



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
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On September 20 in New York over 60 Heads of State and Government joined President Luiz Ignácio Lula da Silva, of Brazil, President Jacques Chirac of France, President Ricardo Lagos of Chile, President José Luis Rodríguez Zapatero of Spain and UN Secretary General Kofi Annan to renew their determination to act against hunger and poverty, and to reaffirm the pivotal role of the United Nations and its Millennium Declaration in this task. In a joint declaration at the conclusion of the meeting over 100 governments noted that while some progress has been made, the general balance worldwide in achieving the agreed development goals is still disappointing. If resolute and urgent actions are not taken, such goals will not be reached by 2015, especially in Sub-Saharan Africa.

The Monterrey Consensus represented a compact among member states that all must act to ensure financing for the internationally agreed development goals and, more generally, to achieve reforms in the international financial and trading systems, and in the domestic policies of developing countries that are mutually consistent and reinforcing. However, to date implementation has been uneven. The International Monetary Fund and the World Bank have been active participants and are considered as major stakeholders in the Monterrey process. We must continue to ensure that the actions of these institutions are beneficial to the interests of all constituents and contribute to the elimination of the development deficit.

It is now generally agreed that a doubling of ODA flows from their 2001 levels would be the minimum required to achieve the Millennium Development Goals by 2015. Additional financing will be required to allow them to achieve debt sustainability and the stable growth required to support permanent increases in per capita incomes. While the international community has taken important steps to increase their official development assistance (ODA) towards the goal of 0.7% of their GNI, much more needs to be done, and it needs to be done more quickly. While the majority of developing countries have taken important steps to improve their domestic environments in preparation for increased financing for growth, the overall progress has been disappointing and the increase in financial flows has not been sufficient to ensure reaching the MDGs. Indeed, some have referred to this as the Monterrey “development deficit”.

The issue of how to fill this gap, as well as the broader issue of how to guarantee stable financing major international objectives –what some analysts have come to call “global public goods”—has led to a renewed interest in innovative sources of financing. This issue is the subject of attention in this meeting of the Development Committee, as it will be in the General Assembly of the United Nations. In this context, you have on the table many recent initiatives and detailed conceptual studies, including the Joint

Brazilian-French-Chilean-Spanish initiative referred to earlier; the UK proposal for an International Finance Facility, the report of the Chirac Commission, the UNU/WIDER report requested by the General Assembly of the United Nations, prepared under Professor Tony Atkinson from Oxford University, and the staff report prepared for this Committee. All these will need to be carefully examined and decisions must be taken on what issues should be pursued in depth.

There are also other areas where immediate actions would make a major contribution towards meeting the Millennium Development Goals. As President Wolfensöhn has noted, “debt reduction for the most highly indebted poor countries is a crucial element in putting countries back on their feet, and that the funds released can be used effectively for poverty programs.” But the experience of the HIPC process is that it has been frustratingly slow and many countries that have completed the process have seen their benefits eroded. More decisive and rapid measures to provide low income countries with a clean slate upon which to complete their commitments to improved governance and good economic management and social support could be implemented extremely rapidly.

In the same context, both the IBRD and IDA have in the last two years experienced positive net flows of funds and have accumulated financing capacity that could be implemented rapidly with the appropriate political backing. This Committee can play a vital role in making the case for increased multilateral support and generating the appropriate political backing.

The Monterrey Consensus notes that progress could be accelerated by improving the voice and representation of developing countries in the governance structures of the multilateral financial institutions. While it is gratifying to see that these institutions have taken this call seriously, perhaps a more bold and innovative approach to the problem could be productive. As is now well known, the actual distribution formula was arrived on the basis of criteria that are controversial and, in any case, reflect past rather than current conditions. An alternative might be to start with a frank discussion of the constraints on a desired representation of groups of developing countries, and then proceed to address them. It may also be useful to raise the possibility of designing different quotas for financial contributions, for the distribution of Special Drawing Rights and for votes. Without a major change in approach the entire exercise risks becoming bogged down in minutiae.

Moving rapidly to increase aid flows now makes reaching the MDGs by 2015 more probable, but this should not detract our attention from the fact that achieving the MDGs only deals with the most glaring effects of underdevelopment. The major task is not that of ensuring steadily increasing flows of official aid through 2015 and beyond. It is to provide the economic basis that will allow developing countries, particularly the poorest among them, to enter a process of self-sustained and equitable growth. This will require the combined and coordinated actions of governments and the private sector.

While the Monterrey Consensus recognizes that developing countries bear initial and final responsibility for their development, it also draws attention to the importance of the need for an international enabling environment.

