STATEMENTS SUBMITTED TO THE SEVENTY-FOURTH MEETING OF THE DEVELOPMENT COMMITTEE

Chairman, Alberto Carrasquilla
Minister of Finance, Colombia

Singapore
September 18, 2006

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NOTE ON THE SEVENTY-FOURTH MEETING
OF THE DEVELOPMENT COMMITTEE

The Joint Ministerial Committee of the Boards of Governors of the World Bank and the International Monetary Fund on the Transfer of Real Resources to Developing Countries – the Development Committee – held its seventy-fourth meeting on September 18, 2006, in Ballroom II of the Suntec Convention Center in Singapore. The meeting consisted of a single session, followed by the Chairman’s Lunch for Members on the same day. Members circulated their written statements in advance and these are part of this document; highlights of the Members’ statements were circulated by the Chairman and are also part of this volume. Also included are notes by the Bank President and the Fund Managing Director distributed ahead of the meeting. The meeting started at 9:00 am and ended at 1:15 pm. It was chaired by Mr. Alberto Carrasquilla, Minister of Finance of Colombia.

The Agenda (Annex A) was adopted at the beginning of the meeting, followed by discussion of two topics: (i) Strengthening Bank Group Work in Governance and Anticorruption and (ii) Strengthening the World Bank's Engagement in IBRD Partner Countries. Both topics were supported by papers prepared by staff of the World Bank.

In addition to the above discussion topics, the agenda included the following progress reports that Ministers commented on in their written statements: (i) An Investment Framework for Clean Energy and Development; (ii) Progress Report for the Education Fast Track Initiative; and (iii) DOHA Development Agenda and Aid for Trade.

The Communiqué (Annex B) was approved during the meeting and records the salient points and outcome of the Ministerial discussion.
Note of the President of the World Bank, Mr. Paul Wolfowitz, to the Development Committee

Introduction

A year after the Gleneagles and UN Summits is a good time to take stock of progress on the development agenda. Developing countries have enjoyed a notable period of strong growth. Economic activity in low and middle-income countries is expected to grow by 6.8 percent this year, a fifth consecutive year of strong growth. Virtually every developing region, including Africa, has performed well. Yet the global environment is unlikely to be as supportive in the future as it has been in recent years. More immediately, higher oil prices have led to additional budgetary pressures in many developing countries.

This is no time for complacency. It is time for all, donors and partner countries, to deliver on the undertakings given or reaffirmed at the Gleneagles and UN Summits a year ago.

Monitoring Progress

Let me first briefly report on the Bank Group position. We have made good progress on the ambitious agenda we set for ourselves at the last Annual Meetings. Both as a banking institution and a development agency, the Bank Group as a whole is in a strong position. IBRD lending is up 3.7% to $14.2 billion, the highest in seven years. IDA has had a record year with $9.5 billion in lending, IFC commitments were up by 25% to $6.5 billion and MIGA provided $1.3 billion in guarantees. Our strong financial position allowed us to turn our advantage to opportunity for our poorer clients and contribute a record level of $950 million in support to IDA. This should be seen as setting an example of our commitment to IDA for other donors to follow, not as a substitute for other donor contributions.

Financial results are important, but the Bank Group also needs to be held accountable for its contribution to development results. I am confident that we have set a resolute course on policy issues that will continue to strengthen the Bank Group’s performance and produce sound results. Among the highlights of the past year, we worked very hard and successfully on completing the Multilateral Debt Relief Initiative in a way that preserves IDA’s financial strength, at the same time providing meaningful relief to borrowers so they are better positioned to achieve the MDGs. We made important contributions to addressing the avian flu threat. We have ramped up our infrastructure efforts particularly where we see new opportunities. For example, to address both infrastructure and employment needs we are in the final stages of developing an innovative community based, small scale rapid response effort in Liberia. We also hope to strengthen support for infrastructure, particularly through our new efforts approved this year to provide subnational lending. This IBRD-IFC partnership on subnational lending is one more way we are trying to innovate to meet new, emerging development needs. In this context, I am hopeful the work of the Commission on Growth and Development that I have appointed will contribute to our understanding of what works well and how we can better support efforts to create jobs and opportunities for our partner countries.

The Africa Action Plan: Progress and Challenges

During my visit to Africa this summer I heard first-hand from many African leaders of their commitment to fight poverty, accelerate growth and strengthen governance and accountability. A year ago you supported the Africa Action Plan. As you requested at that time, we will report more fully on the status of implementation at the next Spring meetings, but let me offer some preliminary thoughts on our progress thus far and the challenges ahead.
We have made significant progress. The Bank has increased its infrastructure investments from $600 million (FY00) to $1.5 billion per year (FY06). Between FY05 and FY06, commitments for infrastructure increased by 15 percent. In all of our infrastructure work, not only in Africa, we are seeking to learn the lessons of past experience. The February study, *Infrastructure: Lessons from the Last Two Decades of World Bank Engagement*, has led to a number of key policy conclusions, in particular the importance of: (i) better defining infrastructure investment priorities; (ii) avoiding policies that lead to regressive outcomes; (iii) reevaluating the analysis of fiscal space for public sector financing; and (iv) anticipating issues of governance and corruption. Projects approved in FY06 target water supply service coverage for 1 ¾ million Africans. Yet investments in transport, power and water infrastructure are not limited by ideas or opportunity, just resources. There is a particular need for resources for regional infrastructure investments.

On health, in FY06 the World Bank Malaria Booster Program committed $172 million in eight countries. This is a good start but the hard part is just beginning: working with other donors, we are on a course not just to identify how much is being spent, but to coordinate effectively to measure our collective results in the fight against a silent killer that claims the life of one African child every 30 seconds.

On gender, progress is being made in 20 countries toward achievement of the MDG of gender equality in primary education and 21 countries are seeing increases in parliamentary seats held by women, but there is a long way to go to remove obstacles to the economic empowerment of women, and not only in Africa. And in all areas we need to work to strengthen the link between increased resources and improved results. I have seen first-hand in my trips to African countries that profitable businesses that create jobs and help bring products to market are critical for improving the lives of the poor. I also believe that we are making a real difference in supporting private sector development in Africa, although much more needs to be done. Africa is reforming. Although most African countries still have much work to do in this area, they have started to move. This year, two thirds of African countries carried out at least one reform—up by 50% from last year. Our *Doing Business* report, which benchmarks business regulation in 175 economies, shows that Africa ranks this year 3rd among regions for the pace of its improvements, behind only Eastern Europe and Central Asia and the OECD economies. I am committed to reinforce the synergies within the World Bank Group to help governments generate reforms that create a better environment for entrepreneurship and investment. In this spirit, I am glad that IFC and IDA have forged an effective partnership to support enterprise development and lower the cost of doing business. IFC has substantially scaled up its investment and technical assistance work in Africa. Commitments increased from $445 million in FY05 to $700 million in FY06. Country reach has expanded over the last three years. In 2003, IFC had new investments in 8 countries. By the end of FY06, IFC had new investments in 17 countries and programs combining investment and technical assistance in 26 countries. Activities are underway in post-conflict countries such as the Democratic Republic of Congo and in Liberia to assess opportunities and prepare action plans for future private sector involvement. In FY06, the World Bank Group increased lending for private sector development (excluding infrastructure) by $216 million, compared to FY05. Investment climate assessments (ICAs) have been completed in 12 countries; that number is expected to double over the next 15 months. In addition, I am pleased that the Africa Catalytic Fund, which provides a mechanism for “crowding in” other development partners at the country level or for supporting regional programs, with an integrated approach to target specific results, is now up and running, with first projects under preparation.

But the challenges remain. Lack of capacity is a major constraint to Africa achieving the Millennium Development Goals, especially in the health sector where much more remains to be done to strengthen country health systems, which are critical in the fight against HIV-AIDS and malaria. We also need to do more to support strengthened governance and development of capacity for effective public investments. Progress in agricultural productivity also remains slow, and the Bank needs to accelerate its analytical work and lending in these areas.
Let me emphasize that we have identified country opportunities in Africa where early scaling up is both feasible and desirable, where we believe that significant increases in assistance can be absorbed and well used. In Burkina Faso, Ghana, Mozambique, Rwanda and Tanzania we have developed plans which show that an initially modest increase in ODA above current trends could be effectively absorbed and would result in significant improvements in development outcomes. Yet many African countries, even those performing relatively well, have as yet seen little or no increase in levels of external assistance. The DAC hosted a first "Resources and Results" meeting for Ghana in May but there has so far been little response from donors. Collective engagement and support for these "resources and results processes" at the country level will be important as countries and development partners spell out scaled up programs, including macroeconomic management, results and implementation issues. From my exchanges in the past 12 months with African policy makers, entrepreneurs, civil society leaders, and farmers, I am increasingly convinced that we have an unprecedented opportunity to make a difference in Africa, working closely with Africans. We must seize it. For this, implementation of last year’s commitments by donors and developing countries will be key.

2005 Commitments on Debt, Aid and Trade: A Mixed Scorecard

Debt Relief. I am pleased to report that full implementation of the Multilateral Debt Relief Initiative (MDRI) took effect on July 1, 2006. Under the MDRI, IDA will provide about US$36.5 billion in debt relief over 40 years for the 40 identified HIPC countries. Thanks to the MDRI, the 20 HIPCs that have reached the completion point will receive an additional $350 million of annual debt service relief, beginning this fiscal year.

We now need to ensure that MDRI debt relief is truly additional to other aid flows, in line with the commitments from donors. We also need to ensure that the re-accumulation of debt in post-MDRI countries is managed carefully and does not undermine their long term economic prospects. We will have an opportunity to discuss these issues at the Committee’s lunch.

Development Assistance. Last year, donor countries pledged to significantly increase aid to help poor countries reach the MDGs, including a doubling of aid to Africa by 2010, and committed to the principles of the Paris Declaration for better harmonized and more predictable aid flows. The follow-through is mixed. There is some progress on innovative sources of aid financing, such as the Global Air Ticket Tax endorsed by over 40 countries and expected to generate €200-300 million annually. Serious efforts are now needed to deliver on commitments made to support scaling up, improving predictability of aid flows, harmonization and results.

For the first time, ODA exceeded the $100 billion level last year, increasing from $80 billion in 2004 to $106 billion in 2005. However, most of this increase was accounted for by debt relief for a few countries (over $14 billion for Iraq; over $5 billion for Nigeria) and may be hard to sustain. Looking ahead, ODA flows are expected to decline in 2006 from the 2005 peak as debt relief figures decline. Beyond that, it is looking increasingly questionable whether the international community will deliver on the commitments made last year to increase aid; according to the DAC, early indications suggest that four-fifths of the doubling of aid to Africa may not occur until 2009-2010, which is both unrealistic and problematic.

We can reverse this trend. At the global level, commitments must be met to make debt relief provided under the MDRI truly additional to other aid flows. Lost reflows due to the HIPC and MDRI debt relief initiatives have lowered IDA’s financial capacity by more than one third. Donors need to honor their pledge to replace lost credit reflows in addition to their future core contributions to IDA. Otherwise, the poorest will be hurt. Going forward, I hope donors will commit themselves to a robust IDA15
replenishment, as this will be the final opportunity for making further progress towards the Millennium Development Goals given the implementation periods of IDA projects. In many low income countries, IDA is the cornerstone of the aid architecture. As noted in paragraph 3, IDA committed a record $9.5 billion for new credits and grants this year and 50 percent of that went to Africa. I also noted the record transfer of $950 million from IBRD and IFC income to further strengthen IDA. IBRD is providing to IDA a record total of $800 million from net income in FY06, including a transfer of $300 million from surplus. For the first time ever, the IFC is contributing $150 million to IDA programs for private sector development. But—I can’t emphasize this too strongly—the Bank Group cannot substitute for the critical role donors have.

Despite this level of commitments and progress that African countries are making, there are many unmet demands, especially in infrastructure, which is critical for making more progress towards the MDGs. To make the best use of scarce resources, IDA is moving forward on an ambitious results-based agenda, as defined under IDA14. All IDA operations have a focused and coherent framework for measuring the results so that all IDA country programs contribute to key development outcomes.

Exploiting early opportunities for success will help build momentum. It is worth repeating here that we see success stories in many regions and cases where additional resources could produce real development results.

Aid is most effective when it is effectively coordinated, aligned with country priorities, results-focused and predictable. The commitments of the international community to improve aid effectiveness still need to be consistently translated into action. Going forward, efforts need to focus on country-level implementation and harnessing good practices. I am looking forward to the Third Roundtable on Managing for Development Results that will take place next February in Vietnam. To address impediments to progress, we must develop clear donor commitments which serve country plans and which assign responsibilities for implementation of programs. If all donors try to do a bit of everything, it will create gaps as well as wasteful duplication. I know we all want to do better.

Education for All and the Fast Track Initiative (EFA-FTI) is a good example of how the international community can better address a key development challenge in a coordinated fashion. As indicated in the progress report circulated to the Committee (Progress Report for the Education for All-Fast-Track Initiative), the FTI model is working. Many developing countries are fulfilling their side of the compact: they are preparing credible plans, putting in place local accountability mechanisms and increasing domestic investment in education. The success in improving donor harmonization on the ground is also encouraging and several donors have announced substantial increases in investment in education. The question now is how we can mobilize the resources we will need from domestic budgets and from donors, some of whom have already signaled their positive intentions. Investment in education is key for the future of both individuals and countries, and I hope that we will be able to use discussions at the Roundtable Meeting on Education and at the Development Committee to agree on a way forward especially on longer term predictable finance and on improved quality education outcomes.

**Doha Development Round.** It is on the trade element of the development compact where we are perhaps now at the greatest risk of all of a serious setback. I truly hope that the suspension of the Doha talks is only a pause. If negotiations are not resumed soon we will have missed a significant opportunity to boost the global economy and in particular, to raise the growth prospects of poorer countries. Aid in the absence of real market access for developing countries cannot produce long-term sustainable development. Whatever the outcome, the international community should push forward on delivering “effective aid for trade”, and providing new exporters particularly in Africa with real market opportunities to generate growth and jobs. There is ample room for new trade opportunities in Africa. African banks and companies have been the most active (two-thirds of volumes in FY06) in using the $500 million IFC
Global Trade Finance Program launched in 2005 to support South-South and North-South trade by providing guarantees to banks and pre-export cash advances for trade transactions. More can be done on trade-related assistance. We have circulated a background report on trade (Doha Development Agenda and Aid for Trade) which reviews progress on this by the Bank and Fund and options to support trade-related regional projects, as well as the status of implementation of recommendations to enhance the Integrated Framework for Trade-Related Technical Assistance (IF).

**Strengthening the Bank’s Engagement with IBRD Partner Countries**

I am delighted we will have the opportunity to discuss the Bank Group’s evolving role as a provider of financial services, knowledge, strategic thinking and a convening facility for its middle-income and emerging market partners. These countries are home to most of the world’s poor, and the role of the Bank Group is to strongly support their continued efforts to achieve sustainable growth and poverty reduction. They share with all our members, moreover, responsibility for choices that will also be critical to success in addressing important regional and global issues. Finally, they are themselves a repository of extensive experience in what works and doesn’t in development, and there are major gains to be achieved from channelling this experience for the benefit of countries that are at an earlier stage in tackling obstacles to growth and participation.

Many middle income countries have made dramatic improvements in economic management and governance over the past two decades, making them better equipped to take advantage of the strategic, intellectual and financial resources the Group has to offer. The question facing the Group is how it can manage and deliver its resources to best meet their needs.

The paper we have circulated as a basis for our discussion (Strengthening the World Bank’s Engagement with IBRD Partner Countries) reflects extensive consultations over the past year, with IBRD partner countries, with other MDBs, and with other bilateral and multilateral development partners. The message from these consultations was clear: partner countries value the IBRD’s products and services, but they want improved services – greater customization, flexibility, and timeliness; reduced costs of doing business; and ability in some cases to access unbundled services. They want the Bank’s global expertise flexibly applied to their evolving development priorities. In addition, there is a shared sense that the Bank should increasingly act for its membership as a whole in helping to address emerging issues of global concern.

The paper contains a range of proposals, which I hope the Committee will endorse, designed to improve the IBRD’s effectiveness in meeting these goals. These include proposals to agree on better and more flexible country partnership strategies; to reduce the cost of doing business with the Bank by streamlining internal Bank procedures; wherever possible helping partner countries upgrade their procurement standards to levels comparable to Bank standards, and selectively increasing the use of country systems where mutually agreed and verifiable standards are in place to ensure effective execution; simplifying loan pricing; developing forms of financing that are more easily accessible and new ways to help countries facing external shocks; mainstreaming IBRD participation in originating and administering public-sector lending at the sub-national level; providing fee based expert services, unbundled from lending, on a larger scale where the Bank has comparative advantage; and better exploiting synergies between the different arms of the Bank Group. Over the course of the next year and with the help of the Board we will be turning these proposals into a series of specific actions. I also hope that members of the Committee and the countries you represent will give more direct support, where needed, for example to the proposals to enhance cooperation among development partners in this group of countries; to develop a menu of options for the blending of concessional donor support with MDB loans in sectors characterized by important public good or affordability issues; and to develop financing options for high priority global actions.
Governance and Anti-corruption

At the Spring Meetings, you asked the Bank to lay out a broad strategy on governance and anti-corruption. Because poor governance and corruption undermine development, strengthening governance and reducing corruption are key parts of the Bank’s mission of poverty reduction. The strategy set out in the paper we have circulated (Strengthening Bank Group Engagement on Governance and Anticorruption) builds on a decade of global experience and evidence, including work carried out by many members of the Development Committee. It also builds on a preliminary round of consultations with external stakeholders, other multilateral development banks and civil society organizations. The objective is to have capable, accountable and responsive states that will deliver sustainable services to the poor, promote private sector led growth and tackle corruption effectively. This strategy is designed to ensure equal treatment across partner countries based on a more objective, systematic and consistent approach. It also reflects a progressive approach: we are not expecting every country to meet a standard of perfection starting tomorrow, but we are seeking engagement to make steady, forward progress.

The proposed approach is based on a mutually reinforcing three-pronged strategy - at the country level, at the project level and at the global level. Our strategy aims to proactively establish a broader and deeper engagement with our partner countries and bilateral donors on governance and anti-corruption issues through a systematic approach in all CASs. We will intensify our work on the supply-side of building state capacity, including public financial management, procurement and civil service reform. But corruption and governance challenges often have deep-seated societal roots, and supply-side approaches alone often are inadequate for improving governance. So, within its mandate, the World Bank Group will expand its work on demand-side initiatives to strengthen transparency, participation and oversight – through initiatives which involve parliament, civil society, nongovernmental organizations, the media, local communities, and the private sector. At the project level, our goal is to assure that good governance considerations are integrated up front into the preparation of our project work; we will also intensify corruption-related supervision, detection and enforcement, especially for activities where the risks are high. And at the global level, our strategy aims to strengthen our bilateral and multilateral partnerships---and to intensify our engagement with the private sector in the fight against corruption---with a view to promoting coordinated donor action especially in higher risk environments.

I believe that this strategy represents an important step forward for the Bank, building on the work of the last ten years. I hope that the Committee will support this coherent, balanced and forward-looking approach. Based on Ministerial agreement and feedback, and further consultations with external stakeholders, we will prepare clear guidelines for operations.

Investment Framework for Clean Energy for Development

The Bank has been asked to play a role in cooperation with our members in developing an Investment Framework for Clean Energy for Development. We have circulated a background paper (An Investment Framework for Clean Energy and Development: A Progress Report) responding to the Committee’s request at our last meeting to review, in close coordination with other partners, existing financial instruments, taking into account the role of the private sector, and explore the potential value of new financial instruments to accelerate investment in clean energy. This work builds on the report that was presented to the Development Committee at the April 2006 Spring Meetings. Our review of currently available IFIs, public and private sector resources and instruments indicates that existing ones like the GEF can be strengthened and scaled-up for greater impact in the development of markets for energy efficiency investments and some renewable energy technologies, but this will not be sufficient to lead to a meaningful transition to a low carbon economy. A long-term stable global regulatory framework, with differentiated responsibilities, is needed to stimulate private investments and provide predictability for a
viable carbon market. Based on this diagnosis, the paper proposes the development of a number of options to improve access to clean energy. I believe these proposals all deserve serious consideration.

Access to energy is also critical to economic growth and development. The report offers new policy options to provide financing in developing countries and to meet the demand for clean energy, particularly in sub-Saharan Africa. Looking forward, biofuels such as ethanol may represent a growing share of the energy mix in developing countries. We will be looking at ways that we can strengthen cooperation among developing countries and between them and industrialized countries on biofuels. The report also discusses the issue of adaptation to a more variable climate. Analytical work, capacity building, GEF grants and limited lending will be used to develop innovative adaptation approaches to assess the development risks of current and future climate conditions and internalize them in development planning and investments.

With your advice and support, we suggest that follow-up work should be carried out in cooperation with other MDBs and include (i) further development of the financing options to support the transition to a low-carbon economy; (ii) mobilization of donor assistance for the Africa Energy Access Action Plan; and (iii) development of strategies, tools and finance to meet the challenge of adaptation. The second Ministerial Meeting of the Gleneagles Dialogue scheduled for October 3-4, 2006 in Mexico will be another milestone where these activities can be discussed.

Partnerships

In all of these activities, the Bank is not acting alone. We act together with our member countries, and with other multilateral and bilateral agencies. Acting together, we are more effective than acting separately. I look forward to the conclusions of the External Review Committee Rodrigo de Rato and I established to examine Bank-Fund collaboration. We seek to strengthen our already excellent coordination and cooperation with the Fund, while maintaining the principle of a partnership based on leadership that reflects expertise and comparative advantage, not on any rigid division of areas of concern or between countries. Indeed our shareholders look to both institutions to complement one another’s efforts. And as we look for improvements in our modalities of cooperation between the Bank and Fund, we intend to do the same for our partnerships with other MDBs, the OECD and others in pursuit of our overall objective of poverty reduction.

Voice and Participation

Fair weight and voice to all member countries is crucial to the credibility and effectiveness of our two institutions. You had supported in the recent past measures that have been fully implemented to enhance staff resources and relevant capacity in EDs’ offices, as well as in capitals - through a secondment program in which 43 officials from developing and transition countries have already participated. We can and must do more. My view is that we should continue to consider seriously all the options for strengthening participation in our institutions by those countries that have such a great stake in our success. I am very supportive of efforts to secure reforms in IMF quotas to give better voice and representation to low income countries as well as to emerging market countries that are playing an increasing role in the global economy. We are also working to improve diversity in Bank staffing. I look forward to working with the Bank’s shareholders to ensure that we secure proper voice and participation in the governance of the Bank.
Conclusion

Our meeting comes at a time when there has been significant progress in the global development agenda, led by the spectacular growth in Asia, and with promise of further progress in some of the poorest countries in the world. But the challenges are still enormous and they can only be addressed successfully if we all work together, developed and developing countries, donors and recipients, governments and multilateral institutions and civil society. I was impressed by the work of the Development Committee last year in taking the G-8 proposal on debt relief and turning it into what our then-Chairman Trevor Manuel termed a G-184 agreement. I have been impressed over the course of the last year, working with the Board, which represents all 184 shareholders, by the ability of this institution to draw people together for the common purpose of giving the poorest citizens of the world the opportunities they need for a better life. I am sure that our meetings here in Singapore will further advance that effort and I look forward to our discussions.
Statement by the Managing Director of the International Monetary Fund, Mr. Rodrigo de Rato, to the Development Committee

Introduction

Over the past six months, the Fund has concentrated on implementing key aspects of its Medium-Term Strategy (MTS), especially in the areas of surveillance and quotas and voice. Work in other areas has focused on the role of the Fund in emerging markets and low-income countries (LICs), building institutions and capacity, and managing an effective institution. In this statement, after summarizing the Fund’s assessment of the world economic outlook, I shall report on the progress that has been made on the MTS.

Global Environment and Policy Response

Overall Outlook and Policy Response

The global expansion remained strong in the first half of 2006, notwithstanding headwinds from a tightening of monetary conditions by the major central banks and further increases in oil prices. As spare capacity is absorbed, it will be important to guard against potential inflationary pressures, particularly if high energy prices start feeding through to underlying inflation. For now, however, the favorable outlook for the global economy remains supportive of global financial markets. Heightened concerns about inflation and tighter monetary conditions in May and June led to weaknesses in equity markets in advanced countries with larger declines in some emerging market asset prices. Markets have recovered subsequently, while the earlier weakening does not appear to have had a major growth impact.

The strong global expansion is expected to continue, underpinned by a better-balanced composition of demand across the major advanced countries, robust growth momentum in emerging market economies, strong balance sheets and profitability in the corporate and financial sectors, and still broadly supportive financial market conditions. Global GDP growth is now forecast at 5.1 percent in 2006 and 4.9 percent in 2007. This favorable outlook, however, is subject to risks and some significant vulnerabilities.

- Inflationary pressures could intensify, requiring more aggressive monetary policy action. In particular, it is possible that the restraint on world inflation from global competition may be waning as spare capacity declines worldwide.

- Notwithstanding recent price declines, the continued potential for supply-side shocks in the oil market is a concern. To date, the global economy has been able to absorb increased oil prices quite well because price increases have been driven to a considerable degree by strong demand growth rather than supply constraints. However, with spare capacity remaining at very low levels, a major disruption to a large producer or an escalation of security concerns in the Middle East could well lead to another upward jump in oil prices.1

1 Since high oil prices continue to complicate policy making, the Fund has provided advice on the appropriate responses, including in a report prepared for low-income petroleum-importing countries that highlights the policy options available for adjusting to the shock, including: fiscal and monetary policy responses, domestic petroleum pricing, maintaining effective safety nets, and hedging strategies. (See Living with High Oil Prices in Low-Income Petroleum-Importing Countries (FO/DIS/06/84, 7/20/06).
• The U.S. housing market could cool more rapidly than expected, triggering an abrupt slowdown of the U.S. economy.

• Some emerging market economies remain susceptible to turbulence in financial markets, despite progress in reducing underlying vulnerabilities. Countries that rely heavily on external financing, still have weak fiscal positions and high public debt, or do not yet have well-established monetary and fiscal policy credibility are particularly at risk. Heightened uncertainty in international financial markets combined with domestic risks to the economic outlook could lead to a deterioration in financial conditions.

• A rise in protectionist pressures if multilateral trade talks fail would adversely affect global trade and growth. Given current risks to the global expansion, this would be the wrong time to let an obvious source of sustained growth slip away.

• While a smooth private sector-led adjustment of existing large global imbalances remains the most likely outcome, an abrupt and disorderly reduction in these imbalances cannot be ruled out and would impose a heavy cost on the world economy.

• In the event of a severe avian influenza pandemic, the human and economic costs would be large, particularly in developing countries in Africa and Asia.

Policymakers need to push ahead to implement policies that will reduce these risks and vulnerabilities and set the stage for strong sustained global growth in the period ahead. Among the most important areas where policy actions are needed are:

• Taking joint policy actions to address global imbalances, notably through steps to boost national saving in the United States, including fiscal consolidation; greater progress on structural reforms in Europe and Japan; reforms to boost domestic demand in emerging Asia, together with greater exchange rate flexibility to allow for currency appreciation; and increased spending in oil-exporting countries in high return areas, consistent with absorptive capacity constraints, particularly in the Middle East, where the large buildup of investment projects already in train is welcome;

• Reinvigorating the process of multilateral trade liberalization to allow all countries to take advantage of globalization and support global growth in the future;

• Making more rapid progress towards fiscal consolidation in the face of aging populations in many advanced countries. Some welcome progress has been made in reducing fiscal deficits, but medium-term budget plans are often neither ambitious enough nor backed up by clearly identified policy measures. Tackling these fiscal concerns effectively will require setting suitably ambitious medium-term budget objectives, as well as putting social security systems on a sound footing and containing rising health care costs. Structural reforms to improve business environments and competitiveness remain essential to bolster growth prospects in the advanced economies;

• Continuing to implement active debt management policies to reduce debt-related vulnerability and to strengthen local capital markets. In addition, prudential policies, particularly strengthening risk management systems at financial institutions, will reduce vulnerability of financial systems to shocks; and
Continuing to address the risk of an avian influenza outbreak by moving ahead with necessary public health precautions, and providing the necessary assistance to developing countries to do so. In this context, the Fund has been helping members prepare strategies for reducing the financial market risks of such a pandemic.

Regional Outlooks and Policy Response

In the United States, following strong growth in early 2006, the pace of economic expansion has moderated, and there is a risk that a more rapid cooling of the housing market could dampen residential investment and consumption and trigger a more abrupt economic slowdown. Recent fiscal performance has been better than expected, but a bolder fiscal adjustment effort—coupled with entitlement program reforms—is needed going forward. The U.S. Federal Reserve faces the difficult situation of rising inflation in a slowing economy. The recent pause in interest rate increases provides an opportunity to judge the impact of previous policy tightening and the cooling housing market on growth. Nevertheless, given the importance of keeping inflation expectations firmly in check, some further policy tightening may still be needed. In the euro area, the recovery has gained further traction, with growth increasingly driven by domestic demand, particularly investment. A critical challenge is to ensure that the current cyclical upswing translates into a sustained expansion that would support efforts to strengthen fiscal positions ahead of population aging and contribute to an orderly unwinding of global imbalances. In this regard, faster progress in implementing the Lisbon agenda—particularly more open competition in services and more flexible labor markets—and financial sector reforms remain key to raising productivity and improving job opportunities. In Japan, the economy continues to expand, and, after 7 years of falling prices, it seems that Japan has escaped from deflation. The transition from zero interest rates has been handled smoothly. Policy priorities should include restoring fiscal sustainability and moving forward with the structural reform agenda to raise productivity. Interest rate increases going forward should be gradual since there is little danger of an inflationary surge, while reemergence of deflation would be costly.

In emerging markets, growth is expected to remain strong.

• In Emerging Asia, annual growth continues to remain at above 8 percent. Most countries have also so far succeeded in restraining inflation by proactive monetary tightening and helped by real currency appreciation. Nevertheless, sustained policy efforts are required to achieve a better balance between externally and domestically led growth in the surplus countries in the region. In countries where private investment remains relatively weak, reforms aimed at enhancing the business environment are a priority, whereas in other countries, further steps toward exchange rate appreciation and a continuation of complementary financial sector reforms would help support consumption.

• In Latin America, growth remained solid and the expansion is projected to continue at a steady pace. However, global conditions are likely to become less favorable going forward, and disciplined fiscal policy should remain at the core of an effective policy framework for dealing with these more challenging conditions. Structural reforms, particularly to increase labor market flexibility, raise economic openness, and deepen financial intermediation, are needed to unlock the region’s clear growth potential.

• In Emerging Europe, growth remains robust, underpinned by buoyant domestic demand, but current account deficits in many countries are large and inflation is picking up. The region’s heavy reliance on foreign savings makes it vulnerable to a tightening of international financial market conditions. Reducing these vulnerabilities is a policy priority, not least in view of possible regional spillovers, given broadly similar risk exposures and common
creditors. Addressing these risks will require a policy mix of fiscal consolidation, adequate prudential supervision and regulatory frameworks, and tightening of monetary policy.

In the Middle East, in view of rising oil revenues, oil-exporting countries continue to enjoy robust growth, while external current account and fiscal balances improved further. Despite large terms of trade declines, growth in oil-importing countries has also been maintained, reflecting the supportive global environment and rapid credit growth. Managing booming oil revenues remains the central policy challenge for oil-exporting countries. Most countries have taken steps in the right direction by increasing spending to address long-standing structural problems, in particular the need to generate employment and boost infrastructure and human capital development, and to expand oil production and refining capacity. It will be important, however, that higher expenditure be accompanied by capacity-enhancing reforms to bring lasting supply-side improvement. In oil-importing countries, the key macroeconomic challenge is to facilitate economic adjustment to the terms of trade loss, which is likely to be partly permanent. Policymakers throughout the region should also take account of prudential risks in the financial sector.

In the Commonwealth of Independent States, real GDP growth remained steady, as the region continued to benefit from high commodity prices and correspondingly strong export earnings. However, although often policymakers have used higher revenues prudently, in some countries, governments have granted large pension and wage increases that would be hard to reverse if commodity prices fell substantially. Policymakers should not assume that recent revenue gains will all be permanent, particularly from non-fuel commodities. Nominal exchange rate appreciation is also needed to address the inflationary impact of foreign inflows. Over the medium term, the overall low level of investment in the region presents a risk to the sustainability of growth. Structural reforms to improve the investment climate are crucial to avoid the emergence or aggravation of supply bottlenecks. In oil-producing countries, strengthening institutional capacity is important to ensure the quality of scaled-up spending.

The Sub-Saharan Africa region is enjoying its strongest period of sustained economic growth since the early 1970s, but growth needs to accelerate further if the Millennium Development Goals (MDGs) are to be achieved. Sound macroeconomic policies and growth-enhancing reforms remain key to achieving these goals. Such reforms will need to include further strengthening of economic institutions particularly to ensure the quality of spending for the MDGs, improvements to the business environment through streamlining of regulations and better governance, labor market reforms, infrastructural development, and further trade liberalization.

The Fund’s Efforts to Improve Surveillance

Surveillance is central to the Fund’s role in preventing crises. It is an integral part of the MTS that surveillance must be made more effective, and continue to keep up with the changing needs of the global environment. Accordingly, the Fund is reshaping its surveillance to meet the demands of integrated financial markets and large-scale private capital flows. Since the Spring meetings, the Fund has taken a number of key steps.

- The new multilateral consultation has been launched that allows the Fund to take up issues of shared concern with several members, or a group of members, at the same time. The topic of the first consultation is how to address global imbalances while maintaining robust global growth, and a policy dialogue has begun with five participants—China, the Euro area, Japan, Saudi Arabia, and the United States. Subsequent consultations on other topics are likely to include different groups of countries that are relevant to the issues then under consideration.

- The Fund is reviewing the foundations of surveillance to ensure they are clear and relevant for today’s international monetary system. The Executive Board has had preliminary
discussions on a review of the Fund’s general decision on surveillance (the 1977 Decision on Surveillance over Exchange Rate Policies) to secure a common understanding and consensus on the operational objectives of surveillance, while not placing any new obligations on member countries. The Board also discussed the possibility of setting a remit for surveillance, based on a set of objectives and priorities. Further work on a framework for assessing the effectiveness of surveillance, will be presented to the Board after the Annual Meetings.

- Surveillance is becoming more selective, and analytical tools such as the Fund’s new Global Fiscal Model (GFM) are increasingly being applied to evaluate the impact of fiscal policy changes in industrial and emerging market economies, capture cross-country spillovers and draw policy lessons. Streamlined Article IV consultations have been introduced on an experimental basis to sharpen the focus on key issues, to tailor analysis better to individual country circumstances, and to make surveillance more effective.

- Substantial efforts are underway to strengthen the operational and analytical aspects of exchange rate surveillance. A recent internal study of Article IV staff reports on 30 large economies suggested that improvements are already visible. To make further progress, multilateral assessments of equilibrium exchange rates—the analysis that the Fund does to assess whether exchange rates are broadly in line with fundamentals—are being extended to the currencies of the major emerging economies.

- Substantial efforts are also underway to improve the Fund’s understanding of financial markets and to ensure that the analysis of the interplay between real and financial developments is fully integrated into Article IV surveillance. To this end, a single Department, the Monetary and Capital Markets Department, has been created by merging the International Capital Markets and Monetary and Financial Systems Departments. A task force has been working on improving financial analysis and financial sector surveillance in the consultations with member countries. This work will seek to strengthen our analysis of the complex interactions between global financial markets and domestic macroeconomic conditions, to improve our ability to assess underlying vulnerabilities in the economy and, in particular, fragilities in the financial sector, and to prescribe policies that will enhance robustness to shocks and thereby help to forestall crises.

Role of the Fund in Emerging Market Countries

The Fund is making efforts to adapt, better focus, and enhance its engagement with emerging market countries, which, as a practical matter, largely comprise middle-income countries. Against a backdrop of favorable financial conditions, many emerging market countries have strengthened policies, lowered vulnerabilities, improved their debt structures, and reduced their borrowing from the Fund. Some, particularly in Asia, have built high levels of reserves and expanded regional reserve pooling agreements. Nonetheless, macroeconomic fundamentals still vary widely among emerging market countries and some vulnerabilities remain, as suggested by recent market turbulence. It is therefore prudent for these countries to prepare for times when market access is more constrained and the risk of spillovers is higher.

