



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
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Statement by

**Mr. Trevor Manuel
Chairman of the Development Committee
Minister of Finance, South Africa**

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Highlights of Ministerial Statements

GLOBAL MONITORING REPORT 2005: FROM CONSENSUS TO MOMENTUM

There is a broad consensus among the international community on what needs to be done to reach the Millennium Development Goals. Ministers view 2005 as a decisive year for all parties to the Monterrey Consensus to consolidate their shared vision of development and strengthen their resolve to achieve the MDGs by 2015. Ministers welcome the second Global Monitoring Report (GMR), which recognizes the encouraging progress made and the sobering challenges ahead. They commend the quality of the analytical work presented and endorse its main messages.

Five-Point Agenda

Ministers broadly support the GMR's five-point agenda, describing it as a realistic, pertinent, and comprehensive set of steps which, if countries accept its implications, can pave the way for the attainment of the MDGs. They agree that the key for future prospects is implementation, an area where political will as well as resources are crucial.

Anchor Actions to Achieve the MDGs in Country-led Development Strategies

Ministers welcome the emphasis on anchoring actions to achieve the MDGs in country-led development strategies. Ownership gives countries the freedom to choose their own path to development. Country ownership of reform programs also signals the seriousness of a country's development vision, which stimulates public and private investment flows. Ministers stress the importance of each country's setting practical goals toward achieving the MDGs, set out in their own poverty reduction strategies.

Improve the Environment for Stronger, Private Sector-led Economic Growth

Ministers agree that economic growth is the key to poverty reduction. They note that growth in developing countries overall has improved, and last year it reached its highest in three decades. Macroeconomic management improved in all regions and budgetary allocations for health and education have increased.

Ministers support the actions proposed to improve the climate for broad-based, private sector-led growth, including, *inter alia*, improving macroeconomic management, strengthening fiscal management, removing regulatory constraints, modernizing infrastructure, respecting property rights and the rule of law, liberalizing trade policies, improving governance, and combating corruption.

Ministers call on developing countries to create the conditions for economic growth, and on donors to support developing countries' efforts to implement reforms. They applaud the Bank's increased attention to investment climate issues through its analytical work and its lending and policy advice. They urge the Bank to give this issue even greater priority in the future.

Scale Up Human Development Services

Ministers agree that effective service delivery is essential for achieving the human development goals of health, education, and gender equality. Many Ministers underscore the urgent need for flexible and predictable financing for building health and education systems. They note the disconnect between the need for financing for recurrent costs and the modality of aid, including aid delivered in the form of technical assistance. Ministers agree that providing aid in the form of budget support should be related to the country's capacity to manage the funds transparently.

Ministers stress the need to build capacity in order to improve public service delivery, particularly in Sub-Saharan Africa, where 2/3 of all people with HIV/AIDS reside. They urge the Bank to help countries eliminate user fees in education and primary health care, which can greatly improve education and health outcomes.

Dismantle Barriers to Trade

Ministers highlight the crucial role of improved market access for developing countries in boosting economic growth. They concur with the report's recommendation that multilateral, reciprocal, non-discriminatory trade liberalization offers the best way for all countries to win from trade. They urge developed countries to lead by eliminating subsidies and reducing other trade-distorting barriers in heavily protected agricultural markets, which would boost GDP in low-income countries by around 2 percent.

Ministers stress the need for specific solutions to help developing countries reap the benefits of trade. These include helping countries that lose the advantages of tariff preferences granted to the poorest countries, simplifying rules of origin, encouraging South/South trade, increasing aid for trade, promoting financial sector liberalization in developing countries, and mainstreaming trade-related capacity building. Ministers encourage the Bank's efforts to step up its work in support of trade capacity building, intra-regional trade, trade facilitation, and infrastructure development

Substantially Increase the Level and Effectiveness of Aid

Ministers reiterate their call to developed countries to fulfill their commitments to the Monterrey agenda by doubling ODA in the next five years. Noting that many developing countries have increased their absorptive capacity considerably and that capacity can be increased further, they believe that absorptive capacity should no longer be cited as a reason for slowing the scaling up of aid. They welcome the conclusion of IDA14, the largest-ever replenishment. They note the progress made by some developed countries toward the 0.7% of GNI target.

Ministers endorse use of IDA grants for countries at risk for debt distress. Several Ministers also welcome the report's emphasis on developing countries mobilizing more domestic resources to support growth and progress toward the MDGs and other non-debt, non-aid flows, to anchor future structural reforms. They also stress that the quality, timeliness, and effectiveness of financial flows for development are as important as their amount.