The most important factor in this area is pursuit of the development dimension of the Doha Ministerial Declaration to provide increased market access and expanding export markets. An encouraging sign, after a long period of stalemate, has been the decision by the General Council of the WTO on how to proceed with the Doha Work Programme by setting forth a framework for future negotiations on trade liberalization. A major step forward was the agreement on modalities on agriculture. Despite the progress, many difficult issues remain and more swift action needs to be taken to fulfill the goals set out in the Doha Development Agenda and to promote growth in developing countries. The elimination of agricultural export subsidies and the reduction of production subsidies, particularly those that are trade distorting, remains a priority item in the agenda. There is an urgent need to reduce tariff peaks and tariff escalation in industrial countries and to agree on a mechanism to reduce tariffs in manufactures that does not affect developing countries disproportionately. Unfortunately, as tariff barriers have come down, developed countries have increasingly resorted to non-tariff barriers; these need to be curtailed. Priority should also be given to the international provision of services that use unskilled labour, particularly through the facilitation of the temporary movement of workers.

An appropriate domestic business climate is also important and depends on the design of business regulations that provide the appropriate balance of support for business and protection of the consumer through ensuring transparent market competition. Building such climate also requires a frontal attack on corruption. In this regard, it is encouraging that there are currently 111 signatories and 4 parties to the United Nations Convention against Corruption.

It is now generally accepted that one of the greatest impediments to growth in the poorest developing countries is the absence of entrepreneurial activity, indeed a lack of a strong private business sector. The United Nations has recently received the report of the Commission of Private Sector Development co-Chaired by the Prime Minister of Canada, Paul Martin and the Former President of Mexico, Ernesto Zedillo, with the title of “Unleashing Entrepreneurship: Making Business Work for the Poor”. It is important that their recommendations be adopted. It is also relevant to remember that an attractive local business climate is also important in retaining qualified skill workers attracted by the greater opportunities in developed countries.

While supporting entrepreneurship is a necessary condition in a good business climate, it is not sufficient on its own. Different business activities have different prospects for increasing real incomes and employment. Building a strong business sector must also produce an appropriate balance of agricultural, industrial and service sector activities. In addition, it requires the appropriate domestic financial structure to ensure financing of new activities. In this respect, I would like to call you attention to the fact that in anticipation of the International Year of Microcredit, the United Nations has

launched a multistakeholder consultation on inclusive finance. This, together with other initiatives, including those of the G8, should serve to prepare a global market-based finance initiative to stimulate sustainable, pro-poor financial sectors.

Governments play an essential role in building an appropriate investment climate through the provision of social and economic overhead capital. Of particular importance in this regard is the provision of adequate infrastructure. The World Bank's Action Plan in this area is an important recognition that it is inconsistent to leave this vital task to the private sector. It is thus more than appropriate for the Bank to seek to aid government infrastructure investment plans and to act as a catalyst for public-private partnerships.

It is now clear that one of the reasons for the lack of infrastructure investment in developing countries has been the restrictions that have been placed on overall levels of government expenditure in the pursuit of sound macroeconomic fundamentals. But this represents borrowing future real growth to meet short-run financial stability and, as recent research, including major studies by the World Bank, has shown, this is self-defeating in the long run. It is thus imperative that means be found to make policies that produce sound macroeconomic fundamentals compatible with the substantial increases in investment in human capital and social and economic overhead capital.

The design of appropriate fiscal rules has received in this regard a great deal of attention in recent years. On the basis of ongoing debates, it is important to stress three basic principles. First, any fiscal rule should facilitate the countercyclical role that public sector finances must play in any economy. To do so, all rules should be set on the basis of the structural stance of fiscal policy. It is also essential that multilateral financing be made available to support such countercyclical spending in developing countries subject to sudden stops in private external financing. Second, rules should clearly differentiate between current and investment spending. In this regard, setting the deficit targets on the basis of the primary structural balance or surplus, in some variant of the "golden rule" of public sector finances, seems superior to the overall fiscal targets that have been widely used in the recent past, and that have led to widespread reductions in public sector investment during crises. Third, adequate attention should be given to avoiding the fiscal risks associated with both weakly managed public sector firms and with public-private partnerships. However, this requires rules that do not discriminate against public sector investment vis-à-vis private sector investment in infrastructure. Thus, rules that place stringent conditions on what type of public sector firms are excluded from the fiscal targets and, on the contrary, do not fully incorporate the risks that public-private partnerships may imply for public sector financing, are inappropriate. The best rule could thus be one in which some current structural deficit target is adopted together with some form of debt target that takes into account the present value of the contingent liabilities that the public administration has incurred vis-à-vis both public sector firms and public-private partnerships.

Such changes are important not only because of their impact on the domestic economic environment, but because they also provide a response to the calls by many developing governments that are subject to support from the IMF for additional short-

term policy space to respond more actively to internal and external shocks that cause unacceptable reductions in growth and employment.

As noted in the Monterrey Consensus, all of these issues are interconnected and the importance of policy coherence is paramount in achieving development based on mobilization of domestic resources with participation in the global trading system. This can only be done with the cooperation and participation of national governments in developing countries to implement the appropriate domestic policies, of national governments in developed countries to meet their aid commitments through financial assistance and through opening their domestic markets to developing country exports, and of the multilateral and regional financial institutions in providing finance and technical support.