The Fund is considering ways to adapt its policy advice and lending instruments to best support emerging markets’ crisis prevention efforts. The efforts described above to make surveillance sharper in its analysis of financial and capital markets, as well as on exchange rate and spillover issues, are particularly relevant in this context, as they will help ensure that Fund surveillance provides focused analysis on the key issues that members with market access face in today’s global markets. At the same
time, we are looking at measures to reinforce the flexibility and predictability of our lending framework, including through consideration of a new liquidity instrument for countries that are active in international capital markets. The Board has had initial discussions of key issues and design considerations for such an instrument; outreach sessions with members have also provided valuable input on members’ views regarding how such an instrument might be designed to meet their needs, while ensuring appropriate safeguards.

Some elements of the joint Bank-Fund standards and codes initiative are particularly geared toward middle-income countries. In particular, in the area of data transparency, the Special Data Dissemination Standard (SDDS) is targeted at these countries, especially those seeking market access. More broadly, the MTS has laid out guiding principles for prioritizing new Reports on Observance of Standards and Codes (ROSCs), as follows: (i) systemic and regionally important countries, at all levels of development, (ii) other emerging market countries, and (iii) program countries where the program seeks to address institutional weaknesses in areas covered by ROSCs.

I note the World Bank paper prepared for these meetings on its engagement with middle-income countries and broadly support its recommendations. Both the Fund and the Bank have important roles to play in middle-income countries. The Fund’s focus will continue to be on macroeconomic and financial policies. We see an increasing need for the Fund to work on financial sector reforms, as they are particularly relevant to mitigating macroeconomic risks. We endorse the paper’s recommendations for enhanced country ownership, improved coordination and harmonization of lending procedures across the Multilateral Development Banks and bilateral donors, streamlining of conditionality, and making the provision of advice and technical assistance available separately from the provision of financial support.

After the Annual Meetings, work will concentrate on implementing the policy changes endorsed by our Executive Board and making sure they become operational, and on developing the policies required to follow up on the remaining recommendations of the MTS relating to emerging markets. In addition to follow-up work on a new liquidity instrument, we will analyze the role the Fund could play in supporting regional pooling arrangements, including by promoting sound policies in participating countries. We will also review the structure of our charges and maturities, our policies on access, including exceptional access, and our policy on lending into arrears.

Role of the Fund in Low-Income Member Countries

In accordance with the MTS, the Fund’s policy advice to LICs is becoming more focused on macro-critical areas that would support the achievement of the MDGs, including work on the financial sector. This involves looking at absorptive capacity and the macroeconomic impact of increased aid flows and debt relief, policies on the part of LICs and creditors to promote debt sustainability, the provision of financial assistance, and efforts to strengthen members’ institutional capacity. These tasks will require a deeper, but more focused, engagement by the Fund, including new understandings with the World Bank and other agencies on the division of labor. Among other issues, the demarcation of responsibilities between the Bank and the Fund is being considered in the Review of Bank-Fund Collaboration now being conducted by an External Review Committee consisting of six distinguished outsiders. The Fund, while not taking the lead, will participate actively in donors’ efforts to coordinate their support of low-income countries at both the international and country levels.

Indeed, the MDGs will be achievable only if all development partners play their parts to increase aid effectiveness. The Fund plays an important role in this regard in helping ensure that macroeconomic policies are adjusted to accommodate aid inflows and that public financial systems are in order. In turn, we are emphasizing to donors the importance of meeting their pledges to increase their official development assistance and providing early and predictable commitments of support over the longer term.
The Fund also firmly supports the aid effectiveness goals and the international commitments embodied in the principles of the Paris Declaration. We urge the international community to implement the Paris Declaration in full, and will continue to collaborate closely with countries and other development partners to achieve that end.

**Delivering Debt Relief and Maintaining Debt Sustainability**

The Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) have moved forward. A total of 20 countries have reached the HIPC completion point, and 22 countries have received debt relief from the Fund under the MDRI. A total of nine countries are between the HIPC decision and completion points. In September 2006, the Fund and World Bank Boards decided to let the sunset clause on the HIPC Initiative take effect and grandfather all countries that are assessed to have met the income and indebtedness criteria at end-2004, which will permit these countries to qualify for HIPC Initiative debt relief at their own pace. The Fund will need to mobilize additional resources to allow all potentially eligible HIPC, including the protracted arrears cases (Liberia, Somalia, and Sudan) to benefit from debt relief under the HIPC Initiative and the MDRI.

The Fund is committed to help its low-income members, particularly those that have received debt relief, maintain debt sustainability and develop sound medium-term debt strategies. Debt relief has provided many members with additional borrowing space that can be used to make progress toward the MDGs, but too much and too fast borrowing after the relief may lead to poor investments and, ultimately, debt distress. The Bank-Fund Debt Sustainability Framework for low-income countries (DSF) is a key instrument for addressing debt sustainability issues, as it provides a framework that captures emerging debt-related vulnerabilities in a disciplined, transparent, and consistent manner, while taking into account country-specific circumstances. A new paper on applying the DSF will be discussed at the Fund and Bank Boards after the Annual Meetings. It will suggest refinements to the framework to adapt it to the increasing availability of financing from private and emerging official creditors post debt relief and to the increasing importance of domestic debt. It will also suggest broad guidelines to strengthen the assessment of new borrowing, particularly the potential impact of debt-financed investment on growth. The paper will also propose guidelines that will allow both borrowers and creditors to use the DSF to share information and reach consistent financing decisions. Although the primary responsibility for maintaining debt sustainability lies with the borrowers, it is also in the interest of creditors and donors to ensure consistency of their financing decisions. The paper will propose ways to foster creditor coordination around the framework.

**Refining the Fund’s Policy Advice**

In the coming months, the Fund will continue to refine its policy advice to LICs. This will include helping them make better use of their fiscal space to meet the MDGs. The Fund is also helping countries manage increased aid through fiscal and monetary responses to scaled-up foreign exchange inflows. Other work will focus on the role of the Fund in the PRSP and donor coordination.

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2 Cambodia and Tajikistan are the two non-HIPCs that have received MDRI relief.

3 Eleven countries are currently identified as having met these two criteria, which may wish to avail themselves of the HIPC Initiative. Other countries could be added in the future, if they are assessed to have met the two criteria at end-2004. Enhanced Heavily Indebted Poor Countries (HIPC) Initiative--Issues Related to the Sunset Clause (SM/06/288, 8/17/06).
New Instruments for Supporting Low-Income Countries

To support members that do not need or want Fund financing, but wish the Fund to support, monitor, and endorse their policies, the Board has now approved arrangements under the Policy Support Instrument for three members: Cape Verde, Nigeria, and Uganda. Several countries have asked for augmentations of access under their PRGF arrangements due to the increase in commodity prices, particularly petroleum product prices. However, no country has yet availed itself of stand-alone support from the Exogenous Shocks Facility, which is intended for countries that are facing sudden and exogenous shocks but do not have a PRGF arrangement in place. We are undertaking a review of the modalities of the Fund’s support to post-conflict countries and fragile states to ensure we have the appropriate instruments to help them most effectively.

Improving Governance and Building Capacity

Improvements in governance are needed to utilize public resources more effectively, including those from debt relief, commodity-related revenue windfalls and external aid, and make progress in achieving the MDGs. Good governance was a key element of the Monterrey consensus, and the Fund has a well-defined and important role to play in strengthening governance in areas within its mandate. For example, the Fund, jointly with the World Bank, provides advice on improving public expenditure management systems including promoting fiscal transparency, which is critical for a more efficient use of public resources, and for ensuring that resources are directed to intended purposes. The Fund also helps build more transparent and effective institutions in the monetary and financial sectors, and improve the quality and dissemination of economic data through its data standards initiatives. Underlying these efforts is a belief that more public accountability through enhanced transparency can raise the quality of public expenditure, reduce poverty, and reduce corruption.

On governance, it is particularly important that the Fund cooperate with other institutions and development partners. World Bank staff have prepared a paper for these meetings that articulates the World Bank Group’s strategy for increasing its focus on governance and anticorruption as an integral part of its work to reduce poverty and promote growth. I support the goals of the new Bank strategy and trust that its implementation will further strengthen cooperation on governance issues between the two institutions.

Further efforts have been made to align the Fund’s capacity-building activities better with the needs of member countries and evolving Fund priorities. As sound institutions and implementation capacity are critical for stability, growth, and poverty reduction, the Fund continues to provide policy advice and technical assistance (TA) in areas of its mandate. These activities are also a major element in national and international efforts to strengthen governance, transparency, and accountability. In its TA and training activities, the Fund is increasingly stressing country ownership and coordination with other providers. A third AFRITAC will open in Libreville, Gabon in December 2006, financed mainly by external resources from donors and beneficiary countries. After the Annual Meetings, work will focus on implementing the MTS for capacity building and exploring options for raising additional external financing for these activities. The Board will discuss the actions that have been taken to implement the recommendations of the Independent Evaluation Office (IEO) on the provision of TA by the Fund.4

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4 IEO Evaluation of the Technical Assistance Provided by the Fund (EB/EVC/05/1, 1/18/05).
Trade liberalization on a nondiscriminatory basis within a framework of common multilateral rules remains the best way to open up new global growth opportunities, particularly for developing countries. I am, therefore, deeply disappointed with the de facto suspension of the Doha Round of multilateral trade negotiations, as failure to conclude the trade talks would adversely affect global economic prospects and the growth outlook for low-income countries. Thus, I look to WTO members to maintain their commitment to the rules-based multilateral trading system, resist protectionist calls, preserve progress that has already been made, and return to the negotiating table to create the basis for an ambitious and successful agreement. Resuming the negotiations will require that negotiators be given mandates based on a commitment to deeper reform. Major trading nations will need to take the lead in forging agreement, but all countries will need to contribute to a successful outcome. Although separate from the Doha negotiations, the Aid-for-Trade agenda can also help poor countries exploit the advantages of open markets in a manner firmly grounded in their national development strategies; however, this will require that donors follow through on their commitments.

Quotas and Voice

Fair weight and voice are crucial to the Fund’s credibility and effectiveness. To this end, an integrated package of reforms has been recommended by the Executive Board for adoption by the Board of Governors. This reform program seeks to achieve two main goals: (i) better alignment of quota shares with economic weight in the global economy; and (ii) enhanced participation of low-income countries in the governance of the Fund. Both elements are central to the reform program. The Board of Governors has been asked to adopt by September 18 a resolution that would provide for an initial limited round of ad hoc quota increases for a small group of countries (China, Korea, Mexico, and Turkey) that are clearly under-represented, and a set of more fundamental reforms to be delivered within two years from Singapore. The latter would include: (i) an agreement on a new quota formula that is transparent and simple; (ii) a second round of ad hoc quota increases based on the new formula; (iii) a commitment to ensuring that quota shares continue to evolve in the future in line with countries’ changing positions in the world economy; and (iv) an increase in basic votes that would at a minimum protect the existing voting share of low-income countries as a group, and (v) additional measures to strengthen the capacity of the chairs with the largest constituencies.

5 Doha Development Agenda and Aid for Trade (SM/06/281, 8/9/06).

6 The vehicles of the Fund’s provision of aid for trade include the Trade Integration Mechanism as part of regular Fund arrangements, analysis and policy dialogues on trade-related issues, technical assistance for customs administration, and Fund inputs on macroeconomic issues into the diagnostic studies for the Integrated Framework for Trade-Related Technical Assistance.

7 Quotas—Updated Calculations (SM/06/185, 6/9/06) and Quotas and Voice—Further Thoughts on Approaches to Reform (SM/06/212, 6/23/06).
Highlights of Ministerial Statements

Statement by Mr. Alberto Carrasquilla, Chairman of the Development Committee, Minister of Finance of Colombia

Ministers comment that the meeting comes at a time when global economic growth exceeds expectations but when it is more important than ever to keep up momentum toward the MDGs and reducing global poverty. The reports under consideration are all highly relevant to this agenda.

Strengthening Bank Group Work on Governance and Anti-Corruption

Ministers applaud the Bank’s efforts to articulate a broad strategy to promote a more coherent, results-oriented approach to improving governance, widely recognized as essential to achieving better and more sustainable development results. They welcome the proposed three-pronged approach to this work at the country level, the project level, and the global level.

Ministers emphasize that fighting corruption is only effective when it is embedded in a broader development strategy. The Bank’s governance work should serve its poverty-alleviation mission and advance progress toward the MDGs. In this context, a central challenge is to increase aid effectiveness and encourage recipient countries to strengthen accountability and transparency. The Bank’s efforts to improve the delivery of basic services, reform the civil service, and strengthen public financial management—areas of its comparative advantage—contribute to poverty reduction, promote sustainable and equitable growth, and help reduce opportunities for corruption.

Ministers emphasize that country ownership is a prerequisite for improving government practices at the country level. They stress that the Bank’s governance strategy must be differentiated and participatory. Some Ministers urge caution in engaging with “champions” of good governance and with the media, which they feel should be limited to outreach with respect to Bank operations in the country.

Ministers acknowledge the difficulty in developing objective indicators, given the multi-dimensionality of governance, the diversity of country situations, and the continuum of risk across countries. Governance diagnostics is an evolving field. Some Ministers encourage staff to consult with country governments to determine a set of transparent, measurable indicators and stress that Country Policy and Institutional Assessments (CPIA) should continue to be the basis of DIA allocations. Some Ministers request further work on the development of clear and actionable indicators that can be applied equitably, and they ask Management to present to the Board a fuller estimate of the resources required and their suggested redeployment. A Minister suggests developing a set of governance indicators along the lines of the Doing Business Indicators to measure the quality of governance.

Recognizing that the fight against corruption is a long-term commitment, many Ministers agree that disengagement from client countries based on governance considerations would set back efforts toward achieving the MDGs. They stress the importance of consulting the Board if any financial disengagement or scaling down because of governance concerns is proposed by Management. More generally, many Ministers stress the importance of Board monitoring of implementation of the approach. Ministers also underscore the importance of consistency of treatment among Bank clients, and that continued engagement will normally be more effective in tackling corruption than withdrawal.

Several Ministers stress the need for a common approach to governance and anti-corruption initiatives among IFIs and further harmonization with UN agencies and among bilateral and multilateral donors. Ministers call for a deepening and broadening of transparency initiatives, such as the EITI.
Correspondingly, they call on developed countries to increase transparency in their financial sectors by establishing clear guidelines for companies listed on stock exchanges and by repatriating illegally obtained assets and fighting international tax evasion. Ministers welcome the recently adopted Sanctions Reform, Voluntary Disclosure Policy, and whistleblower protections as important tools for implementing the strategy.

Ministers welcome the framework presented in the paper. They encourage the Bank to continue to refine the identification of objective indicators for measuring its development impact. They welcome the proposal to consult further with member governments and other interested parties.

*Strengthening the World Bank’s Engagement with IBRD Partner Countries*

Ministers welcome the strategy on middle-income and emerging market countries, partner countries of the IBRD. They endorse the statement on the Bank’s corporate role and mission to eradicate poverty in its partnership with MICs. Because MICs are home to 70 percent of the world’s poor, the Bank’s continuing engagement with them remains part of its core mandate. Middle-income countries continue to face a wide range of development challenges despite considerable progress in fostering economic growth. As creditworthy borrowers of non-concessional funds, MICs contribute to the Bank’s financial health. Ministers recognize that as MICs develop, they will eventually graduate from IBRD lending, although they believe that graduation should be a gradual and demand-driven process. Some Ministers call for a review of the Bank’s graduation policy.

Ministers highlight the important role of MICs in promoting global governance and providing global public goods. They note that the diversity of MICs in terms of income, capital market access, policy performance, institutional capacity, and poverty levels calls for a differentiated response by the Bank.

Ministers welcome the Bank’s proposals to strengthen its engagement with partner countries, including targeted blending arrangements, local currency lending, sub-national lending, the enlarged developing menu of financial and knowledge services, and stand-alone, fee-based, advisory services. Ministers also stress the need for more flexible and timely delivery mechanisms, the elimination of internal impediments to innovative solutions, a reduction in the financial and non-financial costs of doing business with the Bank, and improved transparency in loan pricing.

Ministers are encouraged to note that the Bank’s commitments in infrastructure have increased by 40 percent since FY03 but stress that private financing has not kept pace with the need for investment in infrastructure MICs. They emphasize that IBRD support for policy and regulatory reforms and institutional capacity building should be complemented by a further scaling up of infrastructure lending.

A Minister emphasizes that Bank programs should focus on improving the business climate in MICs and note the value of the Bank Group’s “Doing Business” publication in helping countries make the needed reforms for greater business activity.

Ministers agree that greater reliance on country systems where mutually agreed and verifiable standards are in place would be beneficial in reducing the non-financial costs of doing business while also strengthening institutional capacity in client countries. The use of country systems would help borrowers develop effective safeguard and fiduciary systems for public expenditure, procurement, and financial management.

Ministers call on the Bank to deepen its collaboration with other international partners, including the IMF, bilateral donors, regional development banks, and the private sector in its involvement in MICs.
Some Ministers suggest that the Bank should help to strengthen South-South cooperation and regional integration.

*Progress Reports*

*Investment Framework for Clean Energy and Development*

Ministers commend the Bank for its work on the three-pronged investment framework dealing with energy for development and access to affordable energy for the poor, transition to a low-carbon economy, and adaptation. Some Ministers stress the need to address this agenda in an integrated manner.

Ministers emphasize that lack of access to modern energy is a barrier to economic growth and can put achievement of the MDGs at risk, especially in Sub-Saharan Africa. They stress the need for improvements in the policy and regulatory frameworks as well as additional concessional financing for the poorest countries. They also call for innovative ways of fostering public-private partnerships to finance energy investments. Some Ministers call for investments in large-scale hydro-energy projects.

Ministers support further work on possible financing options to support a low-carbon economy. Some Ministers support the innovative financing mechanisms proposed by the Bank and hope that they will help mobilize additional funding from developed countries. Other Ministers caution that the diversion of resources from IBRD for new financing vehicles could jeopardize the achievement of the MDGs. A Minister expresses concern that establishing such instruments based on an uncertain future of carbon trading could pose reputational risks to the Bank. Other Ministers note that more work is needed before a firm decision on new financing instruments can be made. Some Ministers stress the need for the Bank to focus on deployment of existing commercially available technology, particularly for energy efficiency, in view of the expected increase in demand for energy.

Some Ministers call for intensified investment in regional energy projects, and a reconsideration of the Bank’s predominantly country-focused approach. They encourage implementation of the Africa Energy Access Action Plan using existing financing channels. They urge the Bank to cooperate with other African institutions to pursue this agenda.

Ministers support the Bank’s efforts to develop strategies, tools, and finance to meet the challenges of adaptation to climate change, including catastrophe insurance instruments, early-warning techniques, more resilient agricultural crops. Some Ministers call for integration of adaptation and “climate proofing” of development projects into national poverty-reduction and development strategies and CASs.

*Education for All Fast-Track Initiative*

Ministers note with satisfaction the clear success of the FTI in helping countries meet the education MDG, deliver education services and mobilize both domestic spending and donor financing for education. They recognize the role of the FTI in making donor harmonization and alignment a reality, in line with the Paris Declaration.

Ministers agree that the main challenges remaining are long-term predictability and adequacy of funding and call on donors to convert their promises into disbursements. They encourage the Bank to continue its leading role in mobilizing funds on a global scale. Ministers stress the importance of quality of education and measurement of outcomes in addition to expanding access to education.
Ministers regret the de facto suspension of the Doha Development Agenda negotiations and encourage all parties to resume the negotiations. They urge the Bank to step up its advocacy role to help create momentum for the resumption of the negotiations. They underline that the Aid for Trade agenda is important in its own right and should continue in order to help countries benefit from trade liberalization. Ministers encourage all donors to meet their “aid for trade” commitments and support the strengthening of the enhanced Integrated Framework as an effective collaborative mechanism for the identification, delivery, and assessment of trade-relate assistance.

Ministers welcome the recommendations of the Aid for Trade Task Force and call for speedy implementation of the recommendations to enhance the Integrated Framework for the Least Developed Countries. Ministers stress that regional cooperation and integration can make a significant contribution to the further integration of developing countries into the world economy. One minister asks IDA Deputies to review IDA’s limited ability to finance regional trade projects at the upcoming IDA 14 Mid-Term Review.

Ministers welcome recent global efforts to scale up resources for development, including debt relief under the HIPC Initiative and the MDRI. They call development partners to sustain the momentum achieved at the Gleneagles Summit and meet their financing commitments, ensuring that these resources are additional and that their use is informed by an understanding of clients’ development needs.

Ministers view the effectiveness of the MDRI in IDA on July 1, 2006, as a milestone that will provide additional debt relief to heavily indebted poor countries and scale up their financial resources toward achieving the MDGs. They also welcome the Board’s decision to let the sunset clause on HIPC take effect while grandfathering all countries assessed to have met the income and indebtedness criteria at end-2004.

Ministers stress the importance of avoiding reaccumulation of unsustainable debt by developing countries that have benefited from debt relief. They urge the Bank and the IMF to be proactive in dealing with debt management and sustainability issues to avoid another “lend and forgive” cycle. The success of the Debt Sustainability Framework depends on the participation of all parties—multilateral and bilateral donors, export credit agencies, the private sector and recipient countries. Some Ministers urge those MICs that are now becoming lenders to collaborate with other official creditors in respecting internationally agreed frameworks.

Some Ministers note that initiatives such as the MDRI can only succeed if complemented by greater market openness and call on developed countries to provide greater access to their markets and reduce agricultural subsidies.

Other Issues

Some Ministers welcome the Advance Market Commitment Pilot and the launch of the International Financing Facility for Immunization and the International Drug Purchase Facility as promising initiatives. A Minister welcomes the recent decision on quota and voice reform in the IMF and urges a substantial increase in basic votes. Some Ministers support the Bank’s renewed focus on gender issues, and its intention to root gender mainstreaming more firmly within economic sectors under the Gender Action Plan. A Minister welcomes the Bank’s ongoing support for fragile states and calls for further work to develop and strengthen knowledge about effective approaches. The Minister also urges
the Bank to continue its focus on the challenges of small states and calls on other donor governments and the private sector to join these efforts.
Statement by the Hon. Kazuyoshi Akaba, Senior Vice Minister of Finance, Japan

Before anything else, let me welcome the first Development Committee meeting in East Asia in nine years. In 1997, when we gathered in Hong Kong, a currency crisis occurred and subsequently spread in East Asia, having a serious adverse effect on a number of countries in the region. Japan, with the Fund and the World Bank, supported the countries in coping with the crisis. Therefore, it has been a pleasure for us to witness the countries in the region have recovered in the subsequent nine years to demonstrate robust growth, making it necessary for the Development Committee to review the Bank’s engagement with middle-income countries (MICs) including those in East Asia from a new perspective.

The Bank’s Engagement with IBRD Partner Countries

In view of the fact that 70 percent of the world’s poor live in MICs, it continues to be critical for the Bank to be actively engaged with MICs for poverty reduction. On the other hand, as suggested in the paper “Strengthening the World Bank’s Engagement with IBRD Partner Countries”, MICs have recently become more and more diverse. To respond appropriately to such diversity, the manner in which the Bank is engaged should be differentiated.

We have seen some MICs that have stable access to capital markets and ample domestic savings. These advanced MICs should seek to finance projects for poverty reduction and balanced growth primarily with resources they can acquire by themselves. In engaging with MICs with stable market access and a means to satisfy their own financing need, the Bank needs to bring their graduation in view and focus on non-lending services that supplement the recipient’s own efforts, while lending services, if necessary, should be directed exclusively to climate change and other global public goods or to projects in a poverty area that would have a significant impact on poverty reduction.

Meanwhile, we have discussions to formulate a clearer Bank graduation policy, taking the level of market access of the recipient’s country into account. It has been more than two decades since the current graduation policy has been put in place. I think it is meaningful to discuss a new policy under which graduation consultation is initiated sooner for countries with better market access.

Some MICs that have been borrowers from the Bank are now getting positioned as lenders and donors to other lower income countries. We strongly urge them to act as responsible members of the international community, by collaborating with other lenders and donors and respecting internationally agreed frameworks.

For example, we have started to implement the Multilateral Debt Relief Initiative (MDRI) in which the International Development Association (IDA) and other multilateral institutions will cancel 100% of their debt claims on countries reaching the completion point. For this international financial support to remain effective and debt sustainability problems of developing countries not to recur, international coordination among all lenders, including emerging lenders, is essential so that no lending will be made without taking debt sustainability issues into account. Increased transparency of assistance by the emerging donors is also important.

The Bank is expected to share sufficient information with the Fund and to play an active part in ensuring that emerging lenders take debt sustainability issues into account in all lending practices, increase aid transparency, and respect other internationally agreed frameworks, through strenuous discussions for Country Partnership Strategy (CPS) and other policy dialogue.
The World Bank Group has implemented a pilot Sub-National Development Program as joint initiatives of the Bank and IFC, in which IFC assumes all financial risks. The paper refers to the possibility of risk sharing of the Bank. However, in view of the fact that it is difficult for the Bank to have leverage on sub-national entities, we need to consider cautiously the possibility that the Bank, which is not permitted under the Article to extend loans to sub-national entities, would assume financial risks of sub-national entities.

Strengthening Bank Group Engagement on Governance and Anti-Corruption

I welcome the initiatives to which the World Bank has committed to strengthening governance and anticorruption measures, based on the lessons learnt from its experience. Good governance of developing countries, which would be reinforced through the Bank’s engagement, contributes to enhance effectiveness of aid and to improve the aid environment, and, thus, is in Japan’s interest as a major bilateral donor. It also contributes to maintain our trust in development aid. It is apparent that in the long run good governance and anticorruption measures will have a positive impact on economic growth and poverty reduction. I hope the Bank will make these initiatives truly effective by respecting the ownership of recipient countries and promoting dialogue with broad stakeholders. In that process, there are two things I would like to draw the Bank’s attention to.

First, when differentiating the Bank’s engagement according to the level of governance and corruption in each country, which itself is appropriate, it is essential not to make arbitrary assessments, thus ensuring equal treatment among countries. It is also important for the Board of the Bank to engage in important policy changes, especially for changes of lending status, so that the Bank can keep its accountability. In addition, a differentiated strategy responding to each country’s diversities is necessary.

Second, even if inadequate governance and severe corruption materialized in some counties, it is essential for the Bank to maintain engagement. As President Wolfowitz mentioned in Indonesia, “fighting corruption is a long-term commitment, and results will not come overnight.” It is important to focus on technical assistance to improve governance.

Investment Framework for Clean Energy and Development

For decades, Japan has actively addressed global environmental issues. First, it was in response to serious environmental issues faced during the 1950s and the 1960s, then to the so-called oil shock in the 1970s. More recently, we have been trying hard to achieve the Kyoto Protocol targets.

Climate change is a global issue with an impact that transcends national boundaries, and efficient use of energy is also indispensable particularly to development. Thus, clean energy and development need to be discussed from a practical point of view and beyond national-level interests by all countries, whether developed or developing. In this respect, the Bank is expected to play a vital role both in financial and technical assistance.

That said, I would like to comment on the three pillars of the Investment Framework for Clean Energy and Development cited in the paper “An Investment Framework For Clean Energy And Development: A Progress Report.”

First, regarding the issue of energy for development and access to the poor, I welcome the approach putting an emphasis on infrastructure for poverty reduction, which Japan has been consistently advocating.
When discussing the action plan for electricity access for the poor in Sub-Saharan Africa, not only grants but also utilization of multilateral and bilateral loans and private capital needs to be elaborated, in view of its expected contribution to growth and substantial funding needs. If assistance which utilizes loans combined with proper energy sector reform consulted by donors is successful, it will contribute as well to enhancing the credit culture in this region.

Second, regarding the transition to a low-carbon economy, the paper seems to put much weight, towards a low-carbon economy, on development of new technologies that are not commercialized. Development of new technology is admittedly one of the key aspects of achieving a low-carbon economy. However, in a situation where demand for energy is projected to increase and improved energy efficiency is becoming a challenge, it is imperative for the Bank to focus on deployment of existing commercially available technology particularly for energy efficiency, so that the Bank can maximize use of its limited resources. I believe such an approach will eventually lead to a shift to a low-carbon economy. Based on this, it is necessary to have discussions focusing on how to make the most of private capital and existing financing instruments. Mainstreaming efficient use of energy in CPS and other policy dialogues while utilizing knowledge of other institutions such as International Energy Agency (IEA) is also important, particularly for emerging economies which are major gas emitting countries as well.

Furthermore, when discussing the subject from the perspective of beyond 2012 for the ultimate goal of the Framework Convention on Climate Change, it is essential not to fix the current framework, under which only certain developed countries are obliged to mandatory reductions of carbon gases. We need to have discussions leading to the establishment of a more effective future framework, which would not only facilitate maximum effort of major green house gas emitting countries for its reduction, but also encourage all countries to contribute in line with their ability for the ultimate goal of the Framework of Convention on Climate Change.

New financing vehicles for clean energy and development, which are suggested in the paper, are based upon the approach that a substantial amount of subsidies or concessional loans as incentives is necessary for major green house gas emitting developing countries to make clean energy investments. However, emerging economies have achieved rapid growth, some of which already have stable capital market access and ample domestic savings. In addition, improved energy efficiency and transition to a low-carbon economy have become those emerging countries’ own pressing policy agenda. In view of these facts, we believe that further study on feasibility and other practical aspects of a new financing vehicle should be focused on the option of blending non-concessional loans of the Bank and carbon finance.

Let me also add that Japan has the world’s highest levels of expertise and experience in the field of energy saving. When measured by carbon dioxide emissions, for example, Japan’s GDP per capita emissions are almost half the average of OECD countries. Japan stands ready to make the best use of such expertise and experience for the transition to a low-carbon economy, by fully cooperating with improvements in energy efficiency. In this context, intellectual right protection in the recipient countries is essential in promoting transfer of energy saving technologies. Therefore, I would like to call upon the recipient countries to enhance legal frameworks for intellectual right protection.

Third, regarding the challenges for climate change adaptation, Japan has made active contributions as a bilateral donor to help prevent disasters, such as floods and droughts. We would like to share the expertise we’ve accumulated through these activities with the Bank and other donors. We would also like to continue to proactively contribute in this field.

At the G8 summit in 2008, which Japan is expected to host, a progress report regarding “Dialogue on Climate Change, Clean Energy and Sustainable Development” is planned. Japan would like to make a
contribution to obtain a specific outcome that would lead to solving environment issues, energy issues and sustainable development issues in an integrated and consistent manner.

Education for All-Fast Track Initiative

Primary education helps individuals bring out a latent faculty, and its dissemination serves as the foundation of a nation’s socioeconomic development. Since education expenditures are recurring, you need to continuously secure funds and human resources. It is also important to provide assistance which is designed with a long-range perspective to promote self-sustaining development. With this recognition, Japan places a strong emphasis on the realization of Education for All, and is considering making a contribution to the Fast Track Initiative (FTI), which among other things provides support for national education strategy formulation in developing countries that have a strong commitment to ownership in primary education reform.

Doha Development Agenda and Aid for Trade

As for trade, the successful conclusion of the Doha Round, which supports and strengthens the multilateral trading system, will be indispensable for the sustainable growth of the global economy. In light of the purpose of the Round in which developing countries’ interests are emphasized, the difficulty in reaching a conclusion before the end of the year is perceived as a setback by developing countries as well. It is extremely disappointing that the Round was suspended. Japan will make its utmost efforts towards the early resumption of negotiations and the early conclusion of the Round.

Aid for trade is important for poverty reduction through growth. We welcome the orientation of the paper “Doha Development Agenda and Aid for Trade” that mainstreams trade into a national strategy such as the Poverty Reduction Strategy Paper (PRSP) and CAS, reflecting each country’s needs. While having provided assistance actively in this field, Japan announced the comprehensive Development Initiative before the WTO Ministerial Meeting in Hong Kong last December. Regardless of progress in the Round, Japan will steadily implement the initiative, which includes providing duty-free and quota-free market access for substantially all the products originating from the least developed countries and extending various types of aid through ODA.
Statement by Mr. Hamad Al-Sayari, Governor, Saudi Arabian Monetary Agency

It is a pleasure to attend this year’s Annual Meetings in Singapore, a uniquely successful economy. My whole-hearted thanks to the authorities for their hospitality.

The agenda before us today reflects the complexity of development issues as countries strive to attain the Millennium Development Goals (MDGs). I will first comment on the two main items, and then selectively express my views on the Progress Reports. Before I do so, however, I would like to say a few words about the current situation in Lebanon and in Palestine. Saudi Arabia has led the effort to help rebuild Lebanon and to relieve the suffering of the Lebanese people through the provision of substantial humanitarian and reconstruction assistance. Given the enormity of the tragic situation in Lebanon, I encourage other countries, particularly those that have a special relationship with Lebanon, to strengthen their efforts at assistance. I also welcome the intention of the World Bank to establish a Trust Fund for Lebanon to support the emergency recovery efforts. Saudi Arabia has also continued to provide assistance to the Palestinian people to help improve their social and economic well-being under very challenging conditions. I urge the World Bank to maintain its long-standing assistance to the Palestinians.

Saudi Arabia’s assistance to Lebanon and Palestine is but one example of our well-established tradition of providing substantial assistance to developing countries. Indeed, its development assistance significantly exceeds the UN target of 0.7 percent of GNI, and accounts for the largest share of non-DAC donor assistance.

Strengthening World Bank Group Work in Governance and Anti-corruption

There are many proposals of critical importance that have been put to us with the aim of strengthening Bank Group work in governance and anti-corruption. Our Committee, in my view, can best deliver strategic guidance to the Bank Board and Management by focusing on three issues: first, to place these efforts in the broader context of the Bank’s developmental mandate; second to review substantive dimensions of the “broad strategy” that we asked for in April; and, third to suggest where further work is needed in order to ensure successful implementation of the strategy.

On the broader Bank mandate, the full title of our Committee confirms its focus on the transfer of real resources to developing countries. The MDGs of 2000 and the Monterrey Consensus of 2002 have placed real resource flows in a widely supported framework that stresses mutual accountability by industrial and developing countries, as well as the international financial institutions (IFIs). Developing countries in particular need to continue implementing reforms aimed at preserving macroeconomic stability, building a more favorable investment climate, improving physical and social infrastructure, and generally working to ensure broad-based market-led growth. For their part, the donor countries have a responsibility to harmonize their aid to improve its effectiveness and reduce costs of doing business, as well as to increase its volume. Industrial countries have an especially important responsibility to provide greater market access to the products of developing countries and to remove distorting subsidies. All these actions indeed deserve support by enhanced flows of real resources; improving domestic resource mobilization and deployment; stimulating flows of private equity and sustainable debt; securing more, and more effectively used, official aid, including from IFIs; and capturing the considerable if elusive potential from improved market access.

Seen in this broader context, the Bank Group’s governance and anti-corruption work is not an end in itself. Rather it is a means to advance the wider developmental agenda. I retain the view that while improved governance is important for success in development, the central challenge is to be more effective in using aid in an environment of greater accountability and transparency. This implies actions
by recipient countries to strengthen national accountability systems - a long-term task where the Bank Group can play a useful and supportive role in assisting those clients who request its help.

How, then, do we assess the broad strategy that has been presented to us? There has indeed been an intensive debate on the subject since April. In my view, no material effect will be achieved in improving government practices at the country level if we fail to ensure ownership by our partner countries. The approach adopted has to be appropriately pragmatic and attentive to the diversity of countries, including diversity in capacity, and respect for local cultures. Working with partner countries who seek the Bank Group’s support should therefore be the highest priority. This necessitates recognition of three principles. The first is staying within the Bank’s non-political mandate and concentrating efforts in areas where its professionalism and expertise is recognized and accepted. Second, the Bank should not associate itself even indirectly with the political conditionality of bilateral donors. Third, it is the official government interlocutors who are the Bank’s focal counterparts and it is most effective to work through them. With their informed consent, consultations with civil society, including potential project beneficiaries, can of course take place, but extreme caution will be needed to preserve an even-handed approach that does not interfere in domestic politics, which are by nature antagonistic. Failure to address these principles would not only cause reputational risk to the Bank’s independence and technical professionalism, but also place its staff in the field at risk of being perceived as agents of outside forces. All of this must take place in the context of not undermining the Bank’s poverty reduction mandate and its efforts to facilitate implementation of the Monterrey Consensus, which implies a continued presence in countries with weak governance.

In April, our Committee had also asked for actionable and disaggregated indicators. But I still see a focus on perception-based assessments and integrated reports, which are difficult to apply objectively and transparently across a wide range of diverse countries.

What next steps are therefore needed to operationalize the strategy successfully?

