance under the Pacific Enterprise Development Facility.

Expanding trade is closely related to expanding the formal sector of the economy, and in this context we again stress the potential of *Doing Business in 2006: Creating Jobs* to lower the 'behind the border' barriers to trade. The previous edition of *Doing Business* included all our constituency members in its database for the first time. The June 2005 meeting of the Pacific Island Forum Economic Ministers in Tuvalu committed the Forum states to work towards halving, by FEMM 2007, the time it takes to start a business, the cost of registration, the time to go through insolvency and the cost of enforcing contracts. This is an example of how good analytical work by the Bank can inform and motivate reforms 'behind the border' in a way that can improve business climate, and strengthen capacity to trade.

Climate Change and the World Bank Group

We welcome the short background paper *Climate Change, Energy and the World Bank*, and the actions it details for the Bank to take up a facilitating role for developing clean energy and sustainable development, in response to the requests from the G-8. While the Bank must remain focused on poverty alleviation, we respect the expertise it has built on sustainable development, carbon markets, and ways to ensure developing countries can both enjoy economic growth and facilitate environmental protection in ways that are mutually advantageous to all.

In that context, we would encourage the Bank's engagement with the Asia Pacific Partnership on Clean Development and Climate. This is a collaboration between Australia, China, India, Japan, the Republic of Korea and the United States, to address energy, climate change and air pollution issues within a paradigm of economic development. These partners together account for about half of the world's GDP, population, energy use and greenhouse gas emissions. The Partnership focuses on practical action to develop and deploy low-emissions technologies which complement economic development and energy security goals. It will not set arbitrary targets and will

focus on developing and deploying new technologies that will put economies on low-emissions trajectories.

Voice and Participation

There has been some progress within the Bank Group in enhancing the voice and participation of developing and transition economies since we last met. In particular, the secondment arrangements to give representatives of developing and transition economies greater exposure to the work and governance of the Bank have been put in place, with the first two rounds of candidates selected and moving through the scheme. We know from our constituency's involvement in the scheme that it is appreciated, and that it builds capacity in member governments to understand and influence the Bank.

However the deeper structural challenges to properly reflecting the influence of fast-growing economies await resolution. IMF work on quota review remains crucial in our view to the legitimacy and influence of the Bretton Woods institutions. We urge its speedy completion.