Ministers welcome the GMR's useful recommendations on improving the effectiveness of aid. These include implementing donor commitments on harmonization and alignment with country-owned development strategies, untying aid, providing aid in the form that it is most needed, including to cover recurrent costs, reducing conditionality, lowering transaction costs, and monitoring progress on poverty reduction.

Priorities for International Financial Institutions

Ministers agree with the priorities for action spelled out in the GMR and stress the pivotal role of IFIs in supporting developing countries' efforts to meet the MDGs. Ministers are encouraged by the progress made on the Bank's modernization and simplification agenda. They emphasize the need for additional work to coordinate and harmonize donor processes and operations to lessen the financial and administrative burden on clients. They call for clearer definitions of the roles of each IFI and stronger accountability for their internal use of resources.

Additional strategic challenges for IFIs highlighted by Ministers include the continuing negative net flows to IBRD, suggesting that the Bank should do more to reduce transaction costs; the need to find better ways of assisting LICUS countries; and the need to further pursue and strengthen the orientation of their global programs, such as support for energy efficiency and renewable energy. Ministers endorse the institutions' paying more attention to the specific needs of client countries, including middle income countries. They look forward to additional resources being extended to help overcome the shortfall that countries face in achieving the MDGs.

The Challenge of Africa

Ministers support the focus of the international development community on the challenges faced by Sub-Saharan Africa. They find the five-point agenda to be especially appropriate for Africa, where the challenges of reaching the MDGs are greatest. They commend recent strides made by many African countries, including faster growth, single-digit inflation, improved governance, and increased political stability. However, despite the progress that has been achieved, including on policy performance, Africa will be the only region that is off-track on all MDG targets and where the number of the poor in 2015 is expected to increase instead of fall.

Ministers applaud the Bank's role in promoting economic growth in Africa and welcome IDA's decision to continue to allocate half of its resources to benefit Africa during the IDA14 period. They broadly agree that more aid is needed to reduce poverty in Sub-Saharan Africa, and that broad-based economic growth, based on private sector development, is necessary. This requires improving the investment climate and developing infrastructure.

Guidance on Future Global Monitoring Reports

Ministers strongly support continuing the GMR, which they see as a useful tool to monitor the commitments made at Monterrey. Some Ministers prefer that it focus on specific issues that can be implemented quickly while maintaining the broad picture of the global development agenda. The focus of each year's GMR should be informed by the progress toward the MDGs. Ministers' suggestions include giving equal emphasis to problems facing every region, paying more attention to environmental issues, better explaining the lessons learned from working with LICUS, and devoting next year's GMR to public sector financial management and anti-corruption. A Minister suggests that the report would benefit from a clearer account of the actions taken during the previous year and more detail on what is expected of each party to the Consensus by 2015.

Other Issues

Infrastructure: Ministers emphasize the central role of infrastructure in enhancing growth prospects, improving the investment climate, and accelerating poverty reduction. They applaud the shift in the Bank's approach to infrastructure, emphasizing service delivery, pro-poor growth, and balance between private and public sector financing. They stress the need for vastly increased investment in infrastructure in both low-income and middle-income countries in order to achieve the MDGs.

Middle Income Countries: Some ministers stressed the importance of development in middle income countries, including for progress on the MDGs and global public goods, and urge the Bank to strengthen its policy and overall support for these countries.

Small States: Some Ministers stress that efforts to advance the development agenda should take into account the special challenges of small states. They welcome management's commitment to undertake knowledge activities and increase regional approaches, and they urge further efforts to attract the best staff to work on small states.

FINANCING THE DEVELOPMENT AGENDA

Ministers acknowledge that mobilizing sufficient resources to support development programs remains a pressing challenge. They urge developed countries to honor their commitments to increase ODA to 0.7 percent of GNI. They welcome the positive conclusion of the IDA14 negotiations, and commend the commitments of the Paris Declaration to improve the quality of aid. They endorse the report's suggestion to developing countries that they exert stronger efforts to mobilize more domestic resources and that they implement reforms that enhance their ability to attract private, non-debt capital flows. They note the importance of remittances as a source of external financing and welcome the Bank's role in seeking ways to enhance the development impact of remittances flows and its research on remittances and migration flows.

Progress on the Doha Round

Ministers share the Bank's priority for rapid completion of the Doha Round. In parallel to the Doha Round, they urge a collective commitment to trade liberalization as an integral component of facilitating private sector-led growth and a key building block for financing development. A good agreement that lowers tariffs and non-tariff barriers in both developing and developed countries could lift some 140 million people out of poverty and generate up to US\$600 billion in additional income worldwide. They urge the Bank to continue its research and advocacy work in support of a constructive, pro-development outcome to Doha and to continue to strengthen its "aid for trade" activities

Additional Debt Relief

The HIPC Initiative has done much to rid the world's poorest countries of their debt burdens, but more can and should be done. Echoing the GMR, Ministers urge closer on current proposals for additional debt relief in 2005. They call for full financing and implementation of HIPC. If it is necessary to extend debt relief beyond HIPC, it should be guided by the principles of additionality, preservation of the financial viability of IFIs, conditionality to avoid moral hazard, and coherence with the new debt sustainability framework. Many Ministers call for additional debt relief by IDA, other multilateral development banks, and possibly the IMF. Some Ministers propose that debt relief be available to all IDA-only countries, which would guarantee equal treatment, and that it be provided only to countries with sound budget policies. They stress that debt relief should be additional to other funding and should be financed through new resources and should not erode the financial viability of the IFIs.