I believe four steps should be taken: (1) Greater consultation with the countries likely to be impacted by the strategy, in order to determine what are their concrete priorities for assistance in this challenging area, and to obtain their support for help from the Bank in realizing them. To avoid entanglement with local politics, the Bank should be very cautious in supporting supposed “champions” of good governance whether inside or outside government. For the same reason it should also be very cautious in its relationships with media, which should be limited to outreach activities relating to the Bank operations in the country, particularly in relation to governance and anti-corruption. (2) The importance of the role of the Bank’s Board, as representative of the shareholders, particularly if any financial disengagement or scaling down is proposed by Management. (3) Further work on development of clear and actionable indicators that can be applied equitably. (4) Presentation by Management to the Board in the context of annual strategic planning work, of a fuller estimate of needed staff and other resources and how they, if necessary, will be redeployed.

I believe we all share the view that good governance is both a contributor to and a reflection of successful development. I hope my remarks will assist in generating a consensus whereby the Bank’s Board and Management can carry the process forward in a pragmatic manner in line with the overall institutional mandate and avoid unnecessary polarization.
I now turn to the second item on the agenda: strengthening engagement with IBRD partner countries.

Let us first look at the broader picture. Middle-income countries are home to 70 percent of the world’s poor, and helping them attain the MDGs and address poverty generally is an essential part of the Bank’s mission. The weight of these economies in the global economy is also important. But they are also very diverse in terms of levels of development, resources endowments, socioeconomic attainment, need for market access and overall development plans and priorities. Given this diversity, IBRD’s engagement strategy needs to be multi-pronged, comprehensive, and flexible, especially in helping countries near the lower end of the income range.

As far as meeting the needs of middle-income borrowers are concerned, I look forward to hearing the views of their representatives. I will, however, make a few selective comments on the strategy that has been proposed. IBRD is the principal financial engine that drives the World Bank. If its lending stagnates, for whatever reason, then it may reflect lost opportunities to assist partner countries, since financing needs remain large. There are also implications for IBRD’s longer-term financial soundness and related questions about trends in the administrative budget, as well as how the question of net income transfers can be addressed prudently. At what lending levels can the IBRD generate enough income while maintaining a healthy equity-to-loans ratio? What are the strategies to arrest negative transfers and then expand the loan book? At what level can net income transfers be sustained while ensuring the institution’s long-term financial viability? I believe these larger issues need further exploration by the Bank’s Board and Management as part of annual strategic planning exercises.

I note and welcome a number of positive elements in the proposed strategy, including on blending arrangements, local currency lending and sub-national financing, and stand-alone knowledge, treasury, and debt management services. Also welcome is the recognition that simplification of internal Bank procedures remains on the agenda, and that there is recognition that pricing of IBRD loans needs to be made more attractive and transparent. I also appreciate the attention to better capturing the inter-institutional synergies within the Bank Group, which is in line with the views we have expressed in the past. I also find the initial thoughts on catastrophic risk insurance to be intriguing. I look forward to the result of further work on this concept.

That said, I have some reservations about three other issues. On transaction costs, and listening to what I hear from borrowers, there remains a need to reduce the non-financial costs of doing business. Enhanced use of country systems could help achieve this, while concurrently having a role in strengthening institutional capacity in client countries. We hope that shareholders can reach consensus on moving ahead more effectively in this area while addressing legitimate concerns about control systems and fiduciary responsibilities. On stand-alone knowledge services, I do not believe it is very realistic to promote this product line as an income generating activity. The Bank needs to differentiate itself from private consulting firms. It should provide fee-based services following strictly a demand-based approach while continuing to offer technical assistance, both bundled and unbundled. Such services should be provided at cost, bearing in mind that they are the only services non-borrowing developing countries get from the Bank. I might add here that for thirty years Saudi Arabia has availed itself of reimbursable technical cooperation with the Bank. This is so because we recognize the Bank’s comparative advantage in its ability to draw on worldwide operational and advisory experience and deliver objective advice, and do so in a low profile and confidential manner when so requested. Finally, on global public goods such as combating infectious diseases, reducing greenhouse gas emissions, and preserving biodiversity, while I recognize the interest middle-income countries have in such issues, they also by definition involve both developed and low-income countries. I think a broader perspective and perhaps a separate discussion are
needed. In the meantime, I hope to see further progress reflected in individual country partnership arrangements.

*An Investment Framework for Clean Energy and Development: A Progress Report*

When we commented on the predecessor of this energy and development paper in April, we stressed that this was a complex issue and further consultation and analytical work was needed to determine where there was broad consensus for moving ahead. We made four basic points: (1) noting the importance of energy for development, we urged the Bank Group to help poorer countries better address the need for modern energy; (2) suggesting realism going forward given that the main sources of energy for the next few decades would inescapably remain a combination of coal, gas, and oil, we said the Bank should focus on helping countries produce energy in a clean and technically efficient manner; (3) we cautioned the Bank not to focus excessively on alternative energy sources that were not commercially viable; and (4) we warned that the Bank should not get out ahead of international negotiations on the contentious issue of global warming and how to adapt to it. We also called for broader consultations with all parties, including oil producers.

Turning to the paper now presented to us, I appreciate the work that staff has put into carrying the process forward, including the consultations held in Saudi Arabia and elsewhere. I maintain the view, however, that more work is needed before any firm decision is made on the way forward, particularly in relation to the proposed new financial instruments, which could pose reputational risks. Further, better identification is needed of potential synergies and tradeoffs between the three pillars of the framework.

I see **Pillar I: Energy for Development and Access to the Poor** at the heart of the Bank’s development mandate and assistance to countries in attaining the MDGs. I also view progress in this area as being dependent on mutual accountability – of countries to continue efforts at reforming their energy sectors, and of the international community, including the private sector, to make well-targeted use of available financial instruments. A complementary challenge is to ensure that new technologies, including those for cleaner burning of fossil fuels, and those using alternative energy sources, be accessible and affordable to developing countries and especially their poorer citizens. I hope our Committee can broadly endorse this approach.

On **Pillar II: Transition to a Low Carbon Economy**, I still see the need for further work and therefore cannot endorse any of the proposed new instruments. In particular, these instruments need to be seen in the context of existing funds associated with the Bank Group. I find the proposed financial instruments heavily predicated on the carbon market modalities of the Kyoto Protocol and its uncertain future beyond 2012. Establishing such instruments, potentially involving billions of dollars, based on the uncertain future of carbon trading mechanisms could pose serious financial and reputational risks to the Bank. Specifically, there are uncertainties and concerns regarding the Bank’s potential financial exposure, and about the regulatory and accounting environment for carbon credits, as well as the subsidy elements involved.

On **Pillar III: Adaptation**, I acknowledge this could be a major issue but more concrete proposals need to be advanced to help vulnerable populations adapt to the impact of response measures to climate change, and to climatic variability. Such proposals could include new early warning technology in the case of tsunamis, more resilient agricultural crops, and potential development of catastrophic insurance-linked instruments, which I have already characterized as having promise. I encourage the Bank to do more work in these and related areas.
Progress Report for the Education Fast Track Initiative

I have consistently supported efforts to improve educational outcomes for young people in developing countries, while recognizing that such efforts are challenging and long-term in nature. For an economy to develop at all in any meaningful sense, an educated workforce is essential. I was pleased to learn from the report before us that much progress has been made in overhauling educational systems to achieve better outcomes, including towards meeting the MDG goal of universal primary completion by 2015. But challenges remain, including addressing the needs of the hundred million or so out-of-school children. While I recognize the importance of domestic resource mobilization, greater and more predictable external funding is also necessary and I see encouraging signs in this regard. Of course, external sources of support need to better harmonize their separate activities. I also agree on the need for better integration of quality and learning outcomes into the educational process. I hope the Bank can continue to act as a catalyst in all these areas over the years and decades ahead.

Doha Development Agenda and Aid for Trade

On the status of the Doha Round, I naturally share the widespread disappointment at the de facto suspension of negotiations, but I also hope that discussions can soon get back on track, in spite of the complexities and differences involved. Our Committee should send a strong message that conclusion of a successful trade deal is essential and in everyone’s interest. Of course, this implies reciprocity in market access between developing and developed countries. As I mentioned at the outset, there remains enormous potential to be captured by enhanced access to industrial country markets for the products of developing countries. Together with enhanced private flows, this offers a viable alternative to continued aid dependence. I expect the World Bank to continue its advocacy role in this area. On Aid for Trade, I welcome that the framework now includes regional infrastructure projects to support enhanced trade. I continue to see merit in considering extending the approach of the Integrated Framework (for Trade-related Technical Assistance to least developed countries) to all IDA recipients. In any event, it will be important for this Committee to continue to receive regular reports on the status of trade issues.
Statement by Mr. Ahmed Bin Mohammed Al Khalifa, Minister of Finance, Bahrain

The issues submitted for our consideration today seek to address new challenges and have considerable implication for future Bank policies and operations. We appreciate the efforts expended in preparing the background documentation and are particularly grateful for the substantive discussions undertaken by our Executive Directors. We would like to make the following comments on the two topics for discussion as well as on the progress on the other key issues:

Foremost on our agenda is the analytical work and deliberations on Governance and Corruption in response to our call at our spring meeting for a broad strategy to help countries strengthen governance and deepen the fight against corruption. As we mentioned at that meeting, it was timely to take up these complex issues in view of the increasing global attention and weight of governance assessment given by donors in their aid allocation policies. The work that has been done at the Bank in the past months has brought to the fore the main issues involved and the opportunities for enhanced and clear strategy. We endorse the principle that the Governance and Corruption agenda needs to be understood within the framework of the Bank’s core mission of helping countries reduce poverty, and develop capable and accountable institutions able to achieve this objective.

Experience has suggested that the pace of governance reform may have been slow and uneven, thereby requiring a strengthened strategy. While we welcome a more systematic approach to governance, we are concerned about the scope of changes that this may entail in Bank operations, and the capacity constraints it may place on client countries. We agree on the significance of enhancing the Bank’s Governance strategy, however, the pace of this endeavor should be carefully calibrated to avoid the pitfalls that might create implementation tensions and impede results.

To ensure the success of the implementation of this Strategy, the Bank must ensure comprehensive co-ordination with their main counterpart, the government, at every stage. While Bank consultations with institutions outside of the central government are welcome, the government is the only stakeholder that can be held accountable. Circumventing the government will not only prove counterproductive, but could mire the Bank unnecessarily in domestic political controversies.

Furthermore, we need a balanced approach in the Strategy. In particular, and in the context of mutual accountability, there needs to be commensurate effort on the “supply side” of corruption. This could take the form of regular reporting of any additional regulations and measures these countries may be taking to restrict the inflow of stolen money and making it easier to restitute assets. We urge the Bank to take a stronger advocacy role, to encourage countries to sign the relevant conventions on good governance and anti-corruption to put this issue higher on the international agenda.

Finally, given that the Strategy deals with a complex and highly subjective concept, we require a clearer and stronger role for the Board in all the key stages of finalization and implementation of the strategy.

Turning to the other important issue of Bank’s engagement in middle income countries, it is clear that the new environment and evolving needs of these countries have necessitated a fresh look at the issue as presented in the document on Bank’s Engagement in IBRD Partner Countries. Basically, we note the clear case for scaling up Bank’s involvement in middle income countries. This involvement is well within the Bank’s key mandate of poverty reduction given that these countries have a significant

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8 On behalf of Bahrain, Arab Republic of Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Republic of Yemen
proportion of the world’s poor and that since the 1990s, have been receiving a declining share of Bank’s support.

Over the past few decades, middle income countries have made significant achievements in growth rates, poverty reduction, access to capital markets and institutional capacity. Yet the group also still faces many challenges: besides having 1.5 billion people with average per capita income below the IDA cut-off, most of these countries have rates of growth well below the average and a limited proportion of the population have access to private capital flows. As such, it would be expected that the Bank gives particular attention to scaling up its support to these countries and tailoring its instruments to the requirements and conditions of the large number of lower middle income countries that are most in need of Bank support.

The Bank’s strategy is appropriately founded on the recognition that the conditions, needs and expectations of middle income countries are diverse and evolving. Over the past few years, the Bank introduced measures to increase its responsiveness to client demands, particularly in financial and knowledge products. More countries are now expecting additional customized financial and advisory services, including in financial risk, local currency and sub sovereign lending, unbundled products and convening role to address global and regional concerns. We endorse the Bank in strengthening its response to these emerging requirements, and ensuring the adequacy of its internal resources and capacity to meet such demand. The cooperative nature of the institution should be taken into consideration with regard to the pricing of such services, and also to provide the incentive for clients to utilize Bank services.

We particularly underscore that the Bank norm of bundling lending and knowledge management products remain important for many middle income countries, especially those with limited market access. Despite this, demand for such services has been weak, because of the financial and non-financial costs of doing business with the Bank. We welcome the candid discussion of these issues and we acknowledge the efforts that have been made. We look forward to further work on simplifying and improving the transparency of loan pricing, streamlining Bank internal procedures, creating quick-disbursing financing vehicles, and finalizing the work on the use of country safeguard systems.

The progress report we received on an *Investment Framework for Clean Energy and Development* responds well to our expectations of a clear and more focused analysis of this complex though highly critical issue. It was helpful that the analysis was organized around the three pillars of energy access for the poor, transition to low carbon economy, and adaptation to climate variability, as well as on the role of the Bank in this diverse agenda.

Priority should be given to access to energy where there are large financing gaps and underinvestment, which, unless adequately addressed, would lead to substantial loss in GDP growth potential and leave large numbers of the poor without power in the coming decades. The analysis highlights the significance of getting the sector policy right, and meeting the funding needs of middle income countries by existing instruments, together with private sector participation and risk mitigation. The challenge is to bridge the large financing gap of low income countries, especially in Sub Saharan Africa. In this respect, we endorse efforts to mobilize the additional concessional assistance needed, including the Bank’s role in preparing the envisaged Energy Access Plan.

A more complex challenge is the transition to a low carbon economy, to mitigate the impact of rising local and regional air pollution and climate variability on development and the achievement of the MDGs. As concluded, available public and private resources and instruments cannot lead to a meaningful transition to low carbon economy and that the agenda involves a wide range of players with diverse policy attitudes and involving funding of considerable financing gaps. We appreciate the technical work undertaken on potential instruments and expect a continued effort to be made towards reaching
consensus. Meanwhile, consideration might be given to enhancing one instrument at our disposal, the Global Environment Facility, through a meaningful funding increase as mentioned in the document.

The third pillar in the strategy - adaptation to severe weather and climate variability - is critical, in view of the large and increasing number of poor people and the substantial number of projects and investments in poorer countries that are affected by and subject to climate risks. We endorse efforts to mobilize the additional funding requirements and support Bank plans for analytical work and capacity building, as well as extending lending and GEF grants.

We are encouraged by the achievements of the Education for All Fast-Track Initiative: the substantial increases in primary school enrollment; the enhancements in sector policies; and provision of a sound and effective vehicle for donor harmonization. Many countries, including in our region, have adopted reform policies and programs and benefited from the Initiative and we look forward to a further expansion in the number of beneficiaries. However, the adequacy and predictability of assistance remains an issue, and the performance on mobilization of domestic resources, as indicated, is mixed.

Going forward, the initiative faces the challenges of incorporating more countries including large states, but more significantly, of improving quality and learning outcomes. The scarcity and unpredictability of funding is a key challenge in this effort to further the Initiative’s goals. More concerted effort is needed on the part of donors and beneficiaries to mobilize more aid and domestic resources as well as expanding the scope of the Bank’s own education projects.

Finally, on the Doha Development Agenda and Aid for Trade, the de facto suspension of negotiations was most disappointing, foregoing immense opportunities for the world economy, for growth in poorer countries, as well as posing a risk of a retreat towards bilateralism. We share the hope that negotiations would be resumed, helped by our efforts to muster the political will in our countries and by continued advocacy efforts of both the Bank and the Fund.

Meanwhile, our two institutions should continue efforts to assist countries to take maximum advantage of existing trade opportunities, especially under the Aid for Trade framework. This should assist in overcoming the supply side constraints that many developing countries face, and overcome internal obstacles to export growth. We commend the work that has been done so far within the WTO and the trade-related lending of the Bank and Fund, and expect broader regional activity of both institutions that would respond to the increasing needs and potential of our Middle East and North Africa region.

We endorse enhanced efforts to promote south/south trade and regional cooperation and, given the challenges and limited resources available for cross country/regional projects, we look forward to the envisaged technical work on realistic options to scale up activity in this potentially promising area.
Statement by Mr. Hilary Benn, Secretary of State for International Development and Mr. Gordon Brown, Chancellor of the Exchequer, United Kingdom

Today, over six billion people share our small and fragile planet. But while some live in plenty, too many others don’t have enough food to eat, water to drink, a roof over their heads, a job, a school for their children, medicine and care when they are sick, and the chance to live in peace, without fear of violence or war. Each day, one in six human beings has to survive on less than one dollar and 30,000 children die needlessly; every year half a million women still die in pregnancy or childbirth; millions lack access to the AIDS treatment that could save their lives. And yet all this happens not in an age of famine and world war, but in an era of unprecedented plenty and potential, in a world eight times richer than it was 50 years ago.

In 2005 many countries promised to substantially increase their aid and improve its effectiveness to accelerate progress towards achieving the Millennium Development Goals. Delivery on those commitments is starting to happen and the World Bank and IMF have a crucial role to play in the effort. But much more needs to be done to deliver the $50 billion a year by 2010 that we have pledged. On our part, the UK is continuing to deliver sizeable increases in oda and is on-track to meet its 0.7% of GNI. This aid needs to be delivered as predictable, long-term financing so that countries can hire teachers, buy drugs, provide water, develop infrastructure and take other steps to tackle poverty with the confidence that their plans are funded. Innovative financing mechanisms such as the International Finance Facility will be vitally important in bringing forward this urgently needed funding. This year we have made significant progress on the International Financing Facility for Immunization, which will provide $4 billion to prevent 5 million childhood deaths. We also welcome the progress that has been made on Advance market Commitments for vaccines, and look forward to the launch of the pilot project by the end of the year.

We welcome the Bank’s recent decision to commit an additional $300m to IDA from its net income, and the IFC’s decision to commit $150m. Increased resources are required, and in the coming years, all donors must live up to their commitments to provide more aid.

We look to the Bank to play a stronger role in scaling up aid, including playing a leading role in supporting basic education. In particular we urge the Bank to support countries in drawing up ten year education plans and to work with other donors to fulfill their 2005 commitments to scale up assistance and improve the quality of their aid.

We must start now to discuss with developing country governments their priorities, and be clear about our plans to support them with additional aid as it becomes available. The Results and Resources Frameworks proposed by the Bank could be a key mechanism for scaling up at the country level, and the Bank's leadership will be vital. We look for a joint commitment by aid agencies to use this mechanism and to do so in a growing number of countries. Scaled-up aid should have a greater focus on under-aided countries, including fragile states and longer term resources should be committed to service delivery, such as in education. As aid is scaled up we will need to make more efforts to deliver on our Paris commitments, especially on improving alignment, increasing harmonization and accountability so that aid makes the best possible contribution to assisting countries to tackle poverty.

Money alone will not deliver development – increased aid must be spent well. 2005 saw a contract between developing and developed countries, that more aid and debt relief promised by donors would be used effectively by countries and that this involved committing to better governance. Together we have made progress but achieving the MDGs will require us to accelerate and deepen our efforts to deliver on our promises to the world’s poorest and most vulnerable.
Strengthening Bank Group Engagement on Governance and Anticorruption

At the Spring Meetings, the Development Committee requested the Bank to set out its strategy on governance and anti-corruption, noting this was an integral part of its work to reduce poverty and promote growth. We welcome this opportunity to discuss the approach and strategy, and look forward to debating it further in the coming weeks.

The effectiveness of states is the single most important factor determining whether development takes place – whether they are capable of providing security, helping business grow, delivering services to their citizens, and are accountable and responsive to them. So it is essential that governments act to improve governance, tackle corruption and prioritize the fight against poverty. Donors must support them in this effort, but countries ultimately have to do this for themselves.

Improving governance is a vital element in working toward our shared central goal of tackling poverty. Strengthening governance is the way to tackle corruption, and it is important that we approach this from a development perspective. The Bank’s approach needs to be based on countries proposing and developing their own solutions to their distinct national challenges. It needs to be taken forward in support of national plans and processes, and working primarily with governments. And, as the President of the World Bank has said, it means that the Bank needs to remain engaged with all its members. None of us should walk away from assisting poor people, even where the situations are difficult.

It is important that we recognize that others, including the United Nations, the European Commission, bilateral development partners and civil society, have expertise in many areas of governance. The Bank and Fund should focus their attention and resources on where they have expertise and experience, such as, public expenditure management, transparency, accounting and auditing, codes and standards. For our collective effort to be successful, the Bank will need to work in partnership with other partners, especially the United Nations and bilaterals, better placed to help countries deliver on their commitments.

Over the coming months, more work needs to be done to develop the strategy and discuss how it should be implemented. It is essential that this is thought through carefully and debated widely. The strategy must reflect the broad consensus of the members. It needs to set out how the new processes relate to existing ones, particularly in determining the financial resources provided by the Bank to each country. And it must be seen to treat each member transparently, consistently and fairly. We therefore urge the Bank to consult widely on their strategy and implementation plans, so that they benefit from a wide range of experiences, analyses and perspectives. This will ensure that when the finalized strategy and operational plans are put to the Board for their consideration they will command the deep and broad-based support that is essential for their achievement.

Strengthening the World Bank’s Engagement with IBRD Partner Countries

More than two-thirds of the people surviving on less than $2 a day live in IBRD countries. Some of these countries are struggling to manage the transition from low-income to middle-income country status, while others are already donors in their own right. The diversity of needs is great, but is the Bank well equipped to respond? Some countries remain dependent upon the Bank’s blend of financing, advice and capacity building. But, at a time of high private investment flows, other international financial institution funding and domestic financing of development needs, other countries are finding cheaper, and easier, alternatives to the Bank’s loans.
To be effective in IBRD countries, the Bank must be ready to work more closely with governments for example by accelerating and broadening the use of a country’s own systems. It needs to give greater ownership of Country Partnership Strategies to countries so that they become the countries’ own platforms for organizing and prioritizing all IFI assistance around a strong and unambiguous agenda to tackle poverty and inequality.

Greater effectiveness also requires being more responsive to the diverse range of countries’ evolving needs, including the development of innovative forms of assistance and support for MICs’ in managing their responsibilities in relation to regional and global public goods. Such changes may imply changes in the way the Bank works. It also implies that MICs themselves fulfill their responsibilities to tackle these issues and, as part of the cooperative international development effort, help poorer countries develop.

The Bank must take forward this follow-up work in collaboration with other development partners. We need a process for on-going discussion and agreement with other multilateral partners so that we can determine respective comparative advantages and appropriate standards. This will avoid an unhelpful ‘race to the bottom’ competition between agencies which will only serve to weaken them and make them less effective.

While we encourage the Bank to think creatively and to look for opportunities to adapt its role and products to meet these new challenges, we should also define the parameters in which this new work will take place. In our view, the draft Corporate Statement appropriately anchors the Bank’s future work in MICs around the poverty and development challenges MICs still face. We encourage continued engagement by the Bank in IBRD countries on: direct poverty reduction; pro-poor growth; enhanced stability to prevent a slide back into poverty; and regional and global public goods.

An Investment Framework for Clean Energy and Development: A Progress Report

Climate change poses the greatest environmental challenge facing the world today and it is the poor in developing countries who are most vulnerable to its impacts, such as floods and droughts. Meanwhile, access to energy is vital to growth – ensuring developing countries’ access to affordable, reliable and clean energy is critical if we are to achieve the MDGs.

We strongly support the structure of the Investment Framework around the three inter-related pillars of energy for development and the poor, the transition to a low-carbon economy and adaptation to climate change. For each of the three pillars getting the policies right domestically, regionally and internationally will help accelerate private investment and significantly reduce the cost required to take action. The UK is committed to working for a long-term international agreement to create incentives for private sector investment. The Investment Framework for Clean Energy and Development is needed to complement a global framework by reducing the barriers to investment in clean energy and adaptation to climate change in developing countries.

Each pillar of the Investment Framework alone represents a major challenge, and they are inextricably linked. The links and balance between the three pillars need to be carefully considered, but we believe they provide great opportunities to further the goal of sustainable development. We welcome the Bank’s work to maximize the use of existing instruments for each of the three pillars and we support the continued analysis on the options for developing new instruments, where they are needed to fill gaps. We also urge the Bank to explore innovative ways of funding new instruments.

It will be essential going forward for the Investment Framework to become a collaborative global partnership, incorporating the activities of the other IFIs, especially the regional development banks, and
the private sector with country energy plans. Much more effort is therefore needed by the World Bank and developing countries themselves to engage the private sector in scaling up its efforts to support the Investment Framework.

**Progress Report for the Education Fast Track Initiative**

We are currently a long way from reaching the Millennium Development Goal that every child in every country goes to school. 100 million children - and many more are girls than boys – are currently denied the opportunity to learn and develop, and this lack of education consigns many to a life of poverty and deprivation. Universal basic education is therefore a UK priority.

We welcome the efforts that the Fast Track Initiative has made to achieve our commonly shared goals. Its internationally agreed framework helps countries to secure the additional crucial financing they require, and we appreciate the Bank’s role and leadership in achieving this. We endorse the areas for future development identified – particularly the challenge for long-term predictable finance, the need for more active support, and FTI expansion to countries with the largest numbers of children out of school. We call on the Fast Track Initiative to draw up an action plan setting out a strategic response to the Progress Report. The FTI Catalytic Fund is important in ensuring that under-aided countries also receive enhanced financing; and we call for more donors to contribute to the Fund.

Long term predictable financing for education will allow developing countries to invest in schools, in training more teachers and to meet long term costs such as teachers’ salaries. We are committed to doing our part, and we urge other donors to work with us to ensure that all education plans are fully financed. The event on 17 September, hosted by President Wolfowitz and co-chaired with President Kaberuka, provides a good opportunity for African countries, led by Nigeria and Ghana, to outline the 10-year plans coming out of the Abuja 'Financing for Development' conference, and for donors to make long-term financing commitments.

**Doha Development Agenda and Aid for Trade**

An ambitious and fair outcome to the Doha Development Round is essential for global growth and poverty reduction, and there can be no substitute for a successful outcome to the Doha Round. We remain firmly committed to a multilateral rules-based trading system, and look for urgent progress to revive and resolve the negotiations by the end of the year. We must agree significantly increased market access for poor countries, substantial reductions in trade-distorting subsidies, including the complete elimination of export subsidies, and provide effective, special and differential treatment to enable developing countries to capture the gains from trade. The UK urges all key players, especially the US, Europe, India and Brazil, to seek common ground and to make progress quickly, so that there can be an early resumption of the trade talks. In particular, developed country agriculture remains the main barrier to resuming the negotiations, and we seek urgent progress here.

In parallel, it is essential that we maintain the momentum and support for Aid for Trade. As donors we need to turn our Aid for Trade commitments into firm and credible financing, within a new Aid for Trade framework, and to take this forward while we seek progress on the Doha Round. We also need to provide additional assistance to poor countries to build their infrastructure and capacity to trade, so they can seize the new opportunities created by more open markets. We look to the Bank and the Fund to continue to strengthen its support for countries in this area, including through analysis of the potential poverty and social impacts of trade liberalization. We welcome the reports of the Taskforces on the Integrated Framework and on Aid for Trade. We strongly endorse the Aid for Trade Task Force view that the guiding principles for delivering increased assistance should be those of the Paris Declaration on Aid Effectiveness – country ownership, aligning aid to the priorities identified by beneficiary governments,
transparency, mutual accountability, effective donor co-ordination, management for results, and predictable, multi-year commitments. We look forward to the implementation of the Enhanced Integrated Framework by January 2007 and call on donors to ensure it is fully financed. In line with the Aid for Trade task force recommendations we also strongly support the recommendation to extend similar support to IDA-only non-Least Developed Countries. We reaffirm our commitment that developing countries should have the flexibility to decide, plan and sequence trade reforms within their own plans for development and poverty reduction. The UK will not force trade liberalization on developing countries through aid conditionality.

Before the WTO ministerial in Hong Kong in December 2005, rich countries made ‘aid for trade’ pledges. The UK alone committed to spend £100m a year by 2010 on the institutions and people needed to support trade. Our total support for aid for trade, including support for infrastructure – like roads, ports, power and telecommunications – is expected to increase by 50% by 2010/11. This would equate to $750m a year in 2010. Together European countries and the European Commission will increase assistance to a total of €2 billion a year by 2010. Japan has promised US$10 billion over three years and the US a total of US$2.7 billion a year by 2010.

The UK calls for all countries to turn their commitments into concrete and credible financing, within a new ‘aid for trade’ framework which cuts red tape and builds the infrastructure that businesses in poor countries need to compete. This allows the developing world to see the trade regime as fair, turn the rhetoric of Doha into positive progress, and address the critics of globalization by showing all countries can share its benefits.

The Fund and the Bank continue to have an important role in taking this agenda forward.

Debt

High levels of debt have compelled some countries to choose between servicing their loans and funding basic services or critical infrastructure. We strongly welcome the continued progress in canceling the debts and the increase in poverty reducing expenditure in the poorest countries. With Cameroon and Malawi reaching Completion Point since the Spring Meetings, there are now 20 countries benefiting from irrevocable debt cancellation, and nine others are receiving interim relief. We also welcome the decision to allow the sunset clause to take effect, but need to ensure that all the countries that are potentially eligible on the basis of end-2004 data are able to benefit from HIPC and MDRI debt relief.

Since the Spring Meetings, there has been excellent progress on the Multilateral Debt Relief Initiative (MDRI). It has now been implemented at the IMF, World Bank and African Development Bank, freeing up billions of dollars for investment in services and infrastructure and to make progress towards the MDGs.

We remain completely committed to the full implementation and financing of HIPC and the MDRI. We look forward to seeing those countries who wish to seek debt relief making progress through HIPC. The UK will play its full part, assisting countries through our bilateral programmes, and providing continued financing to the HIPC Trust Fund and to meet our financing commitments to the MDRI. We call on all creditors to participate fully.

Debt relief is a partnership. Its full value is realized only if the savings are spent well. Cancellation provides long-term, predictable financing that can be used, for example, to cover the recurrent costs in providing basic services to poor people or to maintain and develop infrastructure. We urge countries that have received relief to make best use of these resources so that they benefit the poor, and to publicize what resources are available and how they have been spent.
Additional financing is clearly required if we are to reach the MDGs and support faster economic growth and development. For most low-income countries, concessional borrowing will be a relevant form of accessing additional donor support. We strongly believe that debt relief should form the basis for long term debt sustainability and it is important that countries do not re-accumulate unsustainable levels of debt – robust debt management is needed and all new borrowing should be on appropriate terms, and the funds used for productive purposes.

The primary responsibility for borrowing lies with countries themselves and we urge the Bank and the Fund to increase their support in helping governments to manage their debt effectively. At the same time it is essential that creditors lend responsibly. All creditors, including export credit agencies and donors, should take account of the financial condition of these countries and exercise restraint in extending new loans. We urge the Bank and the Fund to be active in facilitating and supporting stronger creditor coordination.

We will continue to work with the Bank and the Fund to strengthen the joint Debt Sustainability Framework. We urge the Bank and the Fund to continue their work to disseminate the DSF to all official creditors, including export credit agencies, to guide their lending decisions. We also underscore the importance of implementing an effective approach to deal with the issue of ‘free riding’.

The UK believes that all of the poorest countries that can use the savings from debt relief effectively for poverty reduction should be eligible for 100 per cent debt relief. The UK will continue to pay its share of the debt service owed to the World Bank and African Development Bank by other low-income countries that meet the criteria, and we urge others to join us in this effort.

Conditionality

Conditionality is essential to ensure accountability. But we must learn from experience and past mistakes, and ensure that we apply the right kind of conditionality. The UK bases its decisions on shared commitments to poverty reduction, respect for human rights and international obligations, and strengthening accountability, including fighting corruption. We urge others to consider the approaches they use.

It is now a year since the Development Committee endorsed the Review of World Bank Conditionality and the new ‘Good Practice Principles’. The principles reaffirmed and strengthened the Bank’s commitment to ensuring government ownership of the programmes financed by the Bank, and reflected a commitment to address other concerns such as the number of conditions used and their transparency. We welcomed these principles, but we said at the time that we placed great importance on Bank management ensuring that they are consistently followed. We continue to do so, and now look to the Bank to live up to its commitment to improve its practice in this area.

We note the recent progress report on how the principles have been put into practice. The good examples cited in this report are encouraging and we welcome the steps taken to incorporate the good practice principles into Bank processes. However, we were disappointed not to receive a full report so that we could assess properly what progress has been made, learn lessons from the first few months, and identify the areas where further efforts will be needed. We look forward to the more detailed report promised by the Bank ahead of the mid-term review of IDA 14. The UK will take a decision on the release of the £50 million contribution to IDA, which is conditional on the implementation of this review, when we are in a position to judge progress.
Voice

To remain effective, the IMF and the World Bank management should reflect its near universal membership. Fair representation and voice are crucial to the legitimacy of a global institution. So we note the progress on quotas at the Fund and look forward to a fairer balance of voting rights. We call on the World Bank to make similar progress to increase the role of developing countries in its governance. Alongside the adjustment of quotas and votes, the UK continues to support measures to ensure an effective voice, assisting Executive Directors representing Sub-Saharan Africa, greater openness and transparency, and increased decentralization and staff diversity. Progress on conditionality will also help to improve voice.

Asia 2015

The UK was honored to have hosted the Asia 2015 Conference in London in March this year, to discuss the main challenges facing Asia in promoting growth and ending poverty. The conference raised issues for us all to address in our work individually and together, including increasing access to services; building state capacity; ensuring that the benefits of economic growth are equitably distributed and that natural resources are used in a sustainable manner; reducing inequality and addressing environmental risks; and, in doing all this, move to a more mature partnership between donors and Asian countries. We welcome the continuation of discussions on some of these key issues in a seminar in the margins of these meetings, which will look at how South Asia can work towards ending poverty within a generation. We cannot and must not stop tackling with these challenges, and we must move beyond discussions to practical actions.

Conclusion

Many countries have made bold commitments to cancel the debts of the world’s poorest countries, to increase aid dramatically and make it more effective, and to improve governance to allow the poor a greater say in their lives. We have begun to turn these commitments into action but further effort is needed to ensure that we keep our promises to the world’s poor, and fulfill our ambition of a world free of poverty.
Statement by Mr. Paul Antoine Bohoun Bouabré, Minister of Planning and Development, Republic of Côte d'Ivoire

Strengthening Bank Group Work in Governance and Anticorruption

Several studies conducted by Bank units have established causal links between economic growth, development, and poverty reduction on the one hand, and governance and combating corruption, on the other. The combination of poor governance and corruption in a country therefore has a highly negative impact on growth, stymies the development process, and renders poverty reduction efforts futile. These studies have also acknowledged that poor governance and corruption do not exist in developing countries only, but are found in all countries, to varying degrees. However, it has been recognized that their effects are more devastating in developing countries than in high-income countries. For this reason, low-income countries should make every effort to combat corruption and improve their governance systems.

Against this backdrop, World Bank Group institutions, whose principal mission is to assist member countries with poverty reduction, should obtain appropriate mechanisms to tackle these problems, which undermine the effectiveness of their work. It is also in the interest of our countries to provide strong support for the strategy of World Bank Group institutions, which seeks to develop such mechanisms and put in place a transparent intervention framework that meets credibility, integrity, and accountability criteria.

Insofar as Sub-Saharan Africa is concerned, the countries of our group have established institutions, programs, and mechanisms in recent years aimed at improving governance and combating corruption. Without a doubt, results to date have been limited owing to the complexity of the issue, weak capacity, and scant resources. However, we remain hopeful. The success of this work will ultimately depend on the degree of ownership and commitment by each country, and on the amount of assistance provided by the international community in the area of capacity-building in our countries.

The countries of our group support the strategy proposed by the World Bank as well as its implementation in a transparent and uniform framework so that these issues can be addressed. However, we would like to make three points. First, the Bank should not suspend its assistance based on the mere presumption of corruption in countries. It should continue its assistance to such countries while adopting its approach and targeting its interventions in such a way as to better take into account the context and specific features of the environment, while awaiting the findings of the necessary investigations.

Second, we do not think it appropriate for the Bank to establish another ranking system of countries based on governance indicators and corruption. The Country Policy and Institutional Assessment (CPIA) system currently in place already uses a similar ranking system.

Third, we think that the potential subjectivity of assessments that could result from this exercise warrants a request for involvement by the World Bank’s Board, with a view to ensuring equity and accountability in the way borrower countries’ files are processed during each phase of implementation of the strategy.

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Lastly, we recognize the need to build internal and external support for this agenda. We would also like to stress the key role of governments in the success of the strategy proposed.

*Strengthening the World Bank’s Engagement with IBRD Partner Countries*

We are pleased to participate in the discussions on strengthening the World Bank’s engagement with countries eligible for IBRD assistance. At a time when these countries, in which 70 percent of the people live below the poverty line, are facing various development problems, we welcome the preparation by the Bank of the report that provides grist for our dialogue on this subject. Our group includes a number of IBRD-eligible countries that are implementing ambitious reform policies as well as economic reform and trade liberalization programs. Despite these efforts, large segments of the population of these countries remain impoverished and vulnerable. For this reason, the Bank’s assistance is needed to support these actions and shrink the pockets of poverty existing in these countries.

To this end, we note the difficulties associated with the design of standard mechanisms applicable to all the countries concerned, owing to the diversity of these countries. Instead, we support establishing a framework for cooperation with a range of instruments suited to the specificities of each country and strengthening the framework for sharing experiences, so that each country can draw on these experiences based on needs at a given point in time.

We thus support the recommendations submitted by the World Bank regarding the strengthening of its assistance to middle-income countries. These recommendations will focus, in particular, on the reduction of the cost of doing business with the Bank, expansion of the range of intervention mechanisms, as well as the identification and elimination of obstacles to global provision of the Bank’s expertise and advice.

In conclusion, we would like to underscore that despite obvious differences between what are known as “IBRD” and “IDA” countries, a common desire exists to strengthen the IBRD’s financial situation in the medium term, so that it can yield profit for all members of the World Bank Group. At this juncture, we must underscore the importance of increased transfers to IDA, based on net revenue generated by the resumption of IBRD activities, and of efforts to achieve greater synergy between the IBRD and IDA to the benefit of all countries, particularly IDA countries, which are the most vulnerable.

*An Investment Framework for Clean Energy and Development*

The progress report paints a worrisome picture for our countries in the area of investment for clean energy and development. In fact, based on the current trend, Africa is the least prepared of all continents to face the challenge of financing access to clean energy, to transition to low-carbon economies, and to adapt to climate change. Consequently, our countries support the establishment of the financing mechanisms envisioned in this report. Furthermore, given the magnitude of the energy sector’s financing needs in Sub-Saharan Africa, we urge developed countries to step up their assistance and expedite implementation of related programs.

With regard to energy-related needs for development and access by the poor to this resource, we welcome the progress made with the proposal to double concessional financing, in order to support the Action Plan for Africa. Given the dearth of resources, our countries have no choice but to launch an urgent appeal for provision of the resources necessary to finance the Action Plan for Africa. However, it should be noted that these contributions, already significant, fall short of the level of financing required to permit as many of the poor as possible to achieve clean energy by 2030.
In the context of transition to a low-carbon economy, we support the establishment of the funds known as CEFV and CESF, as well as the renewed interest of the Bank in stepping up work in this area. We support any initiative aimed at relaxing the conditions for use of these funds, with a view to ending the cumbersome procedures of the Bank and GEF.

In the sphere of adapting to climate change, our countries endorse the “polluter pays” principle, voice their grave concern over the absence of a financing proposal oriented toward Africa’s needs, and call for consideration to be given to such a proposal.

Lastly, in terms of the role of the World Bank, we acknowledge the work done in recent years, taking into account in particular the increase in resources allocated to the energy sector. Although these resources are significant, they remain well below Africa’s needs. We therefore call on the Bank to redouble its efforts in this area.

Education for All Fast Track Initiative

We are pleased with the progress made with the Education for All Fast Track Initiative, which has evolved from the global model of resource allocation to a model for resource mobilization by country using the mechanisms existing in each country. The results are encouraging, particularly in the areas of strengthening aid effectiveness and joint responsibility of partners, especially at the primary education level. This success will be sustained only if the secondary level can absorb those students who have completed the primary level. It is for this reason that we appeal for coordinated action among the various levels of education—from primary to secondary and up to tertiary—if we wish preserve the credibility of this initiative.

We hold the view that the qualitative and quantitative aspects of instruction should be accorded the same priority. Improving quality calls for both investment and time. It also requires teacher training, a major problem that needs to be urgently addressed. To this end, we recommend that the Initiative provide more support for teacher training, particularly in the rural areas of Africa.

We note with satisfaction the progress made with donor commitments and the actual disbursement of funds, which rose from US$6 million at the start of the program to the current figure of over US$96.2 million. However, major constraints, taking the form of financing shortfalls and the predictability of resources, still exist. We therefore encourage the Bank to continue its leadership role in the area of global resource mobilization. In this regard, we are pleased with the initiatives taken by a number of bilateral partners to provide mechanisms for obtaining predictable financing over the long term, in particular for countries that do not receive substantial donor assistance in this sector. Furthermore, we welcome the contribution of additional funds obtained through the HIPC Initiative and other debt forgiveness programs.

Doha Round and Aid for Trade

We commend the quality of the progress report on Doha Round trade negotiations and on the mobilization of aid for trade resources from development partners. We express, from the outset, the firm support of our countries for the recommendations contained in this report.

We would like to avail ourselves of this opportunity to express our grave concern over the announcement last summer of the suspension of Doha negotiations. We would also like to convey our countries’ concern over the slow pace at which development partners are fulfilling their commitments made in that context and implementing the aid for trade agenda. The foregoing notwithstanding, it is our hope that these negotiations can be resumed and successfully concluded before the end of the year.
Indeed, we commend the Working Group on the significant progress made. This group was established by the Director General of the WTO, for the purpose of implementation of aid for trade.

Our countries continue to support strengthening of the international framework, not only to identify needs in the area of trade of the least developed countries, but also to build human capacity so as to formulate consistent strategies and to coordinate foreign aid more effectively. In this regard, we have no objection to the establishment of a parallel mechanism for middle-income countries, whose economies continue to be negatively impacted by exogenous shocks. These countries need foreign aid in order to ensure a smooth transition toward trade liberalization. To this end, we launch an urgent appeal to the international community to expedite establishment of a multilateral fund aimed at meeting regional and interregional trade financing needs and at supplementing existing financing mechanisms. We also underscore that the conditions for access to such a fund should be clearly stipulated.

Lastly, we call on the international community to increase significantly investment in the areas of transport and energy infrastructure and in all areas of the economy likely to create conditions conducive to trade expansion.

*Sustainable Debt for IDA-Eligible Countries*

Finally, we would like to offer a few comments on the problem of sustainable indebtedness, in the context of the framework proposed by the IDA.

First and foremost, we stress the importance of maintaining debt ratios that are prudent and sustainable. Moreover, the provision of grants in the context of IDA-14, particularly during the ensuing Multilateral Debt Relief Initiative (MDRI) implementation period, gives rise to “free rider” behavior. The studies conducted by IDA itself hardly cite specific examples of this problem. Consequently, we think that the cost of implementation of IDA-recommended measures to combat such behavior could by far outweigh potential advantages. We are therefore convinced that a more rational approach to the issue of possible “free rider” behavior consists of focusing on analysis of the debt sustainability framework (DSF) and increasing assistance to countries, with a view to providing them with the capacities needed to adopt and apply the best debt management systems. This approach should prove pragmatic and should dovetail with the increase in ODA targeting achievement of the MDGs.

We think that in order to be viable, the solution to the problem of “free rider” behavior should take into account the availability of concessional resources required to strengthen the potential for long-term growth and finance achievement of the MDGs, rather than focus solely on restrictions to ensure control of the level of absolute indebtedness. Indeed, given the paucity of such concessional resources (grants) being discussed here, IDA’s proposal to tackle the problem of “free rider” behavior would impose limits that would make it too difficult for countries to obtain other types of financing. Although we understand clearly the rationale for this proposal, we are concerned that it could considerably limit the options open to countries to obtain resources other than IDA financing, which they certainly need in order to achieve the MDGs.

In conclusion, it is our view that the procedure being followed needs to be altered in order to mitigate the risks of “free rider” behavior in the general context of the availability of resources needed to achieve the MDGs and to ensure growth that is both strong and sustainable, given that this is the only way to guarantee permanent elimination of the problem of indebtedness. A compromise will have to be reached between a level of sustainable indebtedness and achievement of the MDGs. Indeed, investment opportunities that are bypassed owing solely to the more restrictive nature of concessionality criteria represent missed opportunities to expand the scope of development work and poverty reduction. What is
needed is the establishment of a framework that would help countries use resources generated by their new loans in such a way as to take full advantage of their long-term growth potential.
Statement by Mr. Thierry Breton, Minister of the Economy, Finance and Industry, France

In 2005, the international community made ambitious commitments to increase official development assistance. In 2006, I believe that the community has kept a large share of its promises. These commitments were not ignored but have been, or are being, implemented. The International Monetary Fund, the World Bank and the African Development Bank moved forward on the multilateral debt relief initiative, freeing up $55 billion for development. Likewise, the international solidarity contribution on airline tickets is now a reality in France and several other countries. The French government has decided that revenues from this contribution, estimated at M 200 euros annually will finance the international drug purchase facility (UnitAid), which will be launched tomorrow at the United Nations in New York. By the same token, the International Financing Facility for Immunization, to which France is the second top donor, will also issue its first bond before the end of the year. Lastly, considerable progress has been made on the Advance Market Commitments which should lead to the initiation by interested parties of a pilot by the end of the year.

However, these encouraging results are still not enough. We are all aware of that. The primary challenge remaining is doubtlessly to increase the amount of aid, particularly in Sub-Saharan Africa, where we must redouble our efforts if we are to fulfill the objectives established at the G8 summit at Gleneagles. The World Bank report on the Fast Track initiative clearly illustrates that point, emphasizing the major needs yet to be addressed in the field, given the more than 100 million children worldwide who do not attend school, and the funding needs that must be met.

We must also redouble our efforts to ensure that aid funds are used in the most effective way, as our meeting agenda invites us to do. In addition to the road map laid out by the 2005 Paris Declaration on Aid Effectiveness, governance and the fight against corruption are at the heart of this problem, as is maintaining debt sustainability for poor countries. We need a clear strategy and reliable rules in both areas to guide the international community and coordinate the various actors.

Corruption and the governance gap are not, of course, stakes specific to developing nations. However, they are more sensitive issues there, not only because such conditions flourish in situations of poverty, but also because they constitute an unacceptable obstacle to poverty reduction efforts. Without guarantees in this area, donors hesitate, in fact, to provide aid, fearing that funds will be diverted, or opt for burdensome and restrictive procedures. They refuse to use country systems, reject budget support in favor of a project-based approach that may be inappropriate, and increase supervision and monitoring, thus drawing resources from national governments already in lack of capacity.

If we are to break this vicious circle, as the World Bank’s new proposed strategy invites us to do, the first critical step is to ensure that those most affected share that goal and own this strategy. We must strengthen project preparation and better integrate the issue of corruption from the outset. Similarly, as the World Bank suggests, new tools for project monitoring and sanctioning fraudulent or corrupt practices may be developed. However, the principal effect of such measures will be to reduce the World Bank’s own risks, without actually improving the environment in terms of governance. Furthermore, even if these measures reduce risks associated with the Bank’s involvement, they may also disrupt and slow its work by encumbering its internal procedures and resulting in more projects being dropped. If the World Bank is to have a real impact on governance and build solid, effective and accountable States, it must remain committed, along with its partners, and together define shared strategies appropriate to various contexts. Aid delivery procedures and channels must be adapted to take into account corruption risks and quality of governance, not the volume of aid allocations, which today takes largely into account the governance factor. The temptation to withdraw, even partially, is not the right way to address corruption issues. What partner countries really need is to strengthen administrative capacities, improve public finance management and improve the business climate.
Furthermore, the World Bank cannot act alone in this area. It has a limited mandate and its leverage depends on the variable financial weight it carries in the partner countries. It must thus better coordinate with other actors—be they regional development banks or bilateral donors—who often enjoy greater operating latitude.

Finally, the strategy must be based on clear rules and an impartial decision-making process, backed by transparent criteria and indicators. Otherwise, the Bank’s decisions will be questioned and could undermine the cohesion amongst shareholders. Consensus must thus be maintained by assigning the Executive Board a central role in implementing this strategy and endorsing the most sensitive decisions. This is the most effective way to protect the Bank as an institution. This is also the best guarantee of flexibility and equity of treatment in its dealings with countries.

The World Bank’s efforts to strengthen its activities in the areas of governance and the fight against corruption thus deserve to be welcome and pursued. We hope that this strategy will be finalized and approved by the shareholders before the end of the year.

The debt issues we must discuss also address the more general problem of aid effectiveness. How effective would last year’s debt cancellations be if they were not additional cancellations and entirely offset? The resources of the international financial institutions would have been quickly exhausted and the recipient countries would have faced the gradual withdrawal of these institutions, particularly in Africa. We must make sure that cancellations remain additional and that all creditors, including commercial creditors, take their share of debt cancellation to the heavily indebted poor countries. What would be the impact of these cancellations if we could not prevent the accumulation of new unsustainable debt? Such a financial burden would quickly undermine our new flexibility to the detriment of investment in infrastructure, education and health systems necessary to achieve the Millennium development goals. Thus we must define clear and shared rules to ensure that all development actors operate under a common framework, but without arbitrarily limiting developing countries’ resources. The value of the rules must be matched by flexibility and adaptability required by the diversity of national contexts.

In this regard, the IDA measures approved in July represent a very important first step. They will strengthen coordination among donors by ensuring a wider dissemination of the debt sustainability analysis framework. They should discourage countries benefiting from debt cancellation from seeking new non-concessional loans, as their accumulation could rapidly lead to unsustainable debt. Finally, they will introduce more transparency into the system by requiring borrowing countries to report ex ante the debt they anticipate to incur.

Still, these measures have not solved all the problems. Strengthening the debt sustainability analysis framework will be on our common agenda during the coming weeks and months. Beyond improving analytic tools and addressing external shocks in sustainability analyses, we must consider the new risks to poor countries’ debt, specifically with respect to non-concessional lending. All actors involved in development must be engaged in this process if we are to achieve consensus on controlling the pace of these countries’ assumption of new debt, both domestic and private, without designing an overly-rigid framework that overlooks the diversity of national circumstances. Together, we must create an instrument that can serve as a benchmark for all donors and be used to structure lending policies.

We must also adapt to a political context that has changed with the arrival of new donors. Recently large beneficiaries of assistance, large emerging countries have joined the donor community. This is very good news and we must draw the consequences of this new context. However, if these countries have sometimes become major donors, they also need international financial institutions to support their development, to reduce inequities and help them finance action for global public goods, like
mitigating the effects of climate change and promoting clean energy. The World Bank’s commitment to strengthening its efforts in middle-income countries should be supported. But we must now consider the major emerging countries as both donors and recipients of official development assistance and, by working together, establish a true partnership. This supposes that middle-income countries fully integrate themselves into the donor community, by assuming their responsibilities towards the poorest countries, specifically by taking a greater role in funding multilateral development institutions, such as IDA. This new partnership must combine solidarity and reciprocity.

Energy issues and the fight against climate change constitute a primary arena for developing this new partnership with major emerging countries and, more globally, middle-income countries. These questions have taken an important place in international discussions this year and I am pleased that the World Bank is deeply involved today in carbon finance initiatives and is a key actor on climate change issues. It has assumed this role since its commitment in 2004 to increasing the funding for renewable energy and energy efficiency by 20 percent per year until 2009. However, it must capitalize on this experience and, in partnership with the Global Environment Fund, encourage other development banks to follow its lead.

The new version of the energy investment framework has been revised to incorporate the discussions of the April Development Committee and the G8 meeting in St. Petersburg. It addresses several energy and climate challenges we must face if we are to achieve sustainable development in developing countries. Like the Bank, we must recognize that climate change is not only an energy issue. Indeed, it is also a developmental challenge. That is why access to energy deserves the emphasis it receives in the proposed strategy, particularly to better address Africa-specific issues.

Finally, I would like to conclude by emphasizing that although development aid is more stable and effective, it alone cannot reduce poverty. We must offer low-income countries the means to sustain their own development by encouraging their inclusion in international trade. From that perspective, the WTO Ministerial Conference in Hong Kong produced significant results. The least advanced countries could risk losing that advantage if the suspended negotiations are not resumed. France has expressed its openness in this regard and we strongly hope that our partners will join the European Union’s initiative, “Everything But Arms”.

In this context, aid for trade has considerable importance. It is a key condition for international trade to bring about expansion and diversification of foreign trade in the countries concerned. Starting today, we must help strengthen trade capacity by more accurately assessing the adjustment costs that developing economies will have to confront and by developing the necessary support policies. The international financial institutions clearly have a key role to play in this area. Moreover, aid for trade has never been part of the Doha “single undertaking” and the suspension of negotiations should not cancel the financial commitments announced last year. The WTO workgroup also issued operational recommendations aimed at strengthening the integrated framework for assistance to the least developed countries, which we should implement quickly. The World Bank report embraces this approach and should be supported. It also recommends strengthening regional cooperation on trade-related projects, which assumes funding more regional projects, particularly with respect to regional development banks. Last, this effort must be linked to increased assistance for private sector development.
Statement by Mr. Luis Carranza Ugarte, Minister of Economy and Finance, Peru

We very much agree with the choice of Governance (including Anticorruption) and the Middle-Income Countries Strategy as the items for deliberation at the 74th meeting of the Development Committee. Both topics are central to reduce poverty and accelerate progress in the fight against underdevelopment. We will center our comments on these two topics, and we will also include clean energy and development, the Education Fast Track Initiative (FTI) and trade.

**Strengthening the Bank Group’s Work on Governance and Anticorruption**

*When it comes to the proposed strategy, the government should be in the driver’s seat.*

Other actors besides the client governments should be scrutinized to be part of governance partnerships. We think it is healthy to involve other actors in the efforts to improve governance as long as they share the country’s vision and policy directions to address governance problems. If instead they are interested in perpetuating the predatory institutions that impede change or have particular agendas that have little to do with promoting good governance but more to do with advancing ideological positions, they should be left out. Some non-governmental organizations that capture naive local groups to advance their own agendas and destroy nascent institutional building efforts, especially in extractive industries, are a case in point. What assurances can management give us that participation will not deviate from the noble goal of improving the quality of governance and degenerate in an uncontrollable political problem? Moreover, all the assessments to curtail corruption and improve governance –such as expenditure, procurement and fiduciary assessments– are to be carried out by the Bank in coordination with the government institutions, and coordination will be difficult if the government is not leading the strategy.

*Governance should be the focus of the proposed strategy.*

We would like management to calibrate the different dimensions of governance reform, including corruption, and implement the proposed strategy at the country level accordingly. Corruption is just one dimension of governance, which is a much deeper and multidimensional problem. We are aware that governance and corruption are interdependent, but improving the quality of governance, which also contributes to reducing corruption, requires much more than addressing corruption. In particular, the wasteful loss of resources derived from faulty governance (faulty government management and predatory institutions) in the delivery of social and infrastructure services is normally much larger than the amount of resources that can be lost to acts of corruption. Attacking corruption is a moral imperative, but improving the other dimensions of governance –by, for example, reforming the delivery of basic services, the civil service, the public investment systems and in general improving the quality of public expenditure– can have a much wider effect on reducing poverty and increasing sustained growth.

Development and underdevelopment are determined by differences in the quality of governance. In particular, development is characterized by the predominance of good government management and developmental institutions over faulty management and predatory institutions. Improving the quality of governance (management of public affairs and institutions that make up the economic, social, and political fabric of a country) requires a long-term and time-consistent effort that goes beyond electoral cycles and the terms of the Country Assistance Strategies (CASs) that periodically define the rules of engagement between the countries and the Bank.

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10 On behalf of Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay
We will now propose a framework to assess the quality of governance and act accordingly.

The Doing Business Indicators (DBI) is a good tool to test quality of governance when it comes to the relation between the government and the private sector. This tool, which employs concrete actionable indicators, assesses the quality of governance in all key markets of the economy. We urge the Bank to develop a similar set of indicators, which could be called Government Business Indicators (GBI), to measure the quality of governance when it comes to the relation between the government and the citizenry. Specifically, we are thinking of developing actionable indicators of the labor markets of public servants for the delivery of education, health and social protection—areas where governments use the bulk of public resources—and actionable indicators to measure the quality of public investment, in addition to the traditional focus on government purchases and fiduciary aspects, which are relatively well studied. These public labor markets have special regimes that usually overprotect the incumbents and lack accountability mechanisms, and public investment is rarely prioritized to maximize social returns. Also, further work on the indicators included in the Country Policy and Institutional Assessments is needed to turn them into concrete actionable indicators that, together with the indicators of public labor markets and public investment quality, can be part of the GBI. By pooling the DBI and the GBI into a single database, we can arrive to a reasonable assessment of the quality of governance and define specific strategies of reform at country level.

Going beyond the Bank’s projects to fight corruption

Corruption at the country level is a more important development problem than corruption in Bank projects. As we all know, actions at the project level, even though important and necessary for the Bank’s reputation, have the scope of the project itself and last only while the project is active, whereas actions at the country level are more wide-ranging, more sustainable and can address the necessary changes to institutions to progress in building good governance and fighting corruption.

The proposed strategy excessively worries about the Bank’s reputation. It is too much centered on ring fencing the Bank’s projects from corruption and expends a disproportionate amount of time, effort, and resources to attack this problem. We think that the right approach is to expand the realm of the fight of corruption, taking probably more risks but getting by far larger rewards. We are referring to improving country systems to expand the fight of corruption in projects at the country level, that is, not only to have Bank projects that function well and are corruption-free, but also to ensure that the institutional gains they create are not lost once the projects are completed and to really begin changing institutions bottom-up to reduce/eliminate the problem of corruption in a sustained way in the medium term.

A cost-benefit approach to corruption – Cross-sanctioning, simple and non-discretionary policies, and rewards offered to denouncers help to reduce corruption. Criminals perform a cost-benefit analysis before committing crimes. The lower the sanctions, the more it pays to be involved in corruption. Since cross-sanctioning increases sanctions—when applied either at the country level or across the International Financial Institutions (IFIs)—it will result in less corruption. Likewise, the lower the benefits of corruption, the less it pays to be corrupt: simple automatic policies that leave little room for discretion would surely lower the benefits of corruption. Here again the DBI and the proposed GBI can help enormously to reduce the benefits of corruption. But in addition to increasing sanctions and reducing the benefits of corruption, incentives to capture the corrupt have to be in place. In this sense, the Voluntary Disclosure and Whistle Blower Programs, together with a system of rewards for those who denounce corruption, will help to further increase effectiveness in this field.

Restitution of assets to regain credibility. Restitution of assets is a very powerful tool to restore credibility in government institutions, especially after significant cases of corruption such as the capture of the government by a corrupt elite. In this case, after a regime change, it is imperative to have the stolen
assets returned as soon as possible to rebuild the moral fabric of society. We suggest that the Anti-Money Laundering Initiative put special emphasis on this issue and that the governments of the big financial centers where those assets are placed be requested to provide substantial cooperation in this effort.

**Selectivity, strategizing and budgeting**

Governance and Anticorruption is being streamlined into the CASs, together with environment, social assessments, participation, gender and other cross-sector themes. Strategizing is about making choices of what is and what is not relevant at the country level, given a limited amount of resources. It is important to avoid overloading the CASs with every new topic that is given priority at the Bank’s level. If governance is a priority, another topic has to be dropped to really focus on what is important and relevant to make a difference at the country level.

This brings us to how to finance this new effort of the Bank. New governance work should be financed out of reallocations, improvements in productivity and mainly by being more selective in mainstreaming activities to be dealt with in the CASs. We urge management not to ask for more budget but instead to strategize and be more selective.

**Setting boundaries to the Bank’s involvement**

Addressing weak governance frameworks and fighting corruption are very broad tasks. Since extremely broad mandates have induced the Bank to spread too thinly across several initiatives, it is important for the proposed strategy to clearly state the areas in which the Bank has comparative advantage and those in which the Bank may be better off by leaving the task to other agencies.

**Risks**

*Risks in dealing with governance issues at the country level should include not only risks for the Bank but also for the country.* The treatment of this issue in the paper is too much centered on the Bank’s reputational risks and project corruption risks. We think that a discussion of the risks for the country is also warranted, including the operational risks (when the Bank proposes imperfect policies and actions) and corruption risks (when corruption is induced by external agents, either private firms or IFIs).

**Strengthening the World Bank’s Engagement with IBRD Partner Countries**

We very much welcome the intention of giving the MICs a greater say in World Bank Group (WBG) matters, not only as clients but as shareholders of this memorable cooperative that the International Bank for Reconstruction and Development (IBRD) is. This means that the relation between the Bank and the MICs should be one of trust, partnership and flexibility to finance and accommodate unpredictable issues. Also, as shareholders, the MICs should have a greater say in determining the Bank’s agenda. The change from Country Assistance Strategies to Country Partnership Strategies symbolically expresses this intention.

*On financial and development grounds, it is well established that the WBG should remain engaged with the MICs.* The majority of the developing world poor (living on less than two dollars a day) live in the MICs, and their income per capita of just US$ 3.80 per day is amazingly low if we take into consideration the disproportionate big share of the income that goes to the rich in these unequal societies. Global volatility and contagion affect particularly the MICs most integrated to global markets, and IBRD should continue playing a key role in minimizing these negative effects. Moreover, IBRD’s accumulated earnings, mainly coming from lending and other financial services to the MICs, finance all IBRD
activities, while lending to the MICs represents only 25 percent of administrative expenditures, the rest being used to provide knowledge (60 percent) and global (15 percent) services.

The strategy should place more emphasis on the MICs that need more help from the WBG rather than on the successful and modern MICs, which are the ones that need less development services. As the proposed strategy describes, it is good to have a menu of financial services beyond policy and investment lending and to lend in local currency and to sub-national governments in order to serve the most modern MICs. But it is also important to work on streamlining the traditional Bank’s products, specifically the bundled delivery of knowledge and financing and direct knowledge transference through capacity building and technical assistance based on the Bank’s worldwide expertise and cross-country experience, which are at the core of the IBRD comparative advantage vis-à-vis other financiers.

Strategizing more than fine tuning

Fine tuning the current strategy, as the document before us has done, is not enough. We think that a successful strategy for such a diverse group of countries like the MICs should have two sufficiently broad strategic pillars as guiding principles to address the specific problems of development and poverty in these countries and to anchor them as a distinctive group within the Bank. We propose the following pillars: a) using country systems to streamline the institutions for good governance in the MICs and b) regaining IBRD competitiveness in the financial markets.

With regard to the first pillar (using country systems to streamline the institutions for good governance in the MICs), we have to stop imposing first world institutions to third world countries. It is easier to replicate first world institutions than to do the hard work of designing institutions that are simpler and have the possibility of working efficiently in developing countries. We think that country systems are a good starting point to move toward simpler institutions in the areas where external rigid standards have been imposed upon these countries. We are referring to the rigid social and environmental safeguard policies, the sophisticated results-based framework, and the donor-driven monitoring and evaluation systems. In addition, in the areas of market economy institutions and institutions for the efficient delivery of social services, the MICs also show an overregulated and complex landscape that needs simplification, transparency and accountability. We think that tools such as the doing business methodology and the Bank’s work on efficient delivery of social and infrastructure services can guide the implementation process. Country systems and the Bank’s cross-country on-the-ground experience should be the springboard to develop institutions that are compatible with the degree of development of developing countries. This degree of development is comparable to the one at the time of the industrial revolution and, therefore, developing countries cannot be forced to adopt sophisticated institutions, which almost never are implemented on the ground.

The second pillar –regaining IBRD competitiveness in the financial markets– includes addressing the excessive cost of doing business with IBRD, which explains the stagnation of gross lending to these countries. This excessive cost of doing business involves financial and non-financial costs. Addressing financial costs encompasses not only more transparency in pricing but a review of the overall pricing structure (including lowering the price of lending based on the triple A rating of IBRD and eliminating the front-end fee that was placed only on an exceptional basis, among others). Addressing the non-financial costs requires expanding the use of country systems, further streamlining procedures, and looking for synergies and economies of scale and scope with the Regional Multilateral Development Banks (RMDBs).

Guided by these two strategic pillars, we have to come up with specific country strategies that go from focusing on an unbundled approach –where the country chooses the preferred mix of financial and knowledge instruments and pay for each service separately– to the more traditional bundled approach –
which has proven to be a very useful and distinctive feature of the Bank in comparison with commercial banks.

Synergies and complementarities

It seems obvious to us that the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank and the African Development Bank have more activities in common than IBRD and the International Financial Corporation (IFC). IBRD can, for example, make joint investment projects with the RMDBs and save the clients significant transaction costs and generate scale and scope economies. Likewise, IBRD and RMDBs can offer joint or sequential policy loans to make the policy advice to the client countries more consistent and, more importantly, to bring time consistency to policy implementation across the political cycles. On the other hand, there is a clear division of labor between the IBRD and IFC: IBRD deals with policy and regulatory changes that help the private sector to flourish, and IFC adds value –by lending and investing, mainly in frontier firms, and providing technical assistance– and helps developing new markets to strengthen the private sector and its environment.

An Investment Framework for Clean Energy Development

The issues of access to energy, climate adaptation and transition to cleaner energy are interrelated. They all compete for the scarce financing funds and advancements in one direction may imply backtracking in another, even though there are also win-win options like the development of hydropower plants, in which the Bank’s participation has diminished significantly. We need to be aware of the trade-offs and promote the win-win options when designing policies and investment frameworks.

Access to energy is of paramount importance for LICs but also for MICs, given that most of the poor without energy live in the MICs and that there is a strong correlation between investment in electricity and development. Current policies and financing show a significant financing gap to address this issue. With the current arrangements, the countries’ fiscal resources, private sector participation and IFIs resources are insufficient to close this gap. The only way to close this gap is by a joint effort of the government, the Bank and the private sector as the main financier. The stage for private sector participation should be set by the government through fiscal discipline that creates fiscal space, good governance and regulatory frameworks, and the design of efficient subsidy schemes where private investments are not profitable. The Bank plays the role of facilitator and financier. As a facilitator, it supports governments to strengthen the investment climate and develop appropriate regulations, including flexible safeguard policies. As a financier, it helps to leverage private participation and develop risk management instruments for feasible risk sharing among the government, the private sector and the Bank to increase investment in energy at the country level.

The issues of adaptation to climate change and transition to a low-carbon economy should be dealt with considering the principle of fair burden sharing: those countries that have polluted and pollute the most should carry the largest burden. This translates, at the global level, into the observance of the principle of common but differentiated responsibilities, embodied in the United Nations Framework Convention on Climate Change (UNFCCC). Energy explains more than 75 percent of global emissions and its demand will grow at a high pace in the years to come. Developed countries, the main past and current polluters, should contribute the largest share of additional financing to cover the past and incremental costs of a transition to a low-carbon economy and an adaptation to climate change. Most developing countries, which have polluted and are polluting in minimal amounts, should make a minimal contribution to financing pollution control.
Much can be done to advance in addressing the issues of adaptation to climate change and transition to a low-carbon economy with regulatory changes that require minimal additional non-market finance. Achieving free trade in bio-fuels as the existing free trade in oil products can elicit substantial profitable private investments in clean energy at current and probably future oil prices. Regulatory changes, specifically more flexible environmental and social standards, could unleash significant investment in large hydro electric projects to rapidly substitute clean energy for dirty energy.

Education for All – Fast Track Initiative (FTI)

The education-related Millennium Development Goals (MDGs) need to be adjusted so that not only coverage is ensured but also quality is attained. Coverage is not enough; learning outcomes and specifically the building of human capital since childhood are key to live a productive life and escape permanent poverty in this increasingly competitive world.

We think the Bank has done a good job in engaging 20 countries to increase coverage at the primary level. However, the lack of focus on quality (that is, learning outcomes) could render this effort mostly unproductive and a wasteful use of the scarce resources allocated to this end.

In agreement with the current focus of education-related MDGs on coverage, the Bank has organized its work around two instruments: the Indicative Framework for benchmarking expenditures on educational inputs and education plans presented by the governments to enter the FTI. Increasing funding for inputs has increased coverage in the 20 countries that subscribed to the FTI but has done little or nothing to increase the quality of education. Asking for education plans instead of asking for education reforms that make service providers accountable and empower families to monitor and control the quality of education, facilitated the rapid progress achieved in terms of coverage but strayed from the difficult issue of reforming the market for education delivery. Achieving full coverage may end up in children completing primary education but remaining functionally illiterate and innumerate.

We urge the Bank and donors to redefine the education-related MDGs to explicitly include quality goals and to act accordingly when additional funding is distributed for this cause.

Doha Development Agenda and Aid for Trade (SecM2006-0362)

“The trauma generated by the collapse of global trade talks may not yet register on the streets of New York, Paris or Tokyo. But for cotton growers in West Africa, rice farmers in Thailand and beef producers in Latin America, the reverberations are already being felt.” (Pascal Lamy in the Herald Tribune, July 27, 2006)

The feeling of frustration spread across the world for the lost opportunity due to the suspension of the Doha Development Agenda negotiations at the end of July is enormous. There is a consensual view that the failure to reach an agreement not only will prevent the world from enjoying the welfare gains of greater trade liberalization, but it will also encourage a wave of trade litigations. We hope that the good judgment will prevail and that existing trade rules and World Trade Organization disciplines will continue to be observed.

We are also confident that, at a time when there seems to be no hope, the World Bank will resume its recognized advocacy role to help create the momentum for the rebirth of the negotiations.

The potential gains from a more decisive South-South trade liberalization are significant at the global level. We urge the Bank to focus its future work on deepening second generation trade reform in its client countries.
We also urge the Bank and donors to focus on supporting regional cooperation, including both trade and trade-related regulatory policies, and cooperation in infrastructure projects that will benefit more than one country.
Statement by Mr. P. Chidambaram, Minister of Finance, India

Please allow me to first thank the people and the Government of Singapore for their warm hospitality and excellent arrangements.

The Development Committee is meeting in Singapore at a time when the performance of the global economy continues to exceed expectations. This is in spite of an unprecedented rise in oil prices, global uncertainties, and the continuing menace of terrorism. According to the latest World Economic Outlook (WEO), global growth prospects for 2006 have improved from the last assessment in April 2006. The growth scenario is now more broad-based with the expanding potential of the Euro area and a resurgence of growth in Japan. Apart from Japan, with China and India continuing to reinforce the impetus to growth in the emerging markets, there has been a global repositioning of growth with new economic drivers from Asia. It is gratifying that the world’s Gross Domestic Product grew at an annual average of 4.8 per cent during the last 4 years (2003-06), the strongest since 1970.

There is no scope for complacency on the growth front because the current growth phase is fraught with several downside risks. These include inflationary pressures, high oil prices, a disorderly unwinding of global imbalances and a sudden slowdown of the US economy. Increased threats of terrorism, including that to oil installations which can cause supply disruptions, and increased protectionism due to the collapse of the WTO Doha round, are added causes for concern. The twin challenges facing the international financial community at this juncture are: how to mitigate the specific downside risks that could act as dampeners to the otherwise bright medium-term growth prospects and how to leverage this benign growth scenario to advance the broader development agenda in general and remove capability-deprivation in particular. The World Development Report 2007 entitled “Development and the Next Generation” provides a good example of the daunting task faced by the Development Committee in the critical area of successfully managing the five transitions concerning the world’s young. These transitions are: continuing to learn, starting to work, developing a healthful lifestyle, beginning a family, and exercising citizenship. The time is opportune to address the issue of strengthening the work programme of the Bank Group, which is undoubtedly the most important global development institution.

Strengthening Bank Group work in Governance and Controlling Corruption

Moving on to the Agenda on Strengthening Bank Group engagement on Governance and Anticorruption, we agree that good governance and anticorruption are important, but we ought not to allow them to obscure or negate the overall development agenda. Good governance and anticorruption have the potential to improve development effectiveness. We urge the Bank to see Governance as one of the means for attainment of development objectives, and not as an end in itself. In the development dialogue, the Bank’s work on Governance and Anti-Corruption should maintain this development-centric approach with “proportionate and concomitant responsibility” in dealing with governance among all development partners, namely the developing countries, developed countries, and the Bank.

Governance and anticorruption are not substitutes but supports to achieving important development objectives, such as the Millennium Development Goals. It is extremely important to avoid a sequential approach of rooting out corruption and improving governance before getting down to the development agenda. Development cannot wait for improved governance and a corruption-free world. Both must go ‘hand in hand’. We support a simultaneous and curative approach to these issues in any

11 Representing the constituency of Bangladesh, Bhutan, India and Sri Lanka.
Bank strategy in this regard. This will avoid the risk of governance becoming a conditionality for development.