Debt Sustainability

Ministers stress that debt sustainability is an important part of the broader debate on global financing for development. They welcome the new Bank-Fund Debt Sustainability Framework. Some Ministers are of the view that the shift toward greater use of grant financing by IDA and AfDF, together with relief of 100 percent of debt stock relief of IDA and AfDF obligations for HIPC countries will put poor countries on a sustainable path without risking the capacity of IFIs to provide net resource transfers to good-performing countries going forward.

Responding to Exogenous Shocks

The tsunami disaster exemplifies the vulnerability of many developing countries to natural disasters. Ministers welcome the Bank's efforts to mainstream disaster risk reduction into CASs and the steps taken to promote its integration into PRSs. They also welcome the Bank's role in helping members respond to shocks with a view to developing proposals for discussion at the IDA14 mid-term review.

Innovative Financing Mechanisms

The strong consensus in the international community that more aid is needed to achieve the MDGs, coupled with the slow progress in raising and delivering adequate amounts of ODA, has prompted the exploration of innovative financing mechanisms to fill the financing gap. Ministers welcome these proposals but remain divided on the timeliness and feasibility of their implementation.

International Finance Facility: Ministers commend Bank and Fund staff for the thorough analysis of the IFF. Several Ministers believe that enough preparatory work has been done for the IFF to be launched this year, whereas some other Ministers believe that important issues remain to be fully analyzed. Many Ministers note the pilot International Finance Facility for Immunization (IFFIm), which will test the feasibility of the IFF mechanism.

Global Taxation: Several Ministers endorse the idea of global or internationally coordinated taxes, including an international solidarity tax on aviation fuel, which they believe is technically feasible and would add to development resources. Other Ministers point out that these ideas still lack the necessary political support, and their adoption could result in higher costs for developing countries by negatively affecting travel and tourism.

Voluntary Contributions: Ministers note that the extraordinary outflows in response to the tsunami disaster demonstrate the potential for voluntary contributions, although the issues of predictability and alignment with development priorities have yet to be addressed.

Blending Arrangements: Ministers support further development of blending arrangements, which enhance the responsiveness and flexibility of ODA increases the leverage of development funding. They can be tailored to fit different country circumstances, and can help to bring about greater donor harmonization and collaboration. Some Ministers urge the Bank to set up a specialized “third window” to scale up this blending strategy in low- and middle-income countries.

VOICE AND PARTICIPATION OF DEVELOPING AND TRANSITION COUNTRIES

Ministers favor enhancing the voice of developing and transition countries in accordance with the Monterey Consensus. They note progress on a number of practical reforms, such as the establishment of the Analytical Trust Fund, the Bank’s secondment program, the country-owned poverty reduction strategy approach, greater decentralization, capacity building in Executive Directors’ offices, and improved Board effectiveness. However, many Ministers recognize that the structural aspects of voice and participation of developing and transition countries must remain on the agenda of Bretton Woods institutions. Other initiatives mentioned that would enhance participation include the addition of new positions to multi-country chairs, the creation of a second alternate executive director for multi-country chairs, the extension of mandates for executive directors, greater diversity in the ranks of senior management, and an overhaul of human resource management policies and practices.

Ministers agree that broadening and strengthening the participation of developing and transition countries in the decision-making process at Bretton Woods institutions is an important principle of the Monterey Consensus and is vital to retaining the Bank's credibility. Many Ministers call for a resolution of the outstanding issues related to quota and share allocations. Some believe that the IMF quota formula should be simplified and urge the Fund to take bold steps in this direction. Consistent with past practice, they believe that changes at the IMF and the Bank should occur in parallel, and that the forthcoming IMF quota review should be taken as an opportunity to make progress.

Many Ministers advocate an increase in basic votes for developing and transition countries. Some Ministers suggest increasing the use of the special majority of 70 percent to approve decisions on policy issues, and introducing "double majorities" for decisions on operational or staffing matters. Ministers support the efforts of the Development Committee to work continuously on this issue and urge the Boards of Bank and the Fund to come up with feasible options to enhance the representation of developing and transition countries.