As on date, there is no universally accepted methodology for measuring governance. Governance is further characterized by historical and contextual specificities of countries. There is a proposal that in countries with serious governance challenges, the strategy will be supported by in-depth governance diagnostics and monitoring tools including actionable and outcome indicators. We doubt if the Bank can categorize countries on a governance index. Governance diagnostics is an evolving subject. The correct approach will be to determine, in consultation with country governments and through extended research, a set of transparent, measurable and consistent governance indicators. Till such work is complete, the established deliberative mechanism of Country Policy and Institutional Assessment (CPIA), which gives due weightage on governance indicators, and also involves consultations with Governments, should be followed.

We note that the Bank would like to categorize some countries as ‘high-risk’ and treat them accordingly. In the highest risk category, there may even be no lending and the Bank will focus only on non-lending engagement. This is ‘zero tolerance leading to zero development’ that several Governors had opposed at the Spring meetings. Our opposition to this line of thinking remains. It may protect the fiduciary interests of the Bank, but will adversely impact its development goals. Fiduciary concerns cannot outweigh the development mission. In other words, anticorruption should not become anti-development.

The Agenda also states that governance categorization would determine the type and quantum of Bank engagement. It is not clear whether governance categorization will predominate Performance Based Allocation (PBA) in determining resource allocation. We are opposed to any such suggestion. In countries where there may be a break in lending, the proposed strategy envisions that IFC and MIGA may play roles in ‘socially responsible investment policy’. This is not clear at all. If a country is not considered fit for IDA support, how can it qualify for IFC/MIGA engagement?

On the specific governance initiatives proposed by the Bank, the Bank should actively utilize and strengthen country systems as vehicles of change. Interactions with non-executive institutions must be through country governments to enhance the synergy between Bank commitment and country ownership. The Bank must recognize that fortifying country systems and fostering country ownership are the only ways to effect sustainable governance improvement. Let me remind you that the DC Mandate of Spring Meetings 2006 was for strengthening national systems.

There is a case for further consultations with stakeholders as well as for studies and research on governance and growth to ascertain how they impact each other before a global strategy for governance for development can be rolled out. Even the Bank’s research in different countries has highlighted that “while there are many countries where results are not being achieved and indicators of governance and corruption are poor, there are just as many where results are being achieved despite poor indicators of governance”.

The issue of restitution of assets needs to be given greater importance in the fight against corruption. All undue profits accruing to firms and individuals, which result from acts of bribery and corruption, must be restored to Governments and the people to whom the money rightfully belongs.

Strengthening the World Bank’s engagement with IBRD Partner Countries

Over 70 percent of the world’s poor living below $2 per day reside in countries that are eligible to borrow from the IBRD. The Bank has to remain actively engaged with these IBRD partner countries. It
is in this context that we welcome the opportunity to discuss the issue of ‘Strengthening the World Bank’s engagement with IBRD Partner Countries’. Over the last few years, the Bank has taken some steps to address the concerns of these countries, such as reducing project processing time, offering a wider menu of financing, and risk management products. However, as the document before us states, ‘much more remains to be done’. I outline below a few of our concerns:

Firstly, as the paper points out, infrastructure remains seriously underfinanced in most partner countries. Since the late 1990s, commitments by private investors in infrastructure in these countries have been on a downward trend. The Bank has been engaging in investment lending for public infrastructure, including support for public-private partnership. New IBRD commitments in the sector have increased by more than 40 per cent between FY 2003 and FY 2006. This is welcome, but more remains to be done.

Secondly, with its ‘preferred creditor status’ and AAA rating, the IBRD has the ability to mobilize low-cost funds from the market. As a cooperative lending institution, it is imperative that the Bank provides loans to MICs at attractive terms. The comparison of lending rates should be not only with those of other IFIs or the rates at which the countries can borrow from the market, but also with the rates at which the IBRD mobilizes funds and the best rates that it can offer.

Thirdly, we believe that greater use of ‘Country Systems’ is the best way for scaling-up the impact of Bank’s engagement with IBRD-partner countries. The progress thus far and the lack of clear direction for the future are disappointing. Consensus on the use of country procurement systems (for ICBs) continues to elude us. In order to have a development impact far greater than the resources it provides, we urge the Bank to work vigorously towards substantive progress on the use of country systems.

Fourthly, we warmly welcome the intention to enhance the partnership approach in the Country Strategies and to improve the link between research and operations. Here, we would suggest that knowledge transfer would be enhanced if the Bank makes greater use of research institutions and academics available in these countries. Also, for its financial transactions the Bank should actively seek to work with suitable domestic financial institutions, and not remain limited to the multi-national financial institutions.

Finally, the issue of Global Public Goods (GPGs) has been given much prominence in an MIC Action Plan for the first time. Since the coverage of GPGs extends far beyond MICs, we cannot see value addition in including it in the MIC Action Plan. The issue of GPGs is important, but needs to be dealt with independently and comprehensively taking into account their global implications and the comparative advantage of the various international agencies. In so far as the Bank is engaged with the Partner countries, the relevance or otherwise of a GPG can be adequately assessed through the Country Partnership Strategy process.

An Investment Framework for Clean Energy & Development: A Progress Report

We warmly welcome the focus on energy access needs of developing countries. A shortfall in GDP growth of 1 to 4 per cent, because of energy deficiency, could indeed be the critical difference between success and failure in eradicating poverty. There are 675 million people in South Asia without access to electricity, and improved access is not keeping pace with population growth. Given the lead time for sector reforms and improvements in business climate to result in new private investment, we urge the Bank and other development partners to scale up resources for improving energy access. In this context, the investment estimates in the report appear to be too modest; it would not even provide the 1,000 kwhr of per capita access required for ‘a basic quality of life’ as defined by the International Energy Agency.
Clean energy is extremely important for our planet. The path to sustainable clean energy, however, is for the international community to reach an agreement on a long-term, stable and predictable global regulatory framework which respects the principle of “common but differentiated responsibilities”. We support the shift to a low-carbon economy. However, given the GPG nature of a low-carbon economy, adoption of the more expensive (and often untested) clean energy options by developing countries has to be supported by transfer of additional resources from developed countries. Diversion of resources from IBRD for the proposed clean energy financing vehicle could jeopardize the achievement of the Millennium Development Goals (MDGs).

*Education for All- Fast Track Initiative (EFA-FTI)*

EFA-FTI had created high expectations in developing countries committed to the universal primary education target of the MDGs. Till now, however, only 5 million of the 100 million out-of-school children have been enrolled, and cumulative disbursement from the FTI catalytic fund has been only US$96 million. At the current rate, having the necessary infrastructure for universal primary education in place by 2009 will remain a distant dream.

Meager commitments are the major constraint on FTI. For the EFA-FTI to be rolled out into a fully expanded programme, donors’ political statements and pledges must be translated into firm commitments and actual disbursements.

*Doha Development Agenda and Aid for Trade*

The Doha Development Round appears to be in jeopardy, and the development promise appears to be in danger of being broken. It is important for the developed countries to take the lead in bringing these discussions back on track so that the world – and especially the developing countries – can reap the promised development dividend. We believe that the Bank should continue to play a proactive role, and lend its weight to a pro-development outcome.

We have been supportive of the Aid for Trade Agenda as a means of enhancing the capacity in developing countries for realizing the gains in trade. However, while helping build supply-side capacity and trade-related infrastructure particularly in least developed countries, we need to remind ourselves that Aid for Trade cannot be a substitute for the expected development benefits, particularly on market access, from a successful conclusion of the Doha Round. While we look forward to the implementation of a robust Aid for Trade package, its effectiveness would require additional predictable and sustainable financing by the donor community. Aid for Trade funds need to be channeled multilaterally for ensuring maximum effect on the ground, and integrated into country development strategies rather than delivered through multiple vertical funds that may be created for the purpose.

Mr. Chairman, we are meeting at a time when the actions of the global development community are being closely matched against the promises that we have made and repeated often. The scale of the development challenge facing us is daunting and the Bank, as an institution, needs, more than ever before, to focus on where it can actually make a difference, add value, and become increasingly result-oriented. We are collectively answerable to the poor and the under privileged of the world. Through the Millennium declaration and the MDGs, we gave them hope. Let us all strive by our actions to convert that hope into a reality.
Statement by Mr. James M. Flaherty, Minister of Finance for Canada\textsuperscript{12}

These meetings provide a valuable opportunity for us to reflect on our achievements and, more importantly, on areas where we need to redouble our efforts. We have spent much of this weekend discussing how to sustain and build momentum through our collective efforts to achieve concrete development results in support of the Millennium Development Goals (MDGs).

\textit{Governance and Corruption}

Accountability and effectiveness are key themes for discussion this weekend. We had very successful discussions on quota reform and improved surveillance yesterday at the International Monetary and Financial Committee, which will contribute to a more effective and representative International Monetary Fund (IMF). Within this committee, we have focused on how promoting good governance, including fighting corruption, and mutual accountability are essential to efforts to accelerate progress towards the MDGs. We know that aid is less effective in countries plagued by weak governance. While I think we have made good progress in recent months on this issue, significant challenges lie before us.

Ultimately, we need to recognize that only countries themselves—led by their own governments—can provide the leadership and ownership needed to strengthen governance. However, donors and international agencies can and should help with this process. Aid must be delivered in ways that support our partners’ capacity to govern and promote accountability in the use of public resources.

The World Bank has demonstrated that it is a leader in governance and anti-corruption. We welcome the Bank’s efforts since we met last spring to articulate a broad strategy to promote a more coherent, transparent and results-oriented approach. Going forward, we need to deepen our understanding of the challenges that weak governance and corruption pose for the development process and address more specifically how the Bank can meaningfully address these issues. As well, there remains a need for clear operational guidelines to better understand how decisions should be taken on World Bank support in situations where weak governance and corruption present real risks.

In countries where corruption is a challenge, we need to have clearer rules on the Bank’s terms of engagement. We continue to urge the Bank to remain engaged even in countries where corruption represents a significant challenge, because without the Bank’s efforts, there may be little progress forward. But the World Bank cannot tackle these issues on its own, and we look to continued progress in developing a common approach to tackling corruption, involving other donor partners as well as other multilateral development banks.

In effect, we all need to engage in the fight against corruption. International institutions must ensure that their in-house operations meet high integrity standards and that their interventions in member countries promote good governance. Developed countries must lead by example by trying to ensure that the operations of their governments and corporations are models of transparency and accountability.

\textit{Aid Effectiveness}

Canada, Ireland and the Commonwealth Caribbean countries are strongly committed to working in partnership with others in an environment of mutual accountability to reach the MDGs by the 2015

\textsuperscript{12} On behalf of Antigua and Barbuda, Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines
target. Meeting these goals requires that, in addition to strengthening governance and accountability, developing countries manage their economies effectively and follow through on national poverty reduction strategies. For their part, donor countries must increase the effectiveness of their aid. Ensuring predictability of aid flows is critical to allowing developing partners to commit to essential reform and capacity-building measures. Developing countries also need to receive longer-term commitments to core areas of funding, especially for the provision of services to the poor.

We urge donors to reduce the aid management burden, particularly on the poorest and smallest states, in line with commitments under the Paris Declaration on Aid Effectiveness. Progress on these issues is important to secure stronger results on the ground. The Bank should draw on its recent experience in Africa and continue to promote stronger donor alignment, harmonization and coordination. In this regard, we encourage the expansion of recent efforts by the World Bank to prepare Joint Assistance Strategies with other donors based on national development strategies, such as Poverty Reduction Strategy Papers. And because the collection of accurate and timely statistics is critical to gaining an accurate understanding of progress achieved and the challenges that remain, I would reiterate my earlier suggestion that countries’ statistical capacity be routinely appraised in the context of Country Assistance Strategies.

**Investing in People**

Today, there are 115 million children who have never entered school and another 130 million who will never complete primary school. Yet we know that investment in basic education is essential to achieve significant and sustainable results in poverty reduction. Canada believes that the international community has an important role to play in advancing efforts to achieve improvements in school enrolment as well as in primary school completion rates. This will require investments in bricks and mortar, in staff training and salaries, in teaching materials and in incentive schemes to encourage parents to enroll their sons and daughters.

Canada’s investments in basic education in Africa have almost quadrupled since 2000, reaching $100 million annually by 2005. This has produced concrete results, contributing to more than 9 million additional enrolments in primary schools, with more than half of these places going to girls. We will continue to invest in education for African children, increasing our bilateral funding to $150 million a year over the next four years. Canada is also a strong supporter of the Education For All–Fast Track Initiative (EFA-FTI), which encourages donor and recipient countries to work in a spirit of partnership to achieve the education MDGs. Canada recently announced it will provide a $25-million contribution towards multilateral engagement with the EFA-FTI. This is in addition to the $46 million that Canada has committed through its bilateral aid program to the EFA.

More than 7 million people die annually from infectious diseases like pneumococcus, malaria, HIV/AIDS and tuberculosis, mostly in poor countries. Compounding this loss of life is the economic burden that disease places on families, and the repercussions for national economic development. We have spent much of the past year exploring a number of innovative finance proposals to help address international development challenges, particularly those in global health. To this end, the Advance Market Commitment (AMC) pilot appears to us to be a particularly promising initiative. Canada is ready to contribute $100 million to support an AMC pilot project, which should be ready to launch by the end of this year, to develop vaccines. We urge donors to demonstrate support for an AMC pilot for a pneumococcus vaccine by providing the necessary financial commitments to ensure that we can launch this important project this year.

And in recognition that gender issues remain an area where more work is needed, we are encouraged by the World Bank’s renewed attention and efforts to advance women’s economic
empowerment to achieve growth, poverty reduction and meet the MDGs. We believe that gender equality is an area in which the Bank has a comparative advantage and can provide strong leadership.

**Renewing the Trade Agenda**

The Doha Development Round was seen by many as an opportunity to further integrate developing countries into the multilateral trading systems. While we recognize the impasse, we continue to believe that a successful outcome to the Round would be the best way to realize the potential of trade as a tool for development. We stand ready to work with other World Trade Organization (WTO) members and the Director General of the WTO to find a way forward. In the meantime, we encourage all donors to meet their “Aid for Trade” commitments and support the continued strengthening of the Enhanced Integrated Framework as an effective collaborative mechanism for the identification, delivery and assessment of trade-related assistance. We also look to the World Bank and the IMF to continue their advocacy work on trade liberalization and to continue their support of furthering the Aid for Trade agenda.

**Debt Reduction**

The international development community has made great progress in debt reduction for the poorest countries. The Multilateral Debt Relief Initiative (MDRI) became effective at the IMF in January 2006 and at the International Development Association (IDA) in July 2006. We have every expectation that it will shortly become effective at the African Development Fund (AfDF).

Canada and Ireland are strong supporters of the ongoing work to address unsustainable debt burdens in low-income countries. In this context, it is important that we ensure that the MDRI leads to increased development resources. To achieve this, international financial institutions must be fully compensated for the costs of the MDRI and funding must be additional. We are committed to maintaining the financing capacities of the IMF, IDA and the AfDF as these institutions implement the MDRI. Ireland is paying its IDA share of MDRI costs up front. Canada has already paid its IMF share of MDRI costs and will begin making its payments to IDA and the AfDF as planned.

A growing concern, however, is that significant debt reduction creates substantial new borrowing room in some countries, which if not managed carefully could rapidly be filled with unproductive new financing. This new financing could reverse recent efforts to maintain debt sustainability under the World Bank-IMF Debt Sustainability Framework (DSF) and result in a rapid re-accumulation of debt in poor countries. We believe that more can and should be done to break such a “lend-and-forgive” cycle and ensure long-term debt sustainability. The review of the DSF in the context of the IDA14 Mid-Term Review will be important to advance this issue. It will also be important for borrowers to improve their debt management capacity, which is an area where the World Bank can provide expertise. Creditors must also do their part. A coordinated approach by all creditors, based on the analysis underlying the DSF, could help mitigate the risk of excessive borrowing.

**Fragile States**

Canada welcomes the World Bank’s ongoing support for fragile states, including in post-conflict situations. Canada is actively involved in assisting a number of fragile states, with large development assistance programs, for example, in Afghanistan and Haiti.

While it is clear that the Bank has made considerable progress in its involvement in fragile states over the past four years, more needs to be done. Canada is working with the Bank to set up a Fragile States Partnership and Knowledge Initiative to develop and strengthen knowledge about effective
approaches in fragile states. One area for further work is the Bank’s aid allocation system. While we support a performance-based allocation system to determine IDA aid volume, we believe that there is scope to refine the system to be more effective in responding to the special challenges of state fragility. In this area, the IDA14 Mid-Term Review provides an opportunity to make real progress as we prepare for IDA15.

While there is also scope to continue to improve the Bank’s state-building, governance and capacity development work, the Bank provides real value added in this area. This area requires long-term engagement and sustained investments in order to achieve lasting results. The Bank’s financing predictability through IDA and long-term focus has allowed it to take on a leadership role in this area.

*International Bank for Reconstruction and Development (IBRD) Partner Countries*

We welcome the World Bank’s recent evaluation of its role in IBRD partner countries. Bank engagement must be based on its comparative advantage, and poverty reduction must remain the focus of its efforts in these countries. In that vein, the Bank must continue to increase the effectiveness of its collaboration with other international players, including the IMF, bilateral donors and the private sector, in developing a comprehensive strategy to guide the Bank’s involvement in these countries over the longer term.

As a measure of success, these countries should become less dependent on aid dollars over time and better able to attract private sector financing, including foreign direct investment (FDI). Currently, five emerging market economies account for 60 per cent of all FDI inflows into developing countries. The Bank should work to increase the number of recipients receiving significant FDI flows over the next decade.

*Meeting the Needs of Small States*

Efforts to advance the development agenda cannot overlook the particular challenges of small states, including those in the Caribbean. The international community, led by the World Bank, must play an enhanced role in assisting small states to position themselves for success in the global economy. Despite the strong global economic growth in recent years, the economic growth of small states has failed to keep pace with larger low- and middle-income countries. In some cases, this has reflected the faster than anticipated erosion of trade preferences. As a consequence, many of these economies are falling short of reaching the MDGs. To rectify this situation, there is a dire need for better analytical work on options for growth, competitiveness, economic diversification and international trade.

The continuing loss of critical skills in small states as a result of migration also needs to be addressed. Support for human resource development is crucial as these countries expand service exports and other areas where they are competitive. On the related issue of remittances, which are an important source of foreign exchange and capital for many small states, we encourage the Bank to continue its work with other international financial institutions and partner countries to better understand these arrangements and help facilitate these transfers.

The small island states of our constituency remain at risk of natural disasters. The Bank needs to continue to work with these countries and their partners to mitigate these risks. We continue to support the Bank’s development of a Catastrophe Risk Insurance Facility in the Caribbean and other small states, and call upon other donor governments and the private sector to join these efforts. A longer-term challenge is the transfer of existing and new technologies required for adaptation to new weather patterns, particularly in the key sectors relating to agriculture and water resource management. We strongly support the Bank’s plan to expand analytical work to develop screening tools to assess the nature of
climate risks to development projects, build the capacity of institutions and communities to better cope with the risk of natural disasters, and support the development of new and more innovative risk management tools.
Statement by Mr. Jose Ricardo Conde on behalf of Mr. Jorge Giordani, Minister of Planning and Development, Venezuela

Strengthening Bank Group Work in Governance and Anticorruption

We would like to welcome the Development Committee of the Annual Meetings of the Board of Governors of the World Bank to the discussion of the role to be played by the World Bank Group (WBG) in the Governance and Anticorruption strategy submitted to the Board and drafted by the staff of the World Bank Group.

We must state firmly that the actions of the World Bank Group with respect to this strategy should be oriented toward fulfillment of our mission and vision of the institution, which is clearly established in its Articles of Agreement, namely to foster achievement of a world free of poverty which, from the standpoint of social objectives, is compatible with the Millennium Development Goals (MDGs). In turn, achievement of the MDGs entails a steady equilibrium compatible with a state of well-being fostered by sustainable long-term development and the achievement of conditions that preserve the dignity of human beings.

We believe that the need does exist for continued collective and additional efforts in order to expedite achievement of the goals set. This is heavily contingent on the harmonious and decisive work of the international community, developed countries, developing countries, and, in particular, the unwavering contribution of International Financial Institutions (IFIs) in order to achieve collective well-being, for which we so greatly yearn.

Developing countries agreed to the implementation of a strategy based on a policy framework oriented toward the following strategic objectives: increasing growth, reducing poverty, and providing more equal and equitable opportunities to the people. This entails application of economic and social policies geared toward the attainment of macroeconomic stability, product diversification in a competitive context, sustainable environmental and social development, and good governance with respect to policies and institutions, in order to enhance the efficiency and effectiveness of resource allocation and maximize the provision of basic public goods for development of the society.

Consequently, we endorse the need to improve the quality and effectiveness of the institutional performance of developing countries and thus make a case for development of a policy framework conducive to a climate of good governance and combating corruption. The latter is perceived as an obstacle and constraint to the production of goods and services.

Good Governance Strategy

Governance as a poverty reduction policy

The governance strategy must take into account the strengthening of technical assistance in the design, formulation, and implementation of policies that seek improved institutional performance in the public and private spheres, in a bid to enhance efficient public management of the poverty reduction strategy and expand collective well-being.

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13 On behalf of the Republics of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, the Kingdom of Spain and the Bolivarian Republic of Venezuela.
A strategic government agenda devised by the national authorities of client governments of the Bank should, in principle, serve as a guide for the technical assistance provided by the WBG. This agenda should be considered a guide to Country Assistance Strategies (CAS) and Poverty Reduction Strategy Programs (PRSPs).

As we stated at the Development Committee’s 2006 Spring Meetings, developing countries should adopt their own guidelines, consistent with self-determination and the sovereignty of their national processes, with respect to instruments for overseeing governance in the public and financial subsystems, based on greater transparency in order to assess bureaucratic capacity.

Such enhancements have a major impact on the management of budgetary execution and can contribute to reducing corruption and increasing social investment and infrastructure budget capacity, thereby supporting long-term growth. In addition to being effective, they encourage donors and IFIs to boost development assistance and contribute to efforts aimed at enhancing the statistical and administrative capacity of developing countries.

The quality of the system of government and a decline in corruption redound to the benefit of efficient project development. In this regard, we should underscore that the ex-post results of project execution in developing countries with excessive and ill-suited bureaucratic procedures have a significant impact on the social rate of return.

The agenda to strengthen good governance should be headed by legitimate interlocutors working with the WBG, composed of national authorities serving as legitimate representatives of State institutions. They in turn should make allowances in their development plans for the participation and involvement of all organized communities and grassroots groups who are all intended beneficiaries of this collective well-being and thus of improved governance.

The main principles inherent in the system and in good governance should be based on joint responsibility, cooperation, solidarity, transparency, accountability, honesty, effective and efficient resource allocation, social responsibility, social control, equity, justice and social equality, gender, and national development.

Achievement of the foregoing objectives militates in favor of assistance from the WBG with strengthening Country Assistance Strategies (CAS) and Poverty Reduction Strategy Programs (PRSPs), in the context of a comprehensive approach to good governance and anticorruption, which should, as an essential condition, be supported by the legitimately constituted governments in World Bank Group member countries.

*Governance at the subnational level*

The strengthening of governance at the subnational level represents a priority in many developing countries, given the weak institutional capacity at the decentralized level in the area of public policy execution. Supporting this need through technical and financial assistance at the local levels and strengthening transparency, voice, responsibility, and accountability is a task with which the World Bank should assist. Priority must be accorded to oversight in order to strengthen supply systems, public procurement for goods, bidding processes, and services, thereby improving access to public services and generating a more solid fiscal balance.

Among the products to be considered in strengthening the strategy is the dissemination of information and awareness-building among the citizenry, established in the framework for public
expenditure and Public Expenditure and Financial Accountability (PEFA), as well as Public Expenditure Reports (PERs).

**Anticorruption Strategy**

**Main Principles**

The anticorruption strategy should be formulated in a broad-based manner in order to include all agents and sectors that actively share responsibility for allocating national resources in an efficient, effective, and transparent manner.

An anticorruption strategy is determined by national public entities and organs with expertise in combating corruption. The participation of the World Bank Group must take the form of support for our members in building institutional capacities and responsibilities at the state level and devising a legal framework to tackle corrupt activities on the part of public and private sector officials who encourage or foster conduct and values that promote a culture of corruption and embezzlement of public funds. These areas should serve as the centerpiece of the topics to be addressed in any anticorruption strategy.

Strengthening the role of the WBG and the national anticorruption authorities should be accorded priority in the strategic objectives of national, state, and local development planning, through a communication strategy that targets awareness-building and public participation in this area, given the implications for collective well-being.

The anticorruption strategy should be underpinned by an educational campaign focused on disseminating goals and strengthening institutional capacity, policies, instruments, and indicators to be included in the strategy. Priority should be given to achieving a consensus on the participation and commitment of organized communities and society as a whole in the task of poverty reduction and inclusion of the entire population in the attainment of well-being.

**Corporate responsibility** entails providing technical assistance in the form of monitoring and evaluation of activities intended to encourage greater transparency and responsibility on the part of public and private sector agents. The objective is to enhance the effectiveness and transparency of social investment by the private sector and to improve the private sector investment climate.

Corporate responsibility begins with the fulfillment of formal obligations, established in the code of corporate guidelines and the system of international transparency by enterprises subject to domestic and transnational capital and control.

Transparent conduct by enterprises in disclosing compliance with their obligations enshrined in national laws and actions taken to meet poverty reduction and economic and social development objectives should be universally applied.

Insofar as the investment climate is concerned, a framework conducive to development and poverty reduction objectives should be established, which in turn encourages and promotes firmly established property rights, based on solid legal foundations and a competent public administration, in the context of an institutional system that is efficiently managed and is conducive to a long-term investment climate.
Risks associated with the implementation of strategies

Fiduciary risks. Effective public financial management institutions and systems play a critical role in supporting policy implementation, national development, and poverty reduction. In this regard, the work of the World Bank Group should be subject to analysis of underlying risk, in a fiduciary context that includes areas inherent in financial management and procurement and incorporated into Public Financial Management (PFM) studies and Country Procurement Assessment Reports (CPARs), along with the identification of specific corrective steps to be taken during preparation and implementation of projects aimed at ensuring a sound fiduciary framework.

In addition to national transparency activities is the evaluation of performance management of projects spearheaded by the WBG, through analysis of the Country Portfolio Performance Review (CPPR) and the Annual Review of Development Effectiveness (ARDE).

Safeguard risks entail the need to review the potential risks associated with social and political environments, arising from possible strategy implementation by the WBG, as well as those applied to specific investment operations that should be assessed prior to execution.

A suitable risk assessment system should be guaranteed and should involve specialists in the area of risk planning and mitigation, evaluation of the capacity of executing agencies to offer technical assistance, and training to strengthen capacities and develop risk coverage instruments associated with strategy implementation.

Governance indicators

We should be cognizant of technical limitations which include, inter alia, originating sources of information on variables, statistical details, the handling of information, and statistical techniques used.

As a result of these factors, results expected from indicators are subject to a high degree of variability when measuring the quality of governance and level of corruption, which are highly sensitive and have a major impact on the social and political perceptions held by the public.

The indicators are in and of themselves subjective, demonstrate a high level of inconsistency, and can thwart and hinder the progress made in the mission of an effective strategy, thereby running the risk of being perceived as an impediment to management by governments of member countries of the World Bank Group. This runs counter to the policy of dialogue and consensus of the institution and to its role of serving the public at large.

In short, the objective sought in gauging the problem is associated with a high level of moral and fiduciary risk that fuels these perceptions regarding the institutional image and credibility of the World Bank Group.

Strengthening the World Bank’s Engagement with IBRD Partner Countries

The document submitted to us for guiding this discussion covers the topic of the relationship between the World Bank and partner countries of the International Bank for Reconstruction and Development (IBRD), in particular middle-income countries, in an innovative and comprehensive manner.
This document reflects the topics, requests, and concerns articulated by IBRD partner countries. Consequently, it is clearly the product of external consultations that included regional meetings between multilateral development banks and high-ranking officials of middle-income countries.

We recognize that the document, rather than representing an isolated effort, is a natural step forward in efforts by the World Bank to provide its clients with a range of flexible, high-quality, and financially attractive services.

We would like to express our support for the conceptual framework proposed and call on the Bank’s management to prepare a specific action plan and to proceed with its implementation as soon as possible.

*Flexibility and Innovation*

Middle-income countries constitute a diverse group that are at various stages of development and have various preferences regarding their relationship with the World Bank. It is precisely for this reason that we support the strategy proposed, which does not seek to classify these countries into groups that would be eligible for specific products, so that they can work on specific topics only or under specific circumstances, or receive products in a specific manner. Instead, it offers flexibility in all these variables in such a way that the Bank and its partners can agree on the solution best suited to the needs, capacities, and specific situation prevailing in each client country.

Traditional IBRD products which, taken together, offer loans and share knowledge, have been and will continue to be useful. Collectively, these products will be the main or sole products that will be sought by some middle-income countries.

However, in some instances, traditional products prove inadequate to meet the needs of clients – a client may need knowledge services for a project but may not require financing, or may not be in a position to wait for materialization of an operation that includes financing.

The flexible or case-by-case system proposed is consistent with modern risk and portfolio management practices and will offer financing packages, coverage, and knowledge to IBRD clients that are better suited to their needs, at the lowest possible cost. The sum of the parts may be greater than the whole, given that Bank clients may pursue more than one objective simultaneously. For example, a country could finance a project on its domestic market and obtain knowledge services from the Bank, both for proposals related to debt market development and for the project itself. The assistance provided by the Bank to its clients in order to gain access to international financial markets or to develop their own is consistent with its development mandate.

We hold the view that even those middle-income countries that opt to avail themselves of products offered by the IBRD on a case-by-case basis will continue to seek traditional products for specific purposes. Traditional IBRD loans are useful for insulating reform projects and programs from political risks.

We also support the inclusion of innovative products in the Bank’s portfolio, such as new financing and risk management products, knowledge services unrelated to other products, and cash management services, among others. We think that innovation responds to the demands of IBRD clients and is consistent with the trends that have emerged in global financial markets. We suggest that this practice be continued.
In addition to offering new products and services to its clients, we support the Bank’s bid to adapt its organizational culture to the new environment and current financial needs, by providing its staff with appropriate incentives to offer the full range of products and services available, given that current incentives are prompting the administration to focus on financial products at the expense of virtually all others.

Non-financial Costs and Use of Country Systems

We acknowledge the efforts being made by the Bank to reduce the cost of non-financial transactions, such as the time taken for project preparation from 18 to 15 months, as well as current initiatives to reduce these periods even further.

We agree that more widespread use of client country systems would be beneficial in terms of reducing non-financial costs, and we are confident that work of this nature offers even more important advantages.

The use of country systems represents a point of convergence between the two topics being discussed by this Development Committee. The use of countries’ own systems helps these countries as well as their subnational entities build capacity, strengthen institutions, and ensure that the best possible safeguards are applied to all projects and not only to those financed by the World Bank, as demonstrated by the results of the pilot program implemented in the countries represented by our constituency.

The IBRD should promote the highest standards and safeguards; however, it is much more effective to do so through the systems of individual countries than in those where a specific project is implemented. The use of country systems implies assisting our clients with enhancement of the quality of their laws, regulations, and manuals, and their general form of application. In fact, we think that equivalency with IBRD safeguards should be required as a project result rather than as a prerequisite for the use of country systems, as is presently the case. This is consistent with good governance, combating corruption, commitment to the environment, and sustainable development.

Catastrophe Risk Insurance

We would like to express our support for the granting of strategic priority status to the development of exogenous shock mitigation tools.

Natural disasters affect many countries in the world, and developing countries are the most vulnerable. Natural disasters do not only affect property; they also take a toll in terms of human lives, jeopardize the solvency of domestic insurance industries, and can even render public finances vulnerable when the need arises to redistribute fiscal resources in order to cope with emergencies.

Insurance has become more common and reinsurance cycles have become more frequent. For this reason, a disaster can create huge losses for local insurance industries. Furthermore, it could be argued that at least one type of natural disaster, hurricanes, are becoming more frequent and more intense.

In recent times, we have seen a surge in the cost of catastrophe insurance ranging from 33 percent to 220 percent, along with reductions in insurance coverage. Most hard-hit by this situation are small-scale owners and consequently the poor.

The international reinsurance industry is demonstrating clear market deficiencies and public funds are inadequate to protect private property for a host of reasons, including the establishment of
pervasive incentives to adopt disaster prevention measures, decreased insurance market share, and inadequate public resources to mitigate the effects of disasters.

We consider it particularly important to work on the development of useful mechanisms to cope with catastrophe risks. We therefore support the establishment of a global mechanism to provide member countries with catastrophe insurance at competitive prices.

Lastly, we would like to express our support for the conceptual framework proposed and call on the Bank’s management to prepare a specific action plan and proceed with its implementation as soon as possible.

Graduation

The mission of the World Bank Group is the eradication of poverty and 70 percent of the world’s poor households are found in middle-income countries.

The World Bank Group is an important partner in middle-income countries and the relationship is a mutually beneficial one. This becomes manifestly evident if the function of the IBRD is viewed as a clearing house for knowledge, through the assimilation of positive experiences in one country and their replication in others facing similar challenges, or when it is borne in mind that the income generated from loans to middle-income countries is used to finance transfers to the International Development Agency (IDA).

A number of middle-income countries have worked hard to strengthen their economies, have acted responsibly in terms of the management of their public finances, and have thus obtained credit risk ratings that permit them to gain access to capital markets. They have also striven to improve their business climate and to strengthen their domestic financial systems. Despite this, their development has been uneven and they continue to face daunting challenges in other areas critical for the eradication of poverty.

It is therefore fitting for us to examine whether the establishment of a rigid policy of graduation of those countries is necessary or desirable, and whether this is consistent with the poverty eradication mission of the WBG.

In our view, we must adopt a cautious approach to discussions related to graduation policies. Changes can occur in the ability of middle-income countries to gain access to financial markets. In recent years, international financial markets have been highly liquid; however, this may not be the case in the future.

Even more important is the fact that the relationship between middle-income countries and the WBG transcends financing. This situation is clearly captured in the document being discussed by this Development Committee. It is precisely for reasons of value added that middle-income countries continue to finance projects using IBRD funding accompanied by conditionalities, even when they could finance these projects on the market, sometimes at lower financial and non-financial costs.

Middle-income countries are striving for improvements in the area of health, education, and in general, the living conditions of their people; they are seeking to improve their infrastructure and to establish dynamic private sectors. Attainment of development is also one of their aspirations; consequently, we must not be overly concerned about whether they will stop using the services of the WBG. This will happen naturally and fulfillment of the poverty eradication mission will thus have been accomplished.
Support for development needs and prevailing risks arising from the international economy

We also think that the IBRD Management Action Plan should include specific proposals for the development of innovative products in response to current challenges arising from the development needs of middle-income countries and mitigation of the risks posed by the international economic environment.

In this regard, we suggest to senior management of the IBRD that greater support be given to a reasonable number of energy-importing (oil and gas) middle-income countries. These countries need financing to pay their energy bills. The latter are creating current account imbalances and destabilizing their economic and social development, as a result of the uncertainty hovering over the energy market. At the same time, they are IBRD clients who are implementing macroeconomic and microeconomic reforms that will create a long-term growth trend and improve their terms of trade, which will ultimately bolster their levels of solvency and current debt capacity.

Lastly, it is our firm belief that the development of middle-income countries should be studied in a context that fosters integration among countries on the same latitude, namely South-South cooperation.

An Investment Framework for Clean Energy and Development: A Progress Report

The discussion of this progress report is of great interest, as it delineates a partial advance in the configuration of an investment framework for clean energy and development that is consistent with being employed and used by people, communities, regions, and nations which find themselves in poverty and excluded from growth and well-being as a consequence of, among other things, the impossibility of accessing energy for development, that is, the vulnerable groups we have defined as “critical to climate change.”

With regard to the dimensions of the development problem, it is argued that the population excluded from traditional energy, development, and a state of well-being may be estimated at 1.6 billion persons, representing 25 percent of the estimated global population in 2005, and concentrated in Sub-Saharan Africa in particular.

In this sense, this document is an important step forward in responding to the mandate issued by the Development Committee at its latest Spring Meeting. Of particular note is the need to design and produce an adequate investment framework for the development and diffusion of clean energy based on participation by operators in both the public and private sectors, such as multilateral financial organizations and the developed countries.

The specifications of the innovative financial framework must link consumers and producers of energy in the public and private sectors, which interact with the environment and with critical or vulnerable groups, as agents to be taken into account in action plans, which must mesh with efforts consistent with what was established in the Framework Convention on Climate Change and the Kyoto Protocol.

Among the observations that should be made with respect to this first step forward are:

First pillar: Energy for Development and Access for the Poor

We agree about the need to continue and extend access to and the dissemination of clean energy alternatives to benefit critical or vulnerable groups, but with special emphasis on the poorest and least
developed, those excluded from social well-being and who have reduced capacities for adapting to and mitigating natural risks.

Moreover, we wish to stress the importance of studying various financial options which involve participation by the public and private sectors. We advocate supporting design and implementation in keeping with an action plan for access to energy on the part of the critical groups. This is the critical issue as regards the international economic climate, as set forth in many documents and presentations by the IBRD. It requires more intensive participation by the World Bank Group and its technical assistance and credit operations aimed at bolstering efforts to mobilize resources in favor of poor developing countries.

It must be borne in mind that there are numerous developing countries that are highly dependent, both economically and socially, on the energy model based on the production and export of conventional energy, and which, in turn, have behaved responsibly as regards the needs of critical or vulnerable groups, pursuant to a design of financial mechanisms and instruments supporting the energy demand of poor and developing countries and of low income groups living in the developed countries but which have no possibilities in the market for accessing the energy that will guarantee a minimum level of well-being.

It is also of fundamental importance to present short-term alternatives, as regards both the efficiency of energy usage and the financing mechanism for improving energy access for the developing countries. As regards the first of these issues, the alternatives in question must also take into account the efforts made to optimize energy consumption in the major consumer markets, as well as the investment alternative oriented toward promoting technological investigation of the efficient use of conventional fossil fuel energy (oil, gas), an alternative which currently is one of the major sources for generating growth and development.

We wish to call to your attention and urge you to consider the low degree of participation on the part of the international community in effectively addressing these issues. It bears noting that there are regional programs aimed at addressing these needs, such as agreements on financing facilities for the oil bill among middle-income and developing countries, and those proposed by the Bolivarian Republic of Venezuela to the “Petrocaribe” community in the Caribbean and with South American countries through MERCOSUR.

These agreements are supported by offering financing facilities for the oil bill and the adaptation of payment forms that stimulate trade and endogenous development among nations, in turn stimulating development and the financial sustainability of vulnerable countries dependent on energy imports for their development. All of these are based on a South-South Cooperation initiative aimed at poverty alleviation.

Another initiative implemented to benefit vulnerable social groups in developed countries, aimed at increasing the collective well-being of critical and vulnerable groups, is the one implemented by CITGO—a subsidiary of the public energy conglomerate “Petroleros de Venezuela (PDVSA)” in the United States, based on the supply of final energy products for use as heating oil by social groups with limited purchasing power, providing accessible prices (at cost) and market access to heating oil.

These programs are aimed at preserving the development and financial sustainability of critical groups vulnerable to energy, with limited purchasing power. They are all based on the Code of Good Corporate Governance for Entrepreneurial Social Responsibility in alleviating poverty.

Finally, we call upon the international community to give some thought to these proposals and to join the fight against poverty and the effort to achieve a better world of dignity for all.
Second pillar: Transition to a low-carbon economy

We support the strategy aimed at promoting the objective of stressing the importance of guaranteeing energy security and the transition to a low carbon emissions economy, and therefore welcome the development of a strategy that is technically and financial viable in achieving these objectives.

We are pleased that the IBRD is endeavoring to strengthen the complementarities between carbon finances and the GEF, as indicated in the document. The possible creation of a new instrument aimed at developing carbon finances merits a more comprehensive and in-depth study addressing other areas, in close cooperation with the Carbon Finance Unit, which has come a long way and has quite interesting experience that can help minimize the Bank’s risks.

Developing country access to energy in the short term

In this regard, we suggest that the IBRD staff study the problem of financing the bill for the energy balance of the developing countries through a combination of innovative products that are segmented for the low- and middle-income countries and respond to the needs for effective access to energy in the short term for both producers and consumers.

These products should consider the long-term financing of the differential between average market price levels and the equilibrium price for energy consumption, which is compatible both with fiscal sustainability and with the current account balances of developing countries.

The financial design must of necessity stimulate development potential in the short term of the developing countries, and in turn retain the following characteristics: instruments to dampen the cycles of energy prices, serving as automatic stabilizers of the energy balance and contributing to the interests of supplier countries in generating short-term liquidity and, more importantly, fulfilling the development mandate by favoring sustainable growth in the long term.

Third pillar: Adaptation

We support the IBRD’s intention to increase its activities in this area. We understand that the progress achieved is necessary in order to promote the adaptation and performance of the Bank in respect of its projects and programs.

Role of the World Bank Group

While we welcome donor coordination as a means of achieving efficiency in development, we also believe that the report should have placed greater stress on the resolution of proposals aimed at fulfilling the control function of the IBRD in the first and third pillars. We also consider that greater importance should be given to the imperative need for energy access on the part of developing countries that are highly vulnerable to the price cycle.

Progress Report for the Education for All Fast Track Initiative (EFA-FTI)

We are pleased to have received this report on progress with this interesting and necessary initiative legitimated by the global movement led by UNESCO to stimulate the strengthening of the educational sector with a view to achieving the MDGs pertaining to education.
With regard to the acceptance of the initiative, while seven countries adopted the initiative in 2002, it now covers a total of 20 countries, and has the potential of growing to include another 12 this year and as many more the following year. This is a good example of international cooperation based on the principle of solidarity in the provision of global public goods managed by the beneficiary governments, which are thereby empowered in the developing countries.

It should be stressed that the effort begun by the current initiative is based on providing effective education to support the fulfillment of the goals established, as in projects which could expect to receive greater amounts of stable financing from the donor community, which is a consideration to bear in mind.

The paper clearly states, however, that the educational needs of the low-income countries are conditioned on greater financial capacity, which in turn entails greater commitments, while the changes in commitments exceed effective disbursements. In addition, we maintain that the number of countries that have joined the FTI, and the additional countries which hope to join soon, be a consideration as regards the financial sustainability of the initiative, which we look upon with great concern.

We therefore concur that the sufficiency and predictability of financing are the main challenges to bear in mind in the management of the FTI. The possibility should be considered of strengthening the Catalytic Fund and extending it beyond 2007. This Fund was conceived as an instrument for short-term financing in support of education projects in countries that had not yet assembled a sufficient number of donors.

Furthermore, we are somewhat concerned about the emphasis on the quantitative and qualitative objective. Sacrificing quality in order to achieve enrollment goals creates quality distortions which ultimately are to the detriment of learning. The entire effort should be focused on strengthening the quality of the program and achieving its outcomes. To this end, we should study the financial coverage with the incorporation of new countries into the FTI, and the coverage capacity of existing resources, which in and of themselves are not sufficient for adequately covering the extension of the initiative to other countries as well as the extension of secondary education.

In conclusion, we urge the donor community to continue providing sufficient financing so that this project can maintain its high standard and, in turn, fulfill our mission of enhancing the dignity of the human condition and improving the future capacities of the new generations that will one day be leading the world.

**Doha Development Agenda and Aid for Trade**

Owing to the recent de facto suspension of the Doha Round of the World Trade Organization (WTO), the developing countries have pushed forward processes aimed at insertion into international trade and, as they are members of the World Bank Group, share the opinion of Bank management with respect to the implications of same for the global economy. Accordingly, the Development Committee should call upon WTO members to return to the negotiating table, as the opportunity cost in terms of economic growth and strengthening the global trading system may be significant.

In addition, because the Doha Round and the international organizations that support trade have considerably boosted the expectations of poor countries, the breakdown in the trade negotiations could seriously undermine the political will of various developing countries in their support for future trade integration initiatives and the related structural reforms. The developed world could also lose a mechanism which may help it correct global economic imbalances (for example, in the current accounts).
Given this panorama, we have analyzed the three proposals for moving forward which IBRD management is proposing to the Committee. In our opinion, the first option is the one that would be easiest to support and implement, in that it proposes maximizing the use of instruments and mechanisms already in place (including grants) to address the priorities and needs of the poor countries. The other two options involve the creation of new instruments or broadening the aid for trade agenda already agreed, which would surely make it more difficult to obtain the additional financing and attain the coordination necessary on the part of donors in order for such proposals to be able to move forward in the short term.

Trade in a development context is a means of achieving growth which can bring benefits in respect of sustainability to poor countries in adverse conditions, such as the Heavily Indebted Poor Countries (HIPCs), alongside other individual initiatives (for example, the irrevocable cancellation of debts). Access to markets, accompanied by sensible economic policies which trigger and sustain growth could not only enable these countries to trade, but as a result also turn to the international financial markets as well as the global community. For this reason, we believe that initiatives like the Multilateral Debt Relief Initiative (MDRI) would benefit by being complemented by greater openness of the developed markets along the lines suggested by the Doha Round.

*International Finance Facility for Immunization*

We see the International Finance Facility for Immunization (IFFI) as part of the framework of international efforts to achieve the MDGs. By guaranteeing resources to support the Global Alliance for Vaccines and Immunization (GAVI) until 2015, the work to reduce child mortality will benefit through coordinated, predictable, and stable programs.

However, this mechanism must not take the place of increases in flows of development assistance in the long term, nor must it prevent the beneficiary countries from continuing to create and preserve an environment conducive to business and investment.

We understand that the Bank Treasurer’s Department has been formally tasked with managing the financial operations of the IFFI and that in particular, it has already made progress with preparing the first issue of bonds based on donors’ future commitments. It is quite pleasing that the Bank has taken on this responsibility on behalf of the group of donor countries and the thousands of potential beneficiaries of the programs.
Statement by Mr. Eero Heinaluoma, Minister of Finance, Finland

Strengthening Bank Group Engagement on Governance and Anticorruption

The Nordic and Baltic countries welcome the efforts to strengthen the Bank Group’s engagement in Governance and Anticorruption as an important element to reduce poverty and achieve the MDGs. We emphasize the following key messages.

- We give strong support to the Bank’s governance and anticorruption strategy. We welcome a broad, systematic and consistent approach that aims at ensuring an equal and transparent treatment of governance issues across countries.

- We stress the need for a common approach to governance/anti-corruption among IFIs and further harmonisation with the UN and among bilateral and multilateral donors. We also emphasize the need for securing country ownership of the approach.

- While we believe that implementation of this strategy is generally best left to management, we find there is a need for Management to consult with the Board before key decisions are made.

While fully supporting the Bank’s governance and anticorruption strategy we want to stress that suspension of lending or grants in difficult country cases should not mean disengagement of all Bank activities in the countries in question. We find it especially important that the Bank remains engaged in fragile states.

We welcome the Bank’s intention to engage institutions outside the central government in improving governance and fighting corruption, as broad engagement will help citizens hold their government accountable. We have a strong belief in the role of the civil society and free media as promoters and watchdogs of good governance.

We call for a wider national consultation process on the strategy going forward. We find it important that the national parliaments, civil society, media and the private sector are broadly consulted on the approach.

We emphasize the use of country systems as a sustainable long-term solution for strengthening governance and fighting corruption. In that respect, adequate capacity building is needed at the country level.

We consider the recently adopted Sanctions Reform and Voluntary Disclosure Policy as important tools for implementing the strategy. Finally, we stress the role of the Bank’s country offices and the need to strengthen their capacity to play an active role in the demanding process of implementation.

Strengthening the World Bank’s Engagement with IBRD Partner Countries

The three Baltic countries in our constituency, Estonia, Latvia and Lithuania, are currently in the process of graduating, which means leaving the group of IBRD borrowing countries and joining the group

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of donor countries. Benefiting from their experiences as new IBRD partner countries we stress the following key messages:

- We believe that the rationale for IBRD’s engagement in the Partner Countries should be to reduce poverty and inequality.

- As stated in the corporate statement, the IBRD should continue to provide Partner Countries financial and knowledge services as well as policy advice. We emphasize the need for equitable, sustainable and job-creating growth based on the country’s own strategies.

- We call for an ambitious engagement of the IBRD, recognizing that the Bank’s activities should be demand driven, including the decision concerning graduation, and well adapted to country needs. We support the increased use of country systems.

We recognize the wide disparities between the development needs of different IBRD partner countries and therefore stress the importance of Bank’s efforts to be responsive to the changing needs of these countries. Pointing to the substantial inequalities prevailing in many middle-income countries, including inequality of opportunities, we stress the need for shared and more equitable growth. Indeed, sustainable development, which balances economic development, social cohesion, equality between men and women, and environmental protection, is fundamental for poverty eradication.

Furthermore, we emphasize the need for harmonisation among donors and enhanced cooperation between the Multilateral Development Banks (MDBs) when formulating views on the engagement in the partner countries. We underline the need for stronger support from the MDBs for improving the business environment in partner countries, thus stimulating private sector-led growth as part of efforts to reduce poverty. Here also IFC and MIGA have important roles to play. We stress the need for more concrete proposals on how to step-up blending and other ways to cooperate with bilateral donors.

Increasing country ownership is important and the use of country systems is a significant tool also in this respect. We look forward to specific proposals for enhancing the effectiveness of using country systems. Bank support for local capacity building will be central here.

We support further work on innovative financial instruments, such as sub-national lending and local currency loans as well as further analysis on the experience of fee-based services. We stress, however, the importance of finding the right balance between reducing the costs of doing business with the Bank without jeopardising the goals of safeguards or fiduciary requirements. We presume that the Bank Group will base its advice and any inclusion of conditionality on the Good Practice Principles stated the World Bank Conditionality Review.

Finally, we challenge the Bank to better explore and more systematically use the experiences of the Partner Countries in reforming their economies.

An Investment Framework for Clean Energy and Development: A Progress Report

The Progress Report presents a strategy that is well balanced between its three pillars. We have the following key comments:

- We strongly support the conclusions on Pillar I and encourage implementation of the Africa Energy Access Action Plan using already existing financing channels. We urge the Bank to make sure that the gender perspective is fully integrated in the Bank’s work in this area.
• We agree with the analysis under Pillar II and acknowledge the limitations of the resources in the Global Environmental Facility. We realize that it is important to attract both private and public financing to support a global transition to a low carbon economy.

• On Pillar III we look forward to continued and ambitious work on adaptation to climate change, to better understand the magnitude and inter-linkages of the challenge.

The yearly financing gap of USD 80 billion in the energy sector of the developing countries is enormous. Improvements in the policy and regulatory frameworks as well as additional concessional financing for the poorest countries, particularly in Africa, are needed. We emphasize that enhanced country ownership is a precondition for effective mobilization of additional public and private funding.

It is important to keep in mind that women and girls suffer disproportionately from insufficient access to modern energy systems, as they normally are responsible for fuel gathering, cooking and food preparation. We also know that girls are often withdrawn from school to attend to these domestic chores and thus deprived of their right to education on equal terms.

On Pillar II we note that the current uncertainty over the future carbon market beyond 2012 is a major source of regulatory risk for investments that possibly could benefit from carbon credits. We therefore in principle support instruments that may facilitate the transition between the current and future carbon markets. At the same time we note with concern the limited resources in the Global Environmental Facility and therefore support building on the complementarities between carbon finance and the GEF. We encourage management and member countries to present more specific proposals on the possible financing mechanisms outlined in the report.

On Pillar III we underline the importance for the Bank to increase awareness and capacity also in developing countries so that they could integrate adaptation measures in national development plans and reduce the climate risks to their development.

How to maintain debt sustainability?

While the ultimate responsibility of long-term debt sustainability lies with the borrower countries the objectives and actions must be shared by both creditors and borrowers. Our Nordic-Baltic points of emphasis are the following:

• We look forward to working with the Bank on the revised forward-looking debt sustainability framework that will prevent a rapid re-accumulation of debt.

• We urge, with an increasing concern, that all donor-participants of the Multilateral Debt Relief Initiative transfer their political commitments to legally binding financial commitments.

The International Financial Institutions have an important role in monitoring debt sustainability. The revised debt sustainability framework must be comprehensive, widely accepted and forward-looking to prevent a rapid re-accumulation of debt. We recommend that the framework underpin measures to avoid inappropriate lending that “rides free” on debt relief. We therefore support clear but country specific disincentive mechanisms. We furthermore encourage the Bank and the Fund to increase efforts for strengthening debt management capacity in low-income countries.
We also call for a close and transparent coordination of creditors in relevant fora, such as the OECD and Paris Club, as well as reaching out to non-OECD countries. Creditor countries must be part of the responsible action by exercising necessary restraint in the light of the fragile financial condition of the borrowing countries.

The recently approved Multilateral Debt Relief Initiative (MDRI) is a major boost for debt sustainability, provided that the benefits materialize fully and are used wisely. Therefore, we reiterate our plea for all donors to honour their political financing commitments by appropriate legally binding instruments in order to secure the future viability of IDA and African Development Fund.

Finally, we welcome the recent Board decision to let the sunset clause on the HIPC Initiative take effect, while grandfathering all countries that are assessed to have met the income and indebtedness criteria at end-2004, which will permit these countries to qualify for HIPC Initiative debt relief once they become eligible.

**Progress Report for Education for All-Fast Track Initiative**

We note with satisfaction the positive results of the Fast Track Initiative in general and on girls’ education, in particular. *We call for more predictable and adequate funding for the education sector.* It is also of paramount importance that the domestic resource mobilisation for education in developing countries is stepped up as the HIPC and the MDRI have freed up resources from debt servicing at the national level. We further *underline the balance between access to education and the need to focus on learning outcomes.*

**Doha Development Agenda and Aid for Trade**

While The Nordic and Baltic countries are disappointed at the suspension of the Doha negotiations, we underline that Aid for Trade is important is its own right and not conditional upon success of the Doha negotiations. *We urge the Bank to strengthen its trade-related support and call for close cooperation between the World Bank and other relevant partners* in analyzing and defining how the Bank can most effectively contribute to the broader development dimensions of the Doha Development Round.
Statement by Ms. Sri Mulyani Indrawati, Minister of Finance of Indonesia

Strengthening Bank Group Engagement on Governance and Anticorruption

We welcome the 74th Development Committee Meeting and the selected topics for strengthening the Bank’s engagement in Governance and Anticorruption and in IBRD partner countries.

It was last year when my colleague, the Governor of Thailand congratulated you, Mr. Wolfowitz, and welcomed you to the center stage of the International development community. Today we see the difference you have made, by asserting these two topics for mission discussion, aimed at strengthening the Bank’s engagement. Within a year, Governance has become a passionate topic in the World Bank Group, and the international community has begun to follow and listen to the Group’s efforts in addressing it.

This very first topic in our Development Committee Meeting focuses on Governance and Anticorruption. Indeed, during the Spring Meeting, the Development Committee requested for a document articulating the World Bank Group’s strategy on governance and anticorruption as an integral part of its work to reduce poverty and promote growth.

We agree with the Bank’s stance that poor governance and the act of corruption undermine the Bank’s core mission; that there exists a fundamental link between weak governance and corruption; and its adverse effects on growth and poverty reduction. The paper represents us well. The Bank carefully crafted its strategy into a three-level-approach, namely country, project, and global levels. We support this strategy, especially when the Bank placed Country at the forefront of its three-level-approach. We also appreciate the Bank’s recognition given to Indonesian CAS, as one model with a strong governance focus.

It is our belief that current work on Governance and Anticorruption should be driven by country ownership. Country ownership means commitment. Our experience shows that no matter how many resources one pours into a country, it will end-up wasted if there is no commitment. Therefore, we support the CAS-based approach while linking assistance to governance performance. However, the Bank should be careful when there are calls for its implementation as it may lower the Bank’s engagement level into a non-financing scenario. Therefore, the process in implementing this strategy should be transparent and guided by reliable indicators at the onset. This would ensure that the Bank applies consistency of treatment across countries. We also would like to see the inclusion of the Board for playing a greater role for ensuring an open and observable decision making process.

In safeguarding the Project, the Bank proposed the Project Level approach, introducing certain “tools” for improving aid effectiveness. We do not have any aversion toward “the usage of these tools” in fact we appreciate the Bank’s readiness to safeguard the project. Nevertheless, we would like to caution the Bank on the possibility of “increased transaction costs” since this approach would involve more actors. Should the Bank decide to apply this approach, our suggestion would be that the Bank designs it with thorough Government consultations so that both the “increased transaction cost” and “the signaling effect” can be avoided or at least mitigated.

Another issue in “the project level strategy” is related to the findings of INT when corruption is detected. There are 2 issues of pressing concern. First, on the need to share the information with the authorities, we believe the Bank should assist the Government in fighting corruption by sharing the

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15 Representing Brunei Darussalam, Fiji, Indonesia, Lao PDR, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga and Vietnam
information it has on cases found. As our legal system requires, one can not be prosecuted until we have solid evidence. The Bank put a lot of emphasis or, if we may say, obligation, to the Government for upholding Governance. However, recent arrangements on the Voluntary Disclosure Program and INT findings on alleged corruption does not help the Government in concluding the alleged cases. Information shared has not been sufficient for bringing justice to the system, and the Bank heavily retracted its information which did not aid in bringing the case forward. Second, the Bank should communicate with its client countries on its own procedures for determining cases of “corruption”. Most of the time what was deemed by the Bank as “corrupt practices” has not been declared by the relevant authorities in one’s country as “corrupt practices”. As an example, the determination of corruption by the Bank would result in seeking full repayment of a grant or loan from client countries. This procedure has to be understood clearly so that different interpretations would not lead to conflicting perceptions.

As for the concern in needing to strengthen the Bank Offices and Staff, we noted positively the proposed approach as suggested in the paper. We couldn’t agree more on the need to carefully develop and address the Staffing and Skill requirements of front line Bank operations and Country Offices. We certainly hope that prior to the enhancement of Governance and Anticorruption programs in client countries, the Country Offices could be well equipped to implement this strategy.

On the proposed strategy of a “Broad Based Partnership”, we strongly support the proposal. We find the spirit of embracing all would sustain the reform and create ownership within. However, since in this broad based partnership more actors would be involved, there are two points which should be considered:

- On the Civil Society inclusion, the question is more to which CSO truly represents genuine public interest. The Bank should be careful in selecting the CSOs that it supports under this “Broad based partnership”. Certainly, meaningful communication between the Bank and its client countries prior to involving CSOs is expected. There are different rules in different countries. Therefore, we would like to recommend for the Bank to follow the rules of one’s country in engaging with CSOs.

- With regard to donors, both bilateral and multilateral, we should harmonize their operational strategies and procedures so that it will not create additional confusion to client countries on the implementation of projects.

- The need to engage local Government with the objective of improving local capacity, so that achievement could be sustained and held within the domestic actors, where ownership prevails.

On the need to engage more in high risk countries, we support the proposed approach for strengthening the Bank’s engagement on Governance and Anticorruption with high risk countries that posses low capacity, yet high commitment to reform. We believe development would have the most impact when country leadership is willing to address the challenges it has in governance and anticorruption. Although capacity matters, in our view, commitment is vital in bringing the country forward by allowing bilateral or multilaterals to assist in building the country’s own capacity.

Strengthening the World Bank’s Engagement with IBRD Partner Countries

On the issue of the World Bank’s engagement with IBRD partner countries, we strongly support such a proposal since middle income countries (MICs) account for two-thirds of the world’s population and home to 70 percent of the developing world’s poor. We are glad this issue is brought forward for
discussion today because the Development Committee has lately put emphasis on the low income
countries (LICs) while neglecting the MICs.

While poverty may be the most important issue for LICs, it also remains one of major concern for
MICs, especially for those MICs that have problems with income inequalities and which lack access to
private financing. Relieving countries of debt or pouring financial resources in to countries may be a
short term solution for reducing poverty of LICs; but the poverty problem for MICs are more complex.
We believe that, if poverty is to be reduced or resolved, we have to work from the ground up where the
fundamentals to encourage economic growth are in place; strong governance, both in private and public
institutions, are set up to prevent leakage; and long-term sustainable development strategies have been
established. On this note, the role of the World Bank in assisting the MICs to meet these challenges is
crucial and needs special attention from all members.

We agree with the assessment presented in this paper that MICs have become more advance and
require more complex products and services from the World Bank in order to satisfy current
requirements. Many countries that I represent are MICs, and we have not been fully engaged since the
current World Bank’s products and services do not adequately match the needs of our member countries.
For the World Bank to increase engagement with MICs and to better serve them as clients, the Bank’s
financial products must be more price-competitive and flexible than the commercial market. On
flexibility, we feel that the current Bank standards and requirements placed on clients have been one of
the major reasons why MICs, which have access to private financing, are to reluctant to utilize the Bank’s
financial products. However, we are pleased that the Bank has adopted the use of the country system, but
we are disappointed with the progress of implementation. At this point, it seems that the country system
is only good if it fits with the current Bank’s procedures. On pricing of the Bank’s financial products, it
seems that the current price structure is in line with commercially–based products, but hidden costs such
as front-end fees and commitment charges have made the Bank’s financial products less competitive.

On unbundling the offering of the Bank’s products and services, we have no objection to this
proposal but would like to question whether unbundling could result in increased engagement and activity
with MICs. Many MICs value the knowledge and strategic services provided by the Bank because they
currently come in a package together with financial assistance. We believe that the Bank is not an expert
in every field, so for unbundling to work, the Bank must identify what areas of expertise that they have
comparative advantage over others, and focus resources in those specific areas.

However, we would like to note the need for the refinement of existing “bundling” services of the
Bank. By relating it to the Governance issues, we believe the Bank, with its knowledge, should assist
client countries in the design of effective and transparent projects and programs.

We also support in creating synergy within the World Bank Group, and would like to see the
launching of a pilot, single country directorship. As a client, it is more convenient to deal with one
country director that could represent the whole organization, not just IBRD/IDA, IFC or MIGA.
Therefore, management must come up with mechanisms that could promote synergy among staff in
various institutions in the World Bank Group.

With regard to the graduation policy, we are aware of the flexibility that if a country’s per capita
income exceeds a certain level, it becomes the starting point for graduation review and does not exclude
countries from Bank lending. However, we feel that the decision to graduate should come from the
country itself since IBRD lending is market-determined, unlike IDA lending which is concessional in
nature.
We understand that the proposed strategy is only at the preliminary stage, and so an action plan needs to be developed based on this proposal and our inputs. We feel that the Bank is moving in the right direction, and look forward for the progress report on this initiative at the next Development Committee Meeting.

*Progress Report on Clean Energy, Education for All, and Doha Development Agenda*

Let me turn now to the topic of Progress Reports.

We acknowledge the considerable amount of work in developing an *Investment Framework on Clean Energy and Development* in response to a request from the Development Committee. We strongly feel that the ground work done to meet the MDGs will be jeopardized by the lack of proper access to energy and adaptation to climate change in the developing countries.

We are mindful in the importance of a proper energy sector policy framework. We therefore welcome the efforts to set up the Sub-Sahara Energy Action Plan, hopeful that it will be able to mainstream the sector with other development activities and at the same time, generate interest in the private sector to fill the financial gap. Furthermore, and of equal importance is the need to make certain that appropriate policy frameworks are in place in other regions where high a percentage of the population are still denied access to energy.

On the transition to a Low-Carbon economy, we encourage the Bank to be more innovative in order to maximize the use of the existing mechanisms and support the proposed new financial instruments which will complement and provide different financing options to different economic environments. On adaptation, we strongly support the Bank’s work plan to mitigate the risks of natural disasters as this is imperative for development planning in poor countries, especially small-island states, whose infrastructure, agriculture, are natural resources are the most impacted.

On the *Doha Development Agenda*, we regret the suspension of the current round and would like to urge developed countries not to slide-back from offers made that affect developing countries. It is our belief that opening access to world markets is imperative for the improvement of developing countries. In this context, we urge the Bank to play a catalytic role in advancing the development agenda of Doha.

Despite the lack of progress of the Doha negotiations, we feel that the Bank and the Fund should strengthen their efforts to help countries in the trade policy area. However aid for trade should not be seen as a substitute for the Doha round.

Last but not the least, on *Fast Track Initiative (FTI) Education for All*, we welcome the report and are delighted to find that the FTI model is functioning. The Progress Report indicates that many developing countries are fulfilling their commitments in preparing credible plans. The utmost consideration should be given to the predictability of resources since education is a substantial investment in human capital and this program is an important contribution to one of the MDG targets. On this note, we would like to call for donors to work hand-in-hand in delivering the resources that can ensure long term and predictable funding.
Statement by Jin Renqing, Minister of Finance, China

We welcome the discussion of such important topics as governance and strengthening engagement with IBRD partner countries by this Development Committee. Taking this opportunity, I am very pleased to share with you my views on these issues.

Strengthening Bank Group Engagement on Governance and Anti-corruption

Improvement in governance is an integral part of a country’s development process. Whether the Bank is able to accomplish substantively on governance and anti-corruption agenda hinges on whether the right strategy and approach are in place. We believe that the following principles should be observed to ensure the effectiveness of Bank’s work on governance and anti-corruption.

First, abiding by the principle of non-politicization as required by its Articles of Agreement. In advancing governance and anti-corruption work, the Bank has to conform to its Articles of agreement, build its work on its institutional relationship and mutual trust with governments of member countries, and refrain from interfering in members’ internal political affairs.

Second, sticking to development as Bank’s core mission. Bank’s work on governance and anti-corruption should serve the Bank’s development mandate, strengthen its operations, and avoid increasing costs of doing business. It is essential to recognize that governance reform is a long term endeavor. Disengaging countries with aid on the ground of weak governance would set back the efforts toward achieving the MDGs.

Third, respecting country ownership. Efforts to strengthen governance and combat corruption have to be tailored to country specifics and development stages. We believe that the most viable reform strategy is the one formulated by the government on its own initiative. It is the country that knows its context best and is accountable for its future. Therefore, the Bank can play a constructive role and achieve results only with the support to the countries’ own agenda.

Fourth, evaluating Bank’s governance with results on the ground. Practice is the sole criterion for testing truth. The effectiveness of Bank’s governance strategy will have to be evaluated and tested based on its actual contribution to a county’s economic development, social stability and improvement in people’s livelihood.

Fifth, focusing on areas where the Bank has comparative advantages. Over the past few years, the Banks accumulated rich experiences in helping member countries strengthen public management. Public management, in particular, financial resources management, should continue to be the focus of the Bank’s agenda in governance.

Sixth, leading by setting the example. As the largest global development institution, the Bank should improve its own governance, strengthen voices of developing countries, increase its effectiveness and promote reform of global governance so as to create an enabling environment for developing countries.

The Chinese government attaches great importance to improving governance and combating corruption. Great efforts have been made to improve the government's capacity to serve the people and be accountable to their interest. We have put into implementation the principle of rule-of-law, promoted political institutional reform in a phased manner, built up democracy, and upgraded our governance philosophy. We have also actively participated in international cooperation in fighting corruption, and incorporated global experiences in domestic efforts. We would like to strengthen our cooperation with the
World Bank on governance and anti-corruption to improve effectiveness of our work in an effort to build a harmonious society.

**Strengthening Bank Group Engagement with IBRD Partner Countries**

Strengthening engagement with IBRD partner countries is an issue of strategic importance. This is essential for the Bank to effectively fulfill its mandate of promoting global development. In this connection, we are of the following views:

First, the Bank should work together with the IBRD partner countries to develop a new type of development partnership featured with innovation and mutually-beneficial cooperation. It is required by the mandate of the Bank to support poverty reduction in IBRD partner countries, home to two-thirds of the world’s poor. At the same time, the social-economic development in IBRD partner countries bears an increasing impact on global development. These countries have accumulated rich development experiences, but they also face a wide range of new challenges. Only by supporting the IBRD partner countries to summarize their experiences and address the challenges can the Bank fulfill its global development function, innovate development concepts and make a difference globally.

Second, the Bank should improve its lending services by further reducing financial and non-financial costs, streamlining business procedures and increasing the competitiveness of its lending. Meanwhile, the Bank should come up with more innovative products to better meet the diverse and complex needs of IBRD partner countries. In this connection, we welcome the complete elimination of the front-end fee and support the proposal of reviewing the pricing policies, which would allow the Bank to realize its commitment to provide financing with the lowest possible cost for developing countries.

Third, the Bank should utilize the net income to help resolve some pressing issues faced by IBRD partner countries, among others, poverty reduction, social development and the global public goods such as promoting regional cooperation and South-South cooperation. At this moment, what needs to be done urgently is to provide funding to clean energy framework.

Fourth, the Bank should provide high quality non-lending services to IBRD partner countries, which include studying the pressing issues faced by the IBRD partner countries, inter alia, energy/resources management, harmonious development, urbanization, etc.; facilitating the innovation of development concepts through promoting direct policy dialogues and exchanges among the IBRD partner countries; and helping IBRD countries more effectively participate in the global rule-making process to create an institutional environment that is favorable for global common development.

**Progress Report of the Investment Framework for Clean Energy and Development**

Ensuring global energy safety and arresting global climate change are not only closely aligned with every country’s policies for economic growth and people livelihood, but also significant for maintaining world peace and stability, and promoting common development. The international community should push for substantial progress in the proposed Investment Framework for Clean Energy and Development. To this end, we maintain that major efforts need to be made in the following three areas:

First, to mobilize and ensure adequate and effective financing to compensate for the incremental cost of the developing countries in emission reduction. We support the innovative financing mechanisms proposed by the World Bank, and hope that these new facilities would help mobilize additional funding from developed countries. We appreciate that the World Bank is taking the lead in considering contribution to the new financing mechanisms, and urge the developed countries to make active pledges.
to the new facilities, thus to honor their obligations for, and commitment to, addressing the common challenges of climate change.

Second, to give sufficient importance to expanding energy supplies to meet the demand in developing countries. The increased energy demand in developing countries reflects the development need in these countries as well as the consequences of deepened division of labor at global level. We believe that the World Bank and other IFIs should play active roles in innovation, based on the existing financing instruments and through supporting the “South-South Energy Cooperation”, to increase energy supplies and better meet the energy demand for development. We call on the international community to enhance the development and transfer of energy technologies through concrete and practical measures.

Third, to develop a long-term and stable global clean energy policy framework, highlighting the principle of “common but differentiated responsibilities”, for achieving sustainable emission reduction. This principle not only demonstrates developed countries’ responsibilities to compensate for their greenhouse emissions to date, but also ensures that developing countries will be able to contribute to the global emission reduction without sacrifice of their economic development and achieve clean development. More importantly, this principle makes it possible for developed countries to reduce their emission reduction cost through cooperation with developing countries, which would create huge business opportunities for private investment, thus making it possible to achieve global emission reduction in the most economical and effective way.

China attaches great importance to energy issue. China's energy strategy can be summarized as: giving high priority to conservation, relying mainly on domestic supply, developing diverse energy resources, protecting the environment, stepping up international cooperation of mutual benefit and ensure the stable supply of economical and clean energies. China is an energy consuming country, and more an energy producing country. Under the principle of equal treatment, mutual benefits and win-win situations, we will strengthen cooperation with all kinds of energy producing and consuming countries, and join our efforts to safeguard the global energy security. Presently, China is taking active measures, through technology upgrading, market mechanisms and economic leverages, to comprehensively promote the conservation and efficient utilization of energy resources, and to build an energy-efficient and environmental friendly society. China’s 11th Five-Year Plan has explicitly specified the objective to cut energy consumption per unit of GDP by 20% from 2006-2010.

China stands ready to cooperate with the international community to continue the efforts to promote cleaner and more efficient energy production and consumption, to address the issue of climate change and pursue global sustainable development.

Doha Development Agenda and Aid for Trade

Doha round is a development round. Whether development issues are well addressed is the key criteria to measure the success of Doha round. The Doha round of negotiations is now in a crisis, with negotiations suspended. The parties concerned are actively exploring the possibilities of resuming the negotiations.

We are deeply concerned that the stalemate of Doha round negotiations would pose risks to the growth and stability of the world economy as well as the orderly development of international trade. The suspension of Doha negotiations, which was mainly due to the lack of flexibility of the certain countries in agriculture, would be unfavorable to interests of all parties. The resumption of negotiations requires these countries to show their true willingness and take real actions.
China calls for prompt resumption of Doha round negotiations. Developed members shall abandon any attempts to diminish the development goal in future negotiations, and fulfill their commitments of special and differentiate treatment to developing countries. We urge major developed countries to show their political willingness, and further increase the flexibilities in reducing trade-distorting subsidies in agriculture and tariffs.

China is committed to the establishment of an open, fair, proper and non-discriminating multilateral trading system. Since its entry into WTO, China has always played an active and constructive role in Doha round negotiations, and contributed to the progress of the negotiations. During this round of multilateral trade negotiations, China has done its part and will try its best to make due contribution to the resumption of negotiations at an earlier date and successful conclusion of Doha round.

Aid for trade has played an important role in helping developing countries to enhance their capacities in participating multilateral trade system as well as promoting developing through trade. We appreciate the efforts and achievements made by the World Bank and IMF in promoting regional cooperation. The two institutions should continue to play their important roles in aid for trade. The Bank should proactively support cross-country/regional integration infrastructure projects through lending, grants and other instruments so as to lay a solid physical foundation for regional trade cooperation. We support the Bank’s efforts in exploring new funding mechanism for that purpose.

*Education for All-Fast Track Initiative (EFA/FTI)*

Education is a long-term fundamental issue faced by the developing countries. We are pleased to see that EFA-FTI has made important headway thanks to the commitment and support of the international community. We must realize, however, funding remains to be the key to realizing the education MDGs. Therefore, we hope that donors and international community will continue to increase funding and its long-term predictability so as to help developing countries implement a sustainable education plan. The current FTI is small in scale and limited in countries, which calls for more input from the international community. In this context, the Bank should play a greater role in mobilizing resources, supervising fulfillment of commitments and policy coordination.
Statement by Mr. Aleksei Kudrin, Minister of Finance of the Russian Federation

Strengthening Bank Group Work in Governance and Anticorruption

We are glad that governance and anticorruption issues are so prominently featured on our agenda. It is clear that improvement of public institutes and social, economic and financial policies, along with uncompromising fight against all kinds of corruption, are all critically important for the achievement of the MDGs. G8 summit (Saint Petersburg, 2006) underscored that "corrupt practices contribute to the spread of organized crime and terrorism, undermine public trust in government, and destabilize economies. Corruption by holders of public office can deter foreign investment, stifle economic growth and sustainable development, and undermine legal and judicial systems. The net effect of corruption is felt most directly, and disproportionately, by the poor." Therefore, we believe that the new World Bank governance and anticorruption strategy meets the expectations of the global community.

It should be noticed, though, that links between development and governance are complex and causality often runs in both directions. Thus, the Bank should rely on its own comparative advantages, including its knowledge of the development process and realities of developing countries, and its contacts with member countries should be predictable, transparent and free of bias. The new strategy should underscore the following issues, which, in our view, reflect the emerging consensus among the membership:

- All governance and anticorruption activities must be aimed at the overarching objective, i.e. achievement of the Millennium Development Goals.

- Anticorruption is only one of the elements of governance.

- Fight against corruption is not a valid justification of disengagement of the Bank from client countries.

Governance cannot be improved without increasing the quality of economic and regulatory policies. Of course, they are mutually interdependent, but World Bank research has demonstrated that improved governance does not automatically lead to better policies. In any event, development failures can be driven both by governance and wrong policies, and a wrong policy usually creates ample opportunities for misuse and corruption. In our view, the Bretton Woods institutions are best positioned to assist their member countries in designing and implementing adequate macroeconomic, structural and social policies aimed at development and poverty alleviation.

All World Bank governance and anticorruption work must be closely coordinated with member countries' strategies. It is governments who bear full responsibility for the quality of governance. From this angle, the Bank should be more sensitive to some members' concerns that unanticipated elements of politicization in the Bank's work, even if driven solely by anticorruption efforts, could sour relations between the Bank and the government. As a result, it may lead to lower interest in the Bank's advice and, eventually, slow down governance and anticorruption progress.

There are many countries where governance and anticorruption issues are best tackled by means of improved fiscal management. This is exactly the area of prime competence of the Bretton Woods institutions. We have already expressed our concern that some countries, including those eligible for MDRI, lack even basic elements of financial governance, like reliable economic and social statistics, monitoring of public expenses, etc. It is obvious that improvement in this area will lead to better utilization of public resources, lower opportunities for fraud, and increased trust of the global community.
That is why such an improvement should be among key conditions of expanded assistance in the World Bank's country strategies.

The issue of good governance has been on the agenda of several important fora including the recent APEC Finance Ministers’ Meeting with its focus on promoting public finance efficiency and sustainability. On Russia’s initiative, the G8 Finance Ministers and a number of colleagues from key economies had a productive discussion at the outreach meeting in Saint-Petersburg in June 2006 on measures required to strengthen good governance in public finance. Ministers agreed that responsible and effective management of public finance is of fundamental importance for achieving macroeconomic stability and sustainable growth, and provides the essential foundation for good governance. As there seems to be an increased interest in this important issue, we believe there is a scope for IFIs to work towards drafting a Code of Good Practice on Public Finance Governance, supported by guidance on its application and implementation.

Strengthening the World Bank’s Engagement with IBRD Partner Countries

We welcome this paper, which describes the renewed strategy for engagement with IBRD partner countries. We believe that it raises very relevant issues at the right time. The proposed solutions are in general appropriate and, if implemented, would allow the Bank to maintain its relevance in a rapidly evolving world. Because middle income countries (MICs) are home to 70 percent of the world’s poor, continuation of the Bank’s strong engagement with them is indispensable in order to fulfill its core mandate. At the same time, engagement in middle income countries strengthens the Bank’s financial capacity, which serves as a basis for sustaining and enhancing resource transfers to the poorest countries.

In our view, the priorities of the strategy are chosen well. They include enlarging the menu of financial and knowledge services, designing more flexible and timely delivery mechanisms, and eliminating internal impediments to implementation of innovative solutions.

We would like to lend our strong support to the proposed revision of the traditional model of service delivery based on bundling lending and non-lending services (for example, in the form of technical assistance loans). These activities can be easily put on a stand-alone basis. By doing so, the Bank may become a leading provider of policy advice and other expert services to the MICs, especially when delivered through a quick-response window. In order to be successful in this business segment, the Bank should be prepared constantly to demonstrate its ability to add value and provide high quality and timely services to the clients. The quality of knowledge products would clearly benefit if the Bank more actively used the experience and scientific and analytical capacities of MICs.

It is clear to us that investments in this business segment will be associated with substantial positive externalities. The Bank’s capability to maintain its competitiveness in knowledge and advisory services to the more advanced partner countries will generate the knowledge base to benefit all clients. We strongly believe that the Bank’s ability to remain the MIC’s partner of choice can be used a criterion to evaluate its overall success.

We also support the Bank’s intentions to innovate and increase its competitiveness in the area of financial services. It seems particularly appropriate to clarify the issue of the final costs to borrowers associated with Bank-financed projects, including the so called “costs of doing business with the Bank”. At the same time, we must not overlook the other side of the coin, namely the overall development impact that transcends the boundaries of isolated projects. We believe that improving the transparency in the area of loan pricing will allow the clients better to appreciate the value added by the Bank in terms of its contribution to development. This, in turn, will facilitate their judgment with respect to the Bank’s overall competitiveness as a financier.
We appreciate the proposals to enlarge the menu of financial products offered by the Bank: new lending instruments that are better tailored to the clients’ demands (such as lending in local currency); structured financial products, including Bank guarantees that may facilitate clients’ access to the international capital market and stimulate foreign investments; risk mitigation instruments; assets management; and so on. We also believe that these financial vehicles should be made more accessible to the qualified borrowers with strong macroeconomic policies.

We expect also that in the near future the Bank will mainstream its public-sector financing instruments at the sub-national level without a sovereign guarantee. Although not all countries are ready to make use of this vehicle at the moment, we see a strong demand for it in the future. Of course, in order to maintain the necessary fiscal responsibility, central governments should always be in a position to control activities in this area.

We would like to emphasize that Bank engagement with IBRD partner countries should be based on a customized approach, tailored to the needs of each client. This approach is reflected in the menu of option proposed by the Management (summarized in the corporate declaration and described in more detail in the discussion paper), which emphasizes the differentiation of services and improvements in their delivery mechanisms. This is especially true in the case of countries enjoying a good economic and financial situation. At the same time, the Bank should take fully into account the interests of those clients who prefer traditional instruments and mechanisms. Finally, based on these considerations, we should be careful and considerate when we address the issue of countries’ graduation and eligibility for different forms of IBRD support.

An Investment Framework for Clean Energy and Development: A Progress Report

This stimulating progress report contains a number of valuable insights into the ways of dealing with "energy poverty" in the developing countries, as well as ideas on new approaches in the areas of clean energy and adaptation to climate variability.

Lack of access to modern energy services is a barrier to economic growth and can put at risk the achievement of the Millennium Development Goals, especially in Sub-Saharan Africa. That is why Russia as the G8 Presidency decided to put the issue of energy for development on the agenda of the G8 Finance Ministers Meetings in Moscow and Saint-Petersburg earlier this year. Recognizing the important linkages which exist between energy services and health, education, gender inequality and environmental sustainability, the G8 Finance Ministers in a separate statement Agreed to take steps to alleviate energy poverty. In this context, Russia decided to contribute US$30 million to the Global Village Energy Partnership (GVEP) – a promising international initiative which seeks to accelerate the provision of energy services to the world’s poorest people – in order to scale up the GVEP’s activities in Sub-Saharan Africa.

We therefore welcome the increased emphasis on the role of energy for development made in the Progress Report and support the proposed Africa Energy Access Action Plan. At the same time, we disagree with the choice of priorities set out in the paper. For instance, it is necessary to further underscore the role of electricity shortages as one of the key impediments to development. These shortages also result in poorer investment climate and environmentally suboptimal energy mix. With no prejudice to the role of private sector in energy generation, we believe that this serious issue cannot be addressed without substantial public investment. Innovative ways to foster public-private partnership in this area are also of great importance.
To eradicate "energy poverty" we need a comprehensive strategy with measurable goals. Such a strategy would include evaluation of energy and technological requirements, and of sources of possible financing needed to meet these requirements. Particular emphasis should be given to large-scale regional projects with a potential to make rapid progress in the pockets of deep "energy poverty".

In this regard, it would be appropriate to recall the suggestions we made during our Spring Meeting, specifically, to rescind World Bank restrictions on large-scale hydro energy projects, and to initiate preliminary work on the feasibility of bringing the Bank back to the area of nuclear energy – provided, of course, that all related issues are fully taken into account.

Sections of the report that discuss clean energy seem to demonstrate that it is premature to count on mobilization of resources needed to put the global economy on the low-carbon path. Global regulatory regime is not a realistic option either at the moment. Still, we support proposals to launch, on a pilot basis, innovative tools to finance clean energy projects. We would like to see these new approaches operationalized. At the same time, we have to be cautious and not make the Bank a champion of new untested technologies which have yet to prove their viability in the industrial countries. This area is far outside the Bank’s core expertise, while erroneous investment decisions may turn extremely costly for the developing countries and for the shareholders as well.

As for the adaptation to climate variability, no one would deny the importance of our assistance to the developing countries in this area. However, this issue is not too closely related to the energy agenda. In view of the acute "energy poverty" it will make sense to deal with these issues separately, as different elements of our overall strategy.

**Progress Report on the Education for All – Fast Track Initiative**

We welcome the tangible results in the implementation of the Education for All – Fast Track Initiative (EFA-FTI) achieved over a relatively short time span. We believe that this successful start is evidence of the correct overall design of the strategy. One of the main pillars of the Initiative is its focus on concrete and measurable results. The ultimate success of the Initiative would critically depend on whether we are able to maintain this focus in the future, including also through an explicit link between external assistance to the education sector and country track record in achieving those measurable results. In this respect, we fully agree with the need to strengthen country ownership in terms of building institutional capacity to monitor progress in education reform.

We can safely predict that as gross primary enrollment improves in most participating countries, quality indicators will be gaining more and more prominence. Therefore, it is paramount to have in-built elements of quality assessment within the general structure of monitoring EFA-FTI targets and benchmarks, so as not to lose focus on quality while analyzing relative effectiveness of various policies and instruments used. Ultimately, support for this initiative critically depends on its ability to achieve concrete learning outcomes.

Despite impressive progress, current financing gaps and lack of longer-term predictability of resource inflows continue to thwart the process. The experience of early EFA-FTI participants demonstrated that they could not on their own mobilize sufficient resources to meet the targets, yet donor funding already falls short of the required volumes. In our view, the Initiative is an efficient tool of focusing the attention of both recipient countries and the donor community on the key development goals, and we cannot afford to waste its huge potential.

At the same time, present under-funding of the Initiative should not stand in the way of accommodating large countries, even though their participation in EFA-FTI is inevitably going to
increase the overall resource envelope. We believe that the task is to concentrate efforts on securing sufficient donor funding for the program, increasing long-term predictability of resource inflows and improving the flexibility of financing instruments, particularly in terms of direct budget support and sector-wide approaches.
Statement by Mr. Okyu Kwon, Deputy Prime Minister and Minister of Finance and Economy, Republic of Korea 16

We thank the Singaporean authorities for hosting the 2006 annual meetings of the IMF and the World Bank.

Developing Country Growth Continues Robustly

Developing countries’ GDP growth continued remarkably strongly since we last met, despite headwinds from the maturing of the global business cycle and from commodity price increases that have disadvantaged some developing countries, but greatly advantaged others.

Picking up the stragglers

Even as forecast GDP growth to 2008 slows slightly, developing countries are expected to continue to grow at about twice the rate of high-income countries. Even excluding China and India, forecast growth rates in other developing countries are still almost twice as high as in developed countries. Aid increases and debt forgiveness are contributing to this growth, particularly in Sub-Saharan Africa. But some historically slow-growing, low-income countries such as those of the Pacific are not matching the best of the developing world’s growth performances.

We consider improving aid effectiveness to be a key challenge for the international community as aid flows are scaled up. In this regard, implementing the Paris Declaration principles should be of primary concern, as donor and recipient signatories strive to reach the targets outlined by 2010. We support the World Bank and IMF’s ongoing efforts to increase the impact of aid and debt relief flows.

As performance-based aid allocations favor developing countries with stronger institutions and policies, it is a growing challenge for donors (including the World Bank) to find more effective ways of engaging those countries left behind. The World Bank has been at the forefront of international analytical and policy work on the best means of promoting development in these slow growing and often fragile states. But greater attention is needed to applying this analytical and policy work to the Bank’s operations, particularly through overhauling staff incentives to encourage the best staff to work in fragile states.

World Bank Group performance

We appreciate steady progress in some areas of modernization and reform in the Bank Group over the last year.

- The Group’s budget processes, and their relation to medium-term strategies, are generally strengthening.

- The IBRD’s investment lending continues its recent growth with no deterioration in development quality, reflecting the Bank’s return to its important role in infrastructure financing.

16 On behalf of Australia, Cambodia, Kiribati, Korea (Republic of), Marshall Islands (Republic of), Micronesia (Federated States of), Mongolia, New Zealand, Palau (Republic of), Papua New Guinea, Samoa, Solomon Islands and Vanuatu
• IDA disbursements have grown to deploy donors’ large funding increases in the IDA14 replenishment.

• IFC’s profitability continues at very strong levels, with continuing good development impact, and net income from both IBRD and IFC has contributed to IDA funding. We consider IFC’s current phase of strong growth warrants caution to ensure it maintains its strategic focus on development impact in frontier economies around the world, not only in Africa. IFC should maintain its unique focus on, and comparative advantage in, stimulating private sector development, and avoid being drawn into grants and transfers to other non-core IFC objectives.

Avoiding a ‘lend and forgive’ cycle

The Multilateral Debt Relief Initiative has already delivered almost $30 billion in forgiveness of IMF, African Development Bank and World Bank credits to post-completion point Heavily Indebted Poor Countries (HIPCs), lowering their debt stocks by about 90% and providing the resources to strengthen progress against poverty. Ultimate total costs of this initiative have risen to an estimated $63 billion. IDA donors in our country grouping have contributed their share of these costs.

We urge the Bank and the IMF to be proactive in dealing with debt management and sustainability issues. We are concerned that a significant proportion of post-completion point HIPCs are already showing worrisomely high levels of indebtedness again. The Bank and Fund should devote much more attention to these danger signals; both concessional and non-concessional lending should be considered in addressing debt sustainability, in order to avoid a ‘lend and forgive’ cycle. At present, no one part of the World Bank Group has responsibility for ensuring that debt management capacity in borrowing countries is being built to manage future debt more wisely.

Strengthening Bank Group work in Governance and Anticorruption

We support the Bank Group’s outline of how it intends to engage more proactively to reduce corruption in the misuse of Bank Group funds, and to help development partners strengthen governance and thereby help reduce corruption more broadly. For the Bank, these are not ends in themselves: they are a means to the Bank’s core objective of accelerating poverty reduction through improving aid effectiveness.

• Our constituency’s bilateral donors are committed to these objectives in their own aid programs, and are committed to sharing experience with the Bank Group in this difficult area, that requires transparent processes and accountability for decisions.

• Our constituency’s developing member countries are committed to making progress in their own institutions and policies. They seek the Bank’s constructive assistance to help local ‘checks and balances’ institutions develop and, in the event of instances of corruption, to help in marshalling evidence and facilitating prosecutions. We urge improved Bank processes in identifying problems in ways which advance reforms, rather than swamping fragile local institutions.

One benefit of dialogue with the Bank’s shareholders in the development of the Bank’s governance and anticorruption policies, is the strong message from all that the Bank Group must stay constructively engaged in all developing countries, even those where weak governance and/or high
corruption may make lending and traditional forms of aid less effective and sometimes inappropriate. As President Wolfowitz noted at the 2006 Spring meeting of the Development Committee, interruption of Bank engagement can only be a stop-gap response while better forms of assistance are devised. The Bank must remain present ‘on the ground’ and explore ways to make progress against poverty through identifying ways to deliver resources that reduce poverty and build local administrative and accountability mechanisms, while avoiding fiduciary problems in weak governance environments. It must identify those aspects of government that are performing most strongly, and deliver timely, useful analytical and advisory work that can help build consensus for reforms. We welcome the draft policy’s reaffirmation of the Bank principles of non-engagement in the political affairs of its member states.

Long before this exercise in developing the Bank’s own governance an anticorruption policies, we have pointed to the need for better Bank performance in engaging in fragile states, which by definition are weak governance environments that have limited capacities to manage traditional forms of aid. We urge the application of these new governance and anticorruption policies to be conceived in a resourcing framework that improves the Bank’s engagement in fragile states.

We endorse the use of country assistance or partnership strategies to identify transparently alternative engagement options in the event of different country developments in governance and corruption. While we hope for the development over time of better objective indicators of governance and corruption trends, we believe judgments will always be required, and welcome the explicit role envisaged under the new policy for Bank Board approval of any change in mode or volumes of aid in country engagement.

It is a desirable aspect of the new policies that the Bank’s Department of Institutional Integrity will play a more proactive role. Transparent Bank governance of the Department and close partnership between the Department and the country authorities are desirable to maintain confidence in the Department’s operations, which are often necessarily based on confidential information. Moreover, management needs to ensure that actions derived from the Department’s findings are embedded in a sensible Bank strategy at the country level to advance the cause of reform, not a scattergun approach which overwhelms the limited corrective capacities of fragile national prosecutorial and judicial institutions.

**Strengthening Engagement with IBRD Partner Countries**

Our constituency includes both lower-middle-income and upper-middle-income IBRD-eligible countries, and IBRD/IDA blend counties. They are often small countries, in which the Bank’s high ‘flagfall costs’ make for particular challenges to effective Bank engagement. Moreover, all our members have an interest in how the IBRD’s business model evolves, as IBRD performance affects cost recovery from, and income transfers to IDA borrowers, and the Bank Group’s overall development effectiveness. We welcome the Bank’s consideration of challenges confronting its traditional business model from the greater access of creditworthy middle income countries to private capital markets, the recent and prospective ‘graduations’ from IBRD ranks of important borrowers, and the greater diversity of demands for the Bank’s policy, financial and knowledge services. IBRD reforms could also increase synergies with the services to the private sector of the International Finance Corporation and the Multilateral Investment Guarantee Agency.

While the paper for the Development Committee is very broad-brush and in some ways unsatisfying in its lack of time-bound commitments to prompt, specific actions, we think it proposes some sensible principles that we heartily endorse. Key among them in our view are:
• the move to price IBRD lending more transparently;

• greater use of country systems, without compromising prudential or other standards;

• the imperative of reducing the non-financial costs of doing business with the Bank;

• a cautious and demand-driven approach to sub-national lending;

• the great need to focus and better link the Bank’s research work to operational knowledge and lending services;

• the proposal to better focus, unbundle and separately price operational knowledge services for those countries that seek only those services;

• the better prioritization of work on global public goods (where in our view the Bank needs to become much more selective, as further discussed below in the field of energy); and

• the effort to seek more synergies with the IFC and MIGA.

We attach special importance to urgent action to better focus Bank research and expert services, which presently account for 60% of the Bank’s $2 billion per annum administrative budget. Research needs to be linked better with timely, practical knowledge services that help countries with ‘how to reform’, not high-level generalities about ‘what to reform’. Analytical and advisory work needs to be relevant and flexible, particularly in low-income countries that face capacity constraints.

Many of the objectives listed above have been long-identified by shareholders, and the paper itself adds little to their implementation. The task now is to move promptly to specify time-bound implementation in a management action plan and report progress to the Board in the remainder of this calendar year. We need to see substantial progress on all these fronts by the 2007 Annual Meetings.

We believe acting on the foregoing principles will set in train evolutions within the Bank Group whose full implications cannot at present be precisely foreseen. The IBRD exists to put itself out of a job, and transparent pricing and unbundling of lending and better-focused services, together with the quality of those services, will strongly influence the future demand for the IBRD’s product lines.

An Investment Framework for Clean Energy and Development

The progress report to this meeting considerably develops the ideas last presented to the Spring Development Committee meeting. We urge the Bank Group to proceed speedily to implement the ideas for Pillar 1 (to advance access to modern energy) and Pillar 3 (to facilitate adaptation to global warming). Both these roles are core to the Bank’s business, and areas of its comparative advantage.

• We welcome the paper’s acknowledgement that improved energy access depends critically on energy sector policy reform to allow private investment to take up economic opportunities. In stressing the imperative for energy access, the Bank should drive home that reasonable growth prospects for the poor cannot rest on apparently easy but illusory options using small scale renewables, but without the capacity to meet the very large energy requirements for development.
• Adaptation to warming is of particular concern to the small Pacific states of this constituency, and an exploratory Global Environment Facility program underway in Kiribati since May 2003 is now advancing into the investment phase.

We share the Bank’s conclusion that these two core missions can be met through use of the Bank’s existing financing mechanisms, including the existing Global Environment Facility, which has potential for further development as needed.

Transition to a lower carbon economy

Pillar 2 of the paper deals with mitigation of global warming through transition to a low-carbon economy. Mitigation challenges have to be solved cooperatively in a development-friendly manner, and with respect for countries’ individual circumstances and priorities.

The Bank examination of its possible role in these issues, called for at the Gleneagles G8 meeting, had yielded useful insights. We conclude that mitigation has to move beyond existing cap-and-trade approaches under the Kyoto Protocol, which do not engage large current emitters and large fast-growing developing economies that are contributing most of the growth in emissions. The UN Framework Convention on Climate Change (UNFCCC) should be the forum for devising the regulatory foundation for future global approaches. It can draw on insights from the regional carbon markets now in existence, the market experiments to improve carbon market efficiency in price discovery (such as those of the Brazilian Mercantile and Futures Exchange), and initiatives such as the Asia-Pacific Partnership for Clean Development and Climate (whose members account for around 50% of the world's greenhouse gas emissions, energy consumption, GDP and population).

Carbon market development is not the Bank’s comparative advantage

We consider work done to date on possible new World Bank financing options such as the Clean Energy Financing Vehicle (CEFV) and the Clean Energy Support Fund (CESF) has revealed sufficient problems to suggest that these particular ideas should not be progressed further.

• The Bank has no comparative advantage in this area, relative to the UNFCCC and to private sector and regional carbon market experiments.

• There would be large but unquantifiable financial risks to the Bank from buying carbon credits without a global framework that would underpin the value over time of such credits; the $10 billion-plus shareholders’ contribution that is envisaged could be quickly dissipated if carbon permits did not trade in future at the values the Bank anticipates.

• The Bank’s ideas would seem to be poor value to developing countries, which would do better to sell carbon credits direct, rather than repaying soft World Bank loans and using the Bank as a middleman in carbon trading.

• A significant role for the Bank as a carbon purchaser and trader would create conflicts of interests with the Bank’s core strategic development policy advice and lending roles.

So we urge the Bank to halt work on CEFV and CESF in the light of the issues revealed by work to date, and focus on its comparative advantage and core responsibilities in improving access to clean energy (which can include carbon mitigation aspects) and in assisting adaptation.
Education Fast Track Initiative

From our constituency, several countries are interested in joining the Education for All Fast Track Initiative (FTI), and our donor economies are also leading contributors to educational funding in the Pacific. We welcome the evidence that the Initiative has improved developing country ownership and donor coordination around effective education programs. We regard the evidence of increased primary education access as less convincing of progress, as there are signs of very poor educational quality, and the objective should be improving educational outcomes, not improving enrollments as an end in themselves. Moreover the FTI participants are not, as a group, showing any clear improvement in the sustainability of education access improvements from domestic revenues. We urge donors and developing countries to work to improve the FTI so that it focuses less on educational inputs, and more on sustainable educational outcomes. In the experience of constituency members, this will clearly include improving the quality of key inputs such as teacher training, curricula, school materials and educational facilities. These members also note the flow-through impact of improved primary school completion ratios on the demand for secondary schooling.

Doha Development Agenda and Aid for Trade

We deplore the suspension of negotiations in the Doha Development Round. Freer trade in goods and services is particularly important for developing countries. They need to import and export more freely to generate income growth, to service responsible foreign borrowings, and to help turn the financial flows from increased aid volumes and the forgiveness of excessive debts under the Multilateral Debt Relief Initiative into real resources. The upsurge in inflationary pressures in sub-Saharan Africa identified in the Bank’s economic outlook is a warning sign of the issues involved here. The negotiations need to be restarted as soon as possible, and without backsliding in the liberalization offers made so far.

In the meantime, countries can make unilateral protection reductions, which have historically accounted for most trade liberalization, and which most benefit the liberalizing countries themselves. High-quality, comprehensive, WTO-consistent regional or bilateral trade agreements can also help the path to more efficient international specialization.

We appreciate the steady growth in, and better organization of, aid for trade. While not a substitute for trade liberalization, it is a valuable complement to it in strengthening the capacities of developing countries to take advantage of trade opportunities. Regional aid for trade has a role to play in facilitating cooperation in regional trade infrastructure, both ‘hard’ infrastructure such as transport investments and coordination and ‘soft’ infrastructure such as common customs systems. Nor are these issues only for Africa: the Pacific and the Mekong offer opportunities for Bank initiatives.

While collective action and coordination problems can complicate regional cooperation, we believe these challenges should be met by improving the regional facilities in IDA, and lowering the costs of doing business with the Bank, such that preparation costs for grants or credits to neighboring countries can be lowered.

Voice and representation

These meetings mark an important stage in improving the representation and voice of developing countries, particularly the most underrepresented, fast-growing countries. We look forward to the process for quota reform reported at these meetings of the IMFC being completed as scheduled, and the corresponding issues in World Bank governance and participation also being addressed.
Statement by Ms. Doris Leuthard, Federal Councillor, Minister of Economic Affairs, Switzerland

It is a pleasure to attend the Development Committee meeting for the first time in my new capacity as Governor for Switzerland to the World Bank Group.

The World Bank plays a critical supporting role in addressing the development challenges facing the world, including the important ones being discussed today by the Committee.

The international community forged a compact for more vigorous efforts towards reaching the Millennium Development Goals (MDGs). Delivering on those commitments will require sustained, high-level political attention, and I urge President Wolfowitz to play an active advocacy role in this challenging and crucial area. At the same time, I appreciate that the Bank is also a responsive leader in situations of acute crisis, as when the President recently decided to provide financing to Lebanon for economic and social recovery activities by transferring resources from the IBRD surplus to a trust fund for Lebanon.

Governance and Anti-corruption

On behalf of our constituency, I reaffirm that strengthening governance and fighting corruption are essential to achieving better and more sustainable development results. We greatly appreciate the leading role the World Bank has played since 1996 in furthering this agenda, and we support the renewed emphasis given to it by President Wolfowitz.

In view of its mandate, the World Bank should address governance from a development perspective, and its strategy should ultimately aim at advancing progress towards the MDGs. As a development organization, the World Bank should concentrate on addressing the causes, rather than the symptoms, of weak governance. This means that its strategy’s main objective should be to help countries build their own capable, accountable, and responsive governance systems.

We welcome the proposed three-pronged approach, encompassing the Country Assistance Strategy (CAS) as the primary instrument for the World Bank to enhance its support to countries’ efforts in the area of governance and anti-corruption, supplemented by strengthening governance and addressing corruption at the level of Bank projects and global partnerships.

We would like to reiterate the importance of country ownership. The success of governance reforms critically depends on solid and broad buy-in and leadership of key stakeholders inside and outside of governments. Notwithstanding the degree of commitment and capacity to improve governance existing in a country, the World Bank should always strive towards remaining engaged, but its support should be tailored to country circumstances. In difficult governance situations, this might require reliance on non-state actors for delivering support. Therefore, the World Bank should offer each country a medium-term planning platform, such as a CAS, including ex-ante lending scenarios and triggers for calibrating and sequencing support programs. In this regard, we stress that decision-making must be based on transparent and clear criteria to assure equality and consistency of treatment between countries.

The framework will need refinement in several aspects. Cooperation and sharing experience with other external development partners is certainly one of them. The Paris Declaration on Harmonization and

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Alignment is particularly relevant in the area of governance. The World Bank should be more selective by focusing on its comparative advantages, such as assisting countries enhance public finance management. At the project level, the framework should be broadened to include different approaches to tackle corruption, such as community-based monitoring, well-targeted government audits, or third-party certification. At the global level, more prominence should be given to the important role the Bank can play in facilitating the restitution of looted assets.

The governance framework is a good start, but should be regarded as a work in progress. In this sense, we encourage the Bank to continue learning from its own and others’ experiences. We call for a review of the World Bank Group’s engagement on governance and anti-corruption to be presented to the Governors at next year’s Development Committee meeting.

Middle Income Countries (MIC)

The World Bank Group continues to play an important role in middle-income countries, and middle-income countries continue to be essential to the World Bank Group. This mutual interest should be better reflected in operational relations by taking into account the changing environment and evolving needs. The global environment and national realities have changed over recent years, and many MICs have made considerable progress in getting better access to capital markets and improving their knowledge and capacity base. The Bank report points to several areas where operational improvements are necessary and possible, particularly in terms of better responding to specific client demands for financing and/or expertise.

While a bolder and forward-looking MIC strategy seems warranted, currently, the biggest challenge for the Bank is to improve and accelerate implementation of the already identified measures for effectively and efficiently delivering its lending and services to clients. This would require the simplification of Bank procedures and loan pricing, better selectivity of Bank engagement, and a greater reliance on country systems. The increasing use of borrowers’ own social and environmental safeguards and financial management and procurement systems, which must be equivalent to Bank standards as stipulated in the policy documents, is, in our view, central for scaling up positive development effects and, thus, should gain more momentum. Therefore, we are pleased with Management’s commitment to discuss the pilots soon in the Board, and we advise to speedily proceed towards implementation. Improving Bank work will also require organizational adjustments which should not only reflect MIC needs, but also the specificities of the entire World Bank Group, including IDA.

The diversity of MICs and their needs implies that the Bank cannot provide high expertise in all areas, but should be selective and should focus on leveraging its core strengths and filling gaps in areas where no expertise is readily available, by drawing on high-level in-house expertise and combining it with top outside expertise. Prioritization should be based on a clear division of responsibilities and activities among multilateral financial institutions and within the World Bank Group.

Clean Energy and Development

Energy underpins virtually every aspect of modern society. The world, particularly emerging economies, increasingly needs more energy to enable economic development. However, oil, gas, and coal – which account for more than 80 percent of global energy consumption – are finite resources, and there is growing awareness of the costs and risks to society by their use. How to reduce greenhouse gas emissions worldwide, through a combination of energy efficiency measures, clean energy technology, and emissions trading is a global challenge. It requires a united and global response. Therefore, we welcome the ambitious and comprehensive framework that outlines the three pillars for effective assistance related to access and use of clean energy.
Access to modern and clean energy services is essential for driving economic and social progress to countries and people alike. Therefore, it must be a priority of countries to implement energy sector policy reforms as an important step towards attracting domestic and foreign investment and, thus, reducing the electricity sector financing gap. Complemented by intelligent energy conservation, demand management, optimal generation planning, electricity trade across countries, and regional projects, the volume of incremental investment needs can be significantly reduced. While this applies to all regions, the situation is most dire in Africa, and the Action Plan for Sub-Saharan Africa charts specific areas of high priority and pay-off that require best efforts of support from us all.

The transition towards a low-carbon economy is – to a large degree – dependent on a long-term regulatory framework for emissions reductions after 2012. Only then can capital markets create incentives and mechanisms for the private sector to make the necessary investments. The Bank should support efforts that a comprehensive post-2012 Framework, consistent with the Kyoto-protocol, can be established.

In view of the huge financing gaps, existing financing vehicles must be refined and improved. In addition, new financing options are proposed to stimulate private investment and provide predictability. This represents a step forward that allows those countries to be in a position to contribute more resources to do so. At the same time, concerns related to the overall transaction costs, the proliferation of effectively or potentially under-funded financing vehicles and the risk of crowding out similar private sector instruments must be analyzed seriously, and our traditional instruments, such as the Global Environment Facility (GEF), should have priority. The Bank should further improve its cooperation and leveraging with the private sector and adjust its work commensurately.

Increasingly severe weather events and climate variability can no longer be ignored or responded to in a reactive way, especially by the most vulnerable countries. Adaptation and “climate proofing” of development projects and programs should be integrated not only into national poverty and sustainable development strategies but also the Bank’s CASs.

We encourage the Bank to focus on priority areas based on its comparative advantage and to ensure that this approach is aligned and coordinated with institutional capacities and financial programs of other International Financial Institutions as well as other relevant institutions. Furthermore, the Bank should also make sure that consistency is applied with its own policies - such as the Extractive Industry Review (EIR) - where the Bank should encourage the promotion of projects in renewable energy.

Trade Agenda and Aid for Trade

We greatly regret the suspension of the WTO negotiations. We are certain that a sustainable and predictable multilateral trading system is needed more than ever to ensure sustainable economic growth for both developing and developed countries. We strongly call for the negotiations to resume so that the Doha Development Agenda, which we strongly support, can be completed and yield the foreseen results. A strong and predictable multilateral approach is the best way to achieve an inclusive, equitable global system, harness global welfare gains and realize intrinsically difficult reforms, as in the agricultural sector.

The Bank continues to play an important complementary role through its valuable work at the global and, foremost, at the country level (i.e. diagnostic studies, advice on policy reforms, financial assistance, technical assistance, and capacity building). In the context of the Aid for Trade Agenda, we support the Bank’s orientation towards regional cooperation on trade-related infrastructure, as it may help address acute bottlenecks and promote the competitiveness of low-Income countries in ways that national
Interventions could not. In this pursuit, existing bilateral and multilateral instruments should be favored and, if necessary, improved.

**Education for All – Fast Track Initiative**

The Education for All – Fast Track Initiative (FTI) is an unprecedented initiative which aims to accelerate progress towards the Millennium Development Goals related to education. Thanks to the FTI, the Education for All agenda has gained much political visibility. We would like to express our deep appreciation for the leading role the World Bank has played and will continue to play in the Initiative. We thank the Bank for preparing the report, which presents the main achievements realized so far and the challenges ahead. Nevertheless, we believe that the report would have benefited from giving a voice to the developing countries participating in the Initiative. We also regret that the report and the FTI itself remain excessively input-oriented.

Securing adequate financing for education – through further Official Development Assistance (ODA) and domestic resource mobilization – is definitely an issue. Yet, as the experience of some OECD countries shows, high per capita spending on education does not per se guarantee sound learning outcomes. The focus on quality of education and measurement of learning outcomes needs to be strengthened, as recommended in a recent evaluation of World Bank assistance to primary education. We are aware that expanding access and improving quality and outcomes of education at the same time is challenging, especially in poor countries, but there is no value in increasing enrollment if students are not able to read at the end of primary school. Both issues must be addressed simultaneously and without delay, and we encourage the Bank to work together with the donor community and partner countries in this direction.

**Multilateral Debt Relief Initiative (MDRI)**

The effectiveness of the Multilateral Debt Relief Initiative (MDRI) in the Bank on July 1, 2006 is a milestone. It will provide additional debt relief to heavily indebted countries and scale up their financial resources towards achieving sustainable growth and the Millennium Development Goals (MDGs). For countries benefiting from these instruments, it is crucial that they do not re-accumulate unsustainable debt and that the costly lend-and-forgive cycle is definitely broken. We call upon the Bank and the Fund to provide robust advice on the right balance between macro-economic and development objectives and to tackle, in a realistic way, the risk of debt re-accumulation and free riding.

On the creditor side, coordination on the basis of the debt sustainability framework must be enhanced, and the establishment of rules of conduct of official creditors, including new creditor countries, should be encouraged as an important element. On the borrower side, we particularly support Bank assistance for strengthening public finance management, including efforts to improve debt management capacities. Post-debt relief monitoring to ensure transparency and accountability of both creditors and borrowers, as well as specific measures in Bank operations, should contribute to establishing an incentive system for countries to remain on a sound path. In this broad context, a number of important issues and initiatives are being implemented or contemplated which require the Bank’s attention and engagement.

**Institutional Challenges**

We look forward to the report of the External Review Committee on IMF-World Bank Collaboration at the next meeting of the Development Committee. While countries in our Constituency can confirm that the 1989 Concordat remains a solid foundation for cooperation that generally works well, there is a need for revisiting and possibly making adjustments in light of changes within each institution as well as the global environment. Important issues such as the complementary role of both
institutions in IDA and in IBRD countries or differing views on the question of “fiscal space” must also be addressed.

We are pleased that the positions at the senior management level have been filled, and we wish the new team all the best. The expectations of shareholders and stakeholders vis-à-vis the Bank are great – and rightly so. This requires from the Bank high degrees of leadership, professionalism, accountability, and respect for diversity. The Bank must live up to these challenges by applying the highest standards to itself and setting an example.

The first organizational changes were introduced to improve the effectiveness and efficiency of the institution, without faltering on the priority of sustainable development. Still, more is needed, and we look forward to continuing discussions on the best business models, in close consultation with our representatives in the Executive Board.

Constituency

Regarding the recent changes in membership, we look forward to welcoming soon the Republic of Montenegro to the World Bank Group, and we are pleased to be able to continue our close cooperation with the Republic of Serbia. We would also like to congratulate Azerbaijan and Serbia for their access to IBRD resources, which reflects significant progress in their development.
Statement by Mr. Henrique de Campos Meirelles, President of the Central Bank, Brazil

Strengthening Bank Group Work in Governance and Anticorruption

We support the efforts of the World Bank Group for heightening the focus on governance and anticorruption issues. We think there is broad consensus that good governance and fighting corruption are essential elements in improving development effectiveness. We also support a comprehensive approach to governance, covering both supply and demand sides.

At the project level, upfront ex-ante action helps ensure the integrity and development impact of Bank-funded operations while lessening the need for ex-post action. Not only are reputational risks diminished, it also ensures that Bank resources will be used only for the purposes intended.

We agree with the paper when it acknowledges that enhancing and using country systems – when circumstances are appropriate – is an option to address fiduciary risks. It is better than relying on self-standing, “ring-fenced” projects, because of its obvious developmental advantages. Indeed, as the paper states that, “while ring-fencing isolates aid projects from other government programs, a country system approach strengthens the country’s own governance system, magnifying the impact of aid.”

We consider as highly relevant the components of the Bank’s strategy at the global level. In this context, the implementation of international conventions such as the Organization for Economic Co-operation and Development (OECD) Anti-Bribery Convention and the United Nations Convention Against Corruption must receive support. Furthermore, technical assistance to enable a country to track, freeze, and confiscate the proceeds of corrupt behavior has to be made available. This is significant since removing the ability to move stolen assets abroad is a powerful deterrent for corruption. In parallel, the Bank is urged to work with the world’s financial centers where such proceeds are typically held.

At the country level of the strategy, we are particularly appreciative of the following three aspects. First, the strategy highlights the importance of country ownership. A key lesson of the past 60 years in the Bank is that development cannot be done to a country; it must be done by the country. This lesson reinforces the fundamental weight of country ownership for the success of any governance reform. We therefore expect that during the implementation of the strategy, the Bank will support client countries’ own commitments and initiatives, and build upon their own demand. Joint assessments, where feasible, may become a foundation for building ownership and securing irreversibility of governance improvements.

Caution in disengaging with countries that do not meet the Bank’s governance standards is advisable as it may adversely affect the poorest and the most vulnerable segments of the population. Raising the bar with respect to governance standards will be a long term endeavor and staying engaged and supporting countries in their efforts to fortify governance is preferable to disengagement.

Second, the strategy acknowledges the fundamental mission of the Bank of alleviating poverty. Any strengthening of the Bank's work on governance and anticorruption should therefore serve to advance this mission, with all issues being addressed from a development perspective. Therefore the Bank must ensure that the enhanced focus on governance in any country assistance strategy (CAS) would not lead to a situation where governance instead of poverty reduction becomes the central target. The CAS

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should continue identifying binding constraints to growth and development for a particular country context and how improvements in governance can remove or mitigate those constraints.

Third, the strategy recognizes the unfeasibility of setting out any rigid classification or rankings of countries in terms of governance, given the multi-dimensionality of the latter, as well as the diversity of country situations and the continuum of risk across countries. Notwithstanding these difficulties to build workable indicators to compare governance systems, making the strategy operational will require the definition of at least some broad patterns, in order to guarantee consistency of treatment among countries. How to face the challenge of defining such patterns in a transparent manner and without resorting exclusively to perception-based assessments will remain a key question.

As the Bank strengthens its focus on governance and anticorruption, we would like to stress the urgency with which other priority areas of the Bank’s action - infrastructure, agricultural development etc. - must receive the same treatment towards an updated full-fledged framework such as this high-quality one. Otherwise, scarce human and budgetary resources of the institution will tend to be pulled by the governance and anti-corruption agenda in an unbalanced manner. This is contrary to what we all acknowledge that this agenda should be: a means to attaining development and poverty reduction and not an end in itself.

Strengthening the World Bank’s Engagement with IBRD Partner Countries

The World Bank’s engagement with IBRD Partner Countries is crucial to the Bank’s mission of alleviating poverty and must be periodically revisited to reflect the evolution of development needs. We thus welcome the Bank’s endeavors to strengthen that engagement and deem the corporate strategy delineated in the paper as a useful backdrop in the case of the 79 Middle Income Countries (MICs) included among IBRD partners.

The rationale for a stronger involvement with MICs is based on several grounds. First, two-thirds of the world’s people living on less than US$ 2 a day live in these countries. There is still a hard path to be crossed toward full attainment of the Millennium Development Goals despite considerable progress in fostering economic growth and diminishing poverty in the MICs as a whole in recent years. In this regard, it is worth recalling how the Bank can be a special partner in high-risk/high-return activities that tend to become attractive to other investors only after a pioneer experience is underway.

Second, as creditworthy borrowers of nonconcessional funds, MICs contribute to the financial health of the Bank. Interest payments on IBRD loans are a major source of the Bank’s income and help underpin the IBRD’s ability to make transfers to IDA and the HIPC Trust Fund, as well as support other important initiatives.

Third, the Bank is the largest repository of development knowledge. As the global premier development institution, the Bank will only be able to sustain its role as a knowledge bank and a transmission belt for development experience if it remains able to cater to all eligible countries across the spectrum of income levels. Wide reach is a unique feature of the Bank and it is this attribute that allows it to add value by acting as a “hummingbird”, carrying lessons learnt from participating in concrete experiences in MICs and pollinizing knowledge among developing countries.

Fourth relates to the role played by both MICs and the Bank in the context of a growing consensus for global collaboration in addressing regional and global public goods issues. The partnership between IBRD clients and the Bank must be redesigned so as to reflect the increasing weight of the former as key actors on a series of major issues such as clean energy and climate change, international
financial stability, environmental protection, international trade and infrastructure integration, and combating the spread of communicable diseases.

In sum, the Bank’s continued engagement with MICs is justified. These countries are characterized by wide diversity in income, capital market access, policy performance, institutional capacity, and poverty levels. IBRD’s strategy must be flexible, multi-pronged, and comprehensive, so as to respond to differentiated and evolving demands across the full continuum of MICs.

The Bank’s offering of tailor-made products goes at the heart of keeping active partnerships with the whole range of eligible countries. Bundling lending, knowledge services and risk management products as integrated packages in the traditional manner continues to be appropriate and desired by most IBRD clients. This fact does not preclude the Bank from developing the knowledge and risk management business lines on a stand-alone basis, such as in recent experiences with fee-based analytic and advisory services solicited by some MICs. Non-lending financial services also comprise another possible segment for demand-driven Bank’s provision. Regardless of whether services are provided unbundled or not, there are challenges to be faced in order to preserve the Bank’s attractiveness and effectiveness as a development partner, especially in the case of clients who prefer bundled lending.

Among those challenges, we would call particular attention to lowering the non-financial costs of doing business with the institution. While recognizing that the Bank has taken a range of actions toward clarifying policies and streamlining internal Bank procedures, there are still unnecessary delays and other transaction costs to be trimmed. Conditions in development policy loans should focus on high-priority actions.

By the same token, more willingness to use country systems should be exercised. The current focus on compliance with operational policies should be complemented by a capacity-building approach designed to aid borrowers develop effective safeguard and fiduciary systems for public expenditure, procurement, and financial management. This will enable the Bank accelerate the pace by which the greater use of borrower’s own safeguard and procurement systems is being implemented.

We welcome the reference in the paper to considering “ways to make financing vehicles more accessible to qualified borrowers with strong fiscal and macroeconomic policies and effective development programs”. Progress must be sought in devising quick-disbursing financing instruments for countries with favorable records on policy and institutional performance, as a means to help maintain the Bank as a source of value added to them.

Infrastructure financing constitutes another area deserving special awareness in the Bank’s strategy for MICs. Huge needs for increased investment in infrastructure in these countries have remained unattended. Private financing has not reached a level and a scope enough to substitute for public financing. The IBRD support for policy and regulatory reforms and institutional capacity building must be accompanied by scaling up of its lending and by a rebuilding of its past reputation as an outstanding vehicle of knowledge dissemination about infrastructure in the world. It is encouraging to read in the paper that new IBRD commitments in the area have raised by more than 40 percent since FY03, as well as that the Bank has participated actively in the forging of several public-private partnerships. This course must be firmly maintained in order to reverse the relative detachment to infrastructure investments that marked the institution during a long period.
Statement by Mr. Trevor Manuel, Minister of Finance, South Africa

Introduction

SSA has achieved good levels of growth in recent years as a result of improvements in macro-economic policies, a significant demand for primary commodities, the surge in oil prices, and the success that countries have had with the implementation of structural reforms. Growth prospects for 2006 are expected to remain good, notwithstanding uncertainties arising from global imbalances, and oil price volatility.

The recent global efforts to scale up resources for development are important steps in the right direction towards the attainment of the MDGs. The fiscal space created within some countries, as a result of the implementation of the MDRI by the Fund and the Bank, has made an important contribution, however we remain concerned about the continuing uncertainty with respect to it’s financing.

We urge our development partners to sustain the momentum achieved at the Gleneagles summit, particularly with respect to the financing targets set at that summit, especially the doubling of Aid to Africa. Without the additional resources pledged, it is unlikely that we will be able to achieve the MDGs.

It has been 15 months since we achieved international consensus on our development needs. This would have been a highly opportune time to review the progress that we have made. These issues should remain central to the work of the Development Committee

- We therefore call on our development partners to meet their financing commitments, and make every effort to ensure that these resources are additional, and that their use is informed by an understanding of our development needs.

Strengthening Bank Group Work in Governance and Corruption

African Governments recognize the critical importance of addressing governance issues. This is why we have placed governance at the centre of NEPAD, through the African Peer Review Mechanism, and recommend that support for APRM processes is intensified to address governance issues. This is the most promising way to ensure sustainability and country ownership of the reform agenda.

Corruption deprives the poor of resources for their development, and we support all efforts to identify and address it. We must ensure that the principles of mutual accountability apply, and that all are equally answerable when scrutinizing where scarce resources have been appropriated for personal gain.

However, most poor countries are characterized by weak institutions, and if we are to reach the poor, we must find ways of providing support for development in challenging environments. The Bank’s new enhanced framework on governance and anti-corruption, should not compromise the Bank’s core mission of poverty reduction, and should not complement its development agenda.

Suspension of financial assistance in a difficult country case should not mean disengagement of all Bank activities in that country. In countries where governance and corruption are major obstacles to development, the Bank needs to consider alternative ways of remaining engaged.

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19 For the Africa Group 1 Constituency.
We have always supported the Bank’s efforts to work with stakeholders in the development process, including working with the media and civil society, but strongly believe that the primary partners in every country should be the Government, noting the risks of deepening instability in the creation of parallel governance processes.

- We therefore call on the Bank and Fund to work with, rather than bypassing, Governments.

Strengthening the World Bank’s Engagement with IBRD Partner Countries

We welcome the report on strengthening the World Bank’s engagement with IBRD partner countries, and agree that the Bank should continue to play a role in helping Middle Income Countries (MICs) meet their development objectives, in ways that are tailored to country needs and levels of development.

Unpacking the Bank’s work into business lines, particularly the unbundling strategic advice, financial services and knowledge services, will result in improvements to the Bank’s engagement with IBRD partner countries. We further support the Bank’s review of price competitiveness, as well greater transparency in pricing, refinement of financial products, the increased use of country systems, strengthening synergies within the World Bank Group, and increased collaboration with other IFIs and bilaterals.

A central issue for many borrowers is lengthy loan processing procedures, which frequently result in effective increases in the cost of borrowing. We are encouraged by the Bank’s efforts to address this. MICs are very diverse as a group, and some African MICs are small and face significant development challenges, particularly related to HIV/AIDs. We encourage the Bank to identify ways of engaging them more effectively.

An Investment Framework for Clean Energy and Development

We appreciate the progress achieved since our last discussion on this topic, and support the leadership role of the World Bank Group in developing the Investment Framework for Clean Energy.

We agree that getting the sector policy framework right, contributes to reducing the electricity sector financing gap. However, it is our experience that private investments do not necessarily flow into countries, as a consequence of policy reform, and scaling up our efforts to provide Energy for Development and Access for the Poor will need to be accompanied by increased public sector investments, which would necessitate significant and predictable official flows.

In addition, investments in regional energy projects should be intensified, as regional grid connection and integration of infrastructure will support the provision of cost-effective energy to countries. The Bank may need to consider its predominantly country-focused approach, and examine its ability to finance regional projects, in the development of its Africa Energy Access Action Plan. We encourage the Bank to use institutions in Africa, including the Africa Infrastructure Consortium led by the Africa Union and NEPAD, based at the African Development Bank in pursuit of this ambitious agenda.

We agree that without appropriate and adequate adaptation to climatic risks and changes in weather patterns, developing countries will find it increasingly difficult to sustain growth and poverty reduction.

Existing instruments, such as the GEF, continue to be inadequately funded relative to the demand for resources. We therefore wish to encourage further consideration and examination of alternative ways
of augmenting the resources necessary to better address the adaptation issue. We expect the energy debate to remain on the Development Committee agenda long enough to produce substantial results.

*Doha Development Agenda and Aid for Trade*

We are very disappointed by the collapse of the Doha Round negotiations, only four years after the Round was launched. This threatens the growth prospects of all developing countries. We welcome the Bank’s update on the Doha Development Agenda and Aid for Trade, since maintaining commitment to a rules-based multilateral trading system, as well as continued efforts to eliminate anti-protectionist tendencies, are central to our development.

We support the recommendations of the Integrated Framework (IF) Task Force, as outlined in the progress report, in particular the establishment of a monitoring and evaluation framework. We call on the Bank to continue using the IF to help developing countries strengthen their trade related capacities, as well as better integrating their trade related needs into country PRSPs and other national programs.

One challenge is IDA’s inflexibility and limited ability to finance regional projects, (only US$1 billion out of a total of US$34.4 billion). We therefore call on IDA deputies to review this emerging and urgent concern, in the upcoming IDA 14 mid-term review. The options presented in the document, which includes improving existing grant instruments and mechanisms, will contribute to overcoming the coordination and capacity problems in trade-related development work.

*Education for All*

Achieving universal primary education, and eliminating gender disparity at all levels of education, are two important MDGs. We are pleased with the progress made in such a short time in increasing enrollment, improving completion rates and the quality of education through the work of the Education for All Fast Track Initiative, which provides a framework for scaling up resources and changing the way countries and donors work together in the education sector.

We welcome the results-based approach under the FTI, and believe that these are commendable strides towards accelerating the efforts of the poorest countries to meet the universal primary education goals. The FTI demonstrates that it is possible to make progress in countries which show commitment to education in their PRSPs, that many countries have succeeded in ring fencing of the education spending, and have ensured broader stakeholder participation, thereby enhancing local accountability.

However attaining MDGs requires increased and predictable resource flows. We call on all donors to intensify their support of education, particularly through the EFA-FTI, which has had such success in demonstrating that harmonization and alignment is possible. More attention however needs to be given to LICUS and post conflict countries, as these are where the challenges are the greatest but where the returns will be the largest.
Statement by Mr. Fathallah Oualalou, Minister of Finance and Privatization, Morocco

World Economic Outlook

The most recent estimates, we are pleased to note, indicate that global growth in 2006 is encouraging, as is the outlook for 2007. Nevertheless, we are concerned about the downside risks of developments in the world economy. We refer in particular to the continuance, if not deterioration, of global current account imbalances, the increase in inflationary pressures and their impact on monetary policy, as well as oil price volatility and the risk of increased protectionism arising from the collapse of international trade negotiations, compounded by heightened geopolitical risks.

Given the above, we think it is essential to work toward consolidating conditions favoring growth in developing countries, and particularly in Africa, not only through the reform efforts made by the countries concerned, but also by boosting growth in developed countries, in particular in Europe, and making market access in those countries less encumbered.

Strengthen Bank Group Work in Governance and Anticorruption

Poor governance and corruption are phenomena which affect both developed and developing countries. Nonetheless, it must be said that developing countries suffer the most, as efforts to promote economic and social development may be stymied by such situations.

Meet the Challenge of Achieving Good Governance and Combating Corruption

We must make it clear, at the outset, that corruption and shoddy governance are hardly “givens.” They are, indeed, global scourges for which we must collectively assume responsibility in order to reduce their negative impact on our countries, to create the conditions for sustainable economic growth, and to reduce poverty.

We are pleased, in this context, that the international community is tending more and more to look upon good governance and combating corruption as one way of contributing to improving the effectiveness of development assistance efforts and identifying issues meriting prioritization on its Agenda.

In such a context, public sector governance may be regarded as the manner in which the public authorities and political institutions assume and exercise the responsibility of providing and managing public goods and services, the provision of basic services, the establishment of infrastructure, or the introduction of a sound investment climate. Corruption thus represents one area of weakness of governance structures.

Developing countries, where the need to strengthen governance and combat corruption is most pressing, view good governance as a decisive component in their development and poverty reduction strategies. We are pleased to note that firm commitment has been expressed, at a number of fora, in particular in Africa, for continuing to enhance good governance at the institutional level and to combat corruption.

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20 On behalf of Islamic State of Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Morocco, Pakistan and Tunisia
Moreover, the various political, economic, and social stakeholders involved in most countries are now treating this issue as fundamental in terms of imbuing matters public with an ethical dimension and providing quality public services. These stakeholders are calling for high quality governance and an effective anticorruption strategy.

It is gratifying to note that the World Bank, embracing this movement, is now proposing to develop a strategy aimed at helping all countries more successfully establish good governance and combat corruption. This will be a complex undertaking, requiring a sustained effort over the long term.

Evidence would suggest that the challenges with respect to governance are far from uniform from one country to the next. Consequently, the strategies to be applied must be differentiated and focused heavily on local knowledge.

We are also of the opinion that any strategy to promote good governance and combat corruption must be based on a participatory approach, solid knowledge of prevailing situations, the use of local expertise and skills, and the involvement of the various national stakeholders.

In addition, we know that, judging from the experience of many countries, some have managed to improve governance significantly and in little time, while others appear to have problems in this respect.

Generally, the fundamental sources of poor governance and corruption are closely associated with the issues of democracy, observance of the rule of law, the opacity or complexity of the regulatory framework, the inadequacy and unsuitability of control systems, and, finally, the nonexistence or weakness of countervailing forces.

There is no question that political will is a key component in the success of any strategy aimed at achieving good governance and reducing poverty, with emphasis on the implementation of the institutional reforms necessary.

Reform of the public sector and, in particular, of the central government administration, is the first step toward good governance. However, reforms at the level of the public sector are not always sufficient for meeting the challenges involved. Inclusion of the national private sector, multinational firms, and the community at large is necessary as well.

Towards a Bank Strategy for Governance and Anticorruption

We commend the World Bank on its plans to strengthen its commitment to governance and anticorruption, and we encourage it to continue its work in the area in a manner that is completely harmonious with its Executive Board.

Admittedly, strengthening this area will entail a significant investment in terms of human resources and external expertise. We therefore call on the Bank, the Fund, the regional development banks, as well as all bilateral donors to harmonize their intervention tools and to coordinate their approaches in this area.

It is our view that throughout the formulation process of this strategy that the Bank plans to implement, it should maintain a participatory and partnership-based approach, centered around the deepening of knowledge of specific local situations, the inclusion of national expertise, and the involvement of all local stakeholders, with the active participation of and supervision by governments. This is the only way to formulate and implement a strategy acceptable to all.
In its working document, the Bank is proposing the preparation of governance and corruption indicators, monitoring mechanisms, and diagnostics tools. These indicators and mechanisms must be established in collaboration with governments and adapted to each country in order to ensure their objectivity and accurate reflection of prevailing situations. We therefore call on Bank teams to continue their analytical work on these issues and to become more heavily involved in work on the ground, in order to explain their approach, engender support, and assist countries with the implementation of these mechanisms and tools.

We deem it essential that any strategy adopted by the Bank be in line with its principal mission, namely poverty reduction and facilitation of the economic and social development of developing countries. In this regard, we call for maximum restraint and prudence when making decisions to suspend financing intended for countries that do not fully meet the Bank’s requirements in the areas of governance and anticorruption.

**Strengthen the Bank’s Engagement with IBRD Partner Countries (Middle Income Countries)**

We are pleased with the strategy that the Bank plans to adopt to strengthen its support for middle income countries and proposals that are specifically relevant to this very diverse group of countries.

This strengthening is necessary for several reasons. Indeed, 70 percent of the world’s poor live in middle income countries (MICs). Strengthening support for these countries is thus central to the fundamental poverty reduction mission of the World Bank Group. Such support also constitutes an integral component in actions taken to achieve the other Millennium Development Goals.

Strengthening the Bank’s engagement with MICs entails, among other things, enhancing the competitiveness of available financial instruments and products. In this regard, we note with satisfaction the elimination of front-end fees, and we underscore the need to continue this effort targeting transaction costs through greater transparency and streamlining of the structure of financing costs.

It is with regret, however, that we note the Bank’s orientation toward making technical assistance a revenue-generating activity. A large number of our countries turn to the Bank for its expertise, technical assistance, and knowledge, as well as for the mobilization of financing. Consequently, it is imperative that the Bank maintain its dual role as a source of financing and of knowledge.

We are pleased with the progress achieved with the adoption of country systems and we would like to see its more rapid application to as many countries as possible, while continuing to provide them with the assistance necessary for the modernization of their administrative and financial management system, among others. However, we think that the results achieved remain somewhat mixed. This should not discourage us from continuing to work together, as actively as possible, to reduce the cost of doing business with the Bank and to improve alignment with national procedures, with a view to greater ownership of Bank-financed programs and projects.

We hold the view that the proposed strategy can ultimately lay the groundwork for enhanced collaboration with MICs, a better division of labor with the other development partners, and synergy within the World Bank Group itself, given the importance of the private sector in particular in the development process of MICs. In these countries, this sector is the main driver of development.

We are of the opinion, however, that much remains to be done in terms of implementation of the proposed strategy, more specifically: (i) defining specific procedures and tools to be used to cope with exogenous shocks, which have a very negative impact on non-oil producing MICs; (ii) establishing new
financing instruments tailored to the specific needs of middle income countries; and (iii) facilitating the provision of very high-level expertise to MICs.

**Doha Development Agenda and Aid for Trade**

We deeply regret the suspension of the Doha Round on multilateral trade negotiations.

It is our opinion that the current trade system is heavily tilted against developing countries, particularly the least developed countries, owing to the fact that industrialized countries have kept in place heavy subsidies for production and exports as well as tariff and non-tariff barriers with respect to exports from developing countries.

We reiterate our belief that the balanced conclusion of the Doha Round would tap into significant existing potential for global well-being as a result of expanded trade, and would permit attainment of the objectives identified by the stakeholders in this cycle related to development assistance and poverty reduction in low and middle income countries.

From our vantage point, the collapse of these negotiations runs the risk of undermining the hard work done thus far, thereby squandering a golden opportunity to achieve progress in areas that will bring noteworthy benefits to all countries. This collapse could also pave the way for the intensification of protectionist trends the world over.

We call on all parties to resume trade negotiations on an urgent basis, given that trade promotion represents a genuine mechanism for expediting achievement of the Millennium Development Goals. To this end, we call on the World Bank and IMF to support this effort by underscoring the potential economic benefits of the Doha Round, as well as the costs incurred from maintaining trade barriers and other distortions, in particular the agricultural subsidies of developed countries.

Moreover, we herald the recent proposals pertaining to the “Aid for Trade” agenda, and we reiterate our stance that this initiative should not be considered an alternative to the successful conclusion of the Doha Round.

We therefore call on the international community as a whole to resume the work related to this round, drawing on the gains achieved at previous negotiations.

Debt relief and cancellation are indirect but nonetheless essential development financing tools and provide heavily indebted counties with a mechanism for restoring debt sustainability.

We reiterate our support for sound implementation of the HIPC initiative and express our desire for the mobilization of all possible resources that would permit a greater number of low income and heavily indebted countries to take full advantage of the benefits of this initiative.

We also express our satisfaction with the debt reductions achieved through the Multilateral Debt Relief Initiative (MDRI).

Furthermore, we support the notion that this debt relief should be truly complementary in nature for eligible countries and should not be used as a substitute for traditional financing.

We emphasize the fact that the debt sustainability framework developed by the World Bank and IMF for low income countries should be sufficiently flexible and tailored to the specific needs of each country. We call on donors to provide more grants as well as loans on highly concessional terms to this
category of countries, so that the financing of development projects does not come at the expense of deterioration in their debt indicators.

In order to facilitate achievement of the Millennium Development Goals, we encourage all donors to provide their assistance in a more effective and predictable manner and to align this assistance with country-specific strategies. In this regard, we stress heavily the need for full implementation of the Paris Declaration on Aid Effectiveness.

Lastly, we reaffirm our commitment to mutual responsibility while acknowledging that the granting of significant resource flows should go hand in hand with the implementation of sound measures and policies in order to ensure the effective use of these resources by the beneficiary countries.

We therefore support the use of the sum total of debt relief for poverty reduction purposes. To this end, more attention needs to be devoted to the effective use of these funds and to good governance.

I would not want to conclude this statement without paying tribute to the various units of the Bank for the quality of the reports they have prepared on clean energy and development and education, at the behest of the Development Committee. We view these as extremely important issues, as are the problems associated with governance and combating corruption mentioned earlier. Indeed, there is no antidote to corruption and poor governance more powerful than a well-adapted education system that fosters freedom, encourages constructive criticism, and shapes responsible citizens who attach importance to their rights and honor their obligations! We need not dwell on the subject of clean energy and development, given its topical nature and its importance to the entire world, to developing countries, and in particular, to non-oil producing countries. A pressing need exists for a strategy that reduces dependence on oil and promotes clean energy. The role not only of the Bank and other donors but also of large developed countries is crucial to achievement of tangible and rapid results in this area.

In conclusion, I would like to avail myself of the opportunity to commend the World Bank on its gesture in the form of establishment of a trust fund to contribute to the reconstruction of Lebanon in the wake of the widespread destruction there. We urge the international community to provide the people of Lebanon, our brothers and sisters, with assistance commensurate with the scope of the damages sustained.
Statement by Mr. Mario Draghi, Governor of the Bank of Italy

General Remarks

During our meeting, last spring, as I remarked on the still dramatically slow progress in achieving the Millennium Development Goals (MDGs), I noted that some initial signs of a turning point could be observed in terms of greater action to fight global poverty, with some results becoming visible.

As we meet again today, the recent progress confirms, in my view, that failures from partner countries, either to use available instruments, or to sustain their mutual responsibilities, may seriously jeopardize the common endeavor.

This progress also shows that, although the agenda may be the right one, the instruments to implement it are complex and need considerable calibration and experimentation before they can achieve maximum impact. This is particularly the case with tasks like strengthening the World Bank Group’s engagement with middle income countries, defining the Group’s strategy to promote good governance in client countries, and bringing the Bank’s involvement in the global energy agenda into operation. These three tasks are greatly instrumental to growth and poverty reduction in the developing world, and the status of their implementation should be reported to this committee periodically.

Strengthening the World Bank’s Engagement with IBRD Partner Countries

A large share of the world poor live in middle income countries (MICs). Achieving the MDGs would not be possible without attacking poverty in the MICs, and MICs do still need the Bank’s assistance in their quest for sustainable growth and development. At the same time, the Bank’s membership as a whole benefits from a continued engagement of the Bank in the MICs, since this provides the institution with relevant knowledge and experience, which it usefully transfers to poorer countries.

Staying engaged in the MICs, however, requires a major re-adaptation of the Bank’s supply structure. Demands from MICs for development assistance are becoming much variegated. A deeper analysis of such differentiated demands is therefore necessary. While some MICs continue to request traditional financial products, such as lending, an increasing number of them prefer knowledge-intensive and public-good type services, typically unbundled from lending. A shift of MICs’ preferences toward unbundled services should motivate the Bank—where feasible—to become capable to cost its services individually, supply them on a stand alone basis, and charge its clients adequate fees.

Overall, however, a major re-adaptation of the Bank’s supply structure to the changing needs of its MIC clients would require very careful considerations of a strategic nature: if, as a result of product unbundling, the Bank were progressively to turn from a lending agency into a provider of non-lending, non-income generating services, the relative decline of its banking functions would have serious implications for its organization and financial integrity. This represents a long-term issue which deserves thorough attention from shareholders.

We expect the Bank to further elaborate and discuss these strategic issues in the months ahead.

21 On behalf of the constituency of Albania, Greece, Italy, Malta, Portugal, San Marino and Timor-Leste
Governance and Anticorruption

We support the World Bank’s approach to strengthen its work in promoting good governance and in tackling corruption effectively and firmly. We need the new strategy to be built on a broad consensus in order to strike the right balance between the many dimensions that characterize such sensitive policy areas.

We believe that the Bank should remain engaged with all its client countries and address governance and anticorruption from a developmental perspective, putting development as its core objective. Improving governance and fighting corruption call for stronger domestic institutions, particularly government institutions. And building strong institutions requires, among other things, the capacity to develop locally a functioning civil service and public administration and sound legal, financial and market infrastructure. As such development occurs, the quality of governance improves and the incentives to illicit action diminish. The Bank’s strategy on governance and anticorruption, therefore, should not replace, and should in fact complement, the Bank’s continued commitment to economic development.

In this respect, the Board should have a clear role in monitoring the implementation of the new strategy. This will add value to it, enhance transparency, and assist Management in appropriately responding to relevant changes in country circumstances. The participation of the Board will also help ensure consistent treatment across the Bank’s client countries. This is a very sensitive concern for a largely decentralized institution, where arbitrary variation of the implementation criteria across countries and regions is a distinct possibility if such criteria are not determined within an overall coherent framework. In addition to the role of the Board, the Bank should consider setting up an ad hoc unit, which—similar to PDR in the Fund—would be responsible for ensuring cross-country consistency of treatment.

The new Bank’s strategy on governance and anticorruption cannot be successful without a systematic coordination with other development agencies. The Bank should work closely with all its development partners, particularly the Multilateral Development Banks.

The Bank and the Global Energy Agenda

We endorse the analysis and the conclusions of the Bank’s report to the Development Committee on the issue of global energy. This is an area where the Bank can add tremendous value both in expanding the developing countries’ access to clean energy sources and in helping them to adapt to climate changes, as well as in assisting the international community to accelerate its transition to a low carbon economy.

Regarding the issue of the access to clean energy, we believe it is appropriate for the Bank to focus on the regions were the access problem is more acute, given the difficulties that some countries experience in building the necessary energy infrastructure. In this context, we welcome the development of an Action Plan for energy access with special emphasis on Sub-Saharan Africa.

Also, we favor the inclusion of a section on adaptation to climate changes into all of the Bank’s Country Assistance Strategies. Adaptation is an area where the Bank may be highly instrumental in helping developing countries deal with the risk and management of natural catastrophes. Today, there is a wealth of knowledge on how to protect a country from natural disasters. To a large extent, this knowledge has not yet been transferred effectively to developing countries, and the Bank is well positioned to facilitate such a transfer.
Finally, the transition to a low carbon economy is going to be a difficult goal to achieve for developed and developing countries alike. It will require large human and financial resources. At this stage the Bank should exercise its advocacy role and participate by offering proposals in the debate on how to frame the defense of the atmosphere against greenhouse gas emissions and should call for an early conclusion of the UN negotiations.

*The Monterrey Compact and the Rich Nations*

While the Bank and the other international development agencies can do much to encourage developing countries to deliver on their side of the Monterrey compact—namely, improving governance and strengthening policies—the rich nations bear the huge responsibility of keeping their own promises: reducing international debt, building capacity, increasing aid, improving aid effectiveness, and expanding market access.

We are pleased to see that the HIPC and the MDRI initiatives are delivering substantial debt relief, as planned. What is important now is to make sure that the opportunities for development are seized and that caution is exerted to mitigate the risk that recipient countries undertake macroeconomic policies that are overly expansionary. Also, the danger of once again accumulating unsustainable debt due to new non-concessional borrowing is to be avoided.

The poorest countries that will benefit from these initiatives will not be able to fully exploit any advantage if they will not develop their own capacity. This is particularly true for Africa, where any effort to generate significant economic growth must address the issue of capacity gaps first. In this light, we welcome the implementation of the Capacity Development Management Action Plan (CDMAP) and its focus on generating capacity for home-grown policies. In particular, we consider that the emphasis on explicit monitoring and result-based accountability has the potential to step up the effectiveness of the Bank’s efforts in supporting African members. Along similar lines, we appreciate the continued progress by the Africa Capacity Building Foundation in coordinating capacity building efforts in areas such as policy analysis and research.

On aid, the donors’ efforts to increase aid flows and improve aid quality indicate that goodwill remains strong and is in fact growing. The momentum must be maintained and the pace of progress accelerated. Some initiatives provide good examples. The Education for All - Fast Track Initiative (EFA-FTI), which we strongly support, is a notable example of how donors, in cooperation with development partners, can increase the impact of their assistance. The initiative has proven to be an effective means for mobilizing funds and enhancing primary education as well as donor coordination, aid harmonization and policy dialogue both at the country and the international level. The main challenge is now to improve the quality of education and its measurement. In this regard, the EFA-FTI initiative can be used as a platform to develop international consensus regarding key learning quality indicators. Of course, improved quality implies higher investments: while external assistance to this purpose remains vital, eligible countries must be encouraged to also increase domestic resource mobilization and to build the institutional infrastructure necessary to implement their education plans.

Another example of a potentially powerful instrument for leveraging the impact of aid is the Advanced Market Commitment (AMC) mechanism, aimed at facilitating the availability of vaccines for diseases that mostly affect poor countries, and save the life of millions of children. Together with other countries, the Bank and the GAVI, Italy is engaged in the effort to launch a pilot AMC project by the end of this year. The World Bank has been very supportive of this effort and we look further to continue cooperation on this front.
We welcome the recent news that the International Finance Facility for Immunization (IFFIm) has received a full triple-A from the major rating agencies, and look forward to its first bond issuance. Italy decided to join this initiative from the beginning, and we now expect that larger volumes of grant flows will soon become available to finance immunization programs in poor countries.

Where I do see alarming signs is in international trade. If the recent suspension of the Doha round is more than a pause and turns into an outright failure of the negotiating process, this would deprive the global compact on poverty reduction of one of its major pillars and it would as well dangerously weaken the fragile momentum that is slowly picking up. The blockage of the multilateral channel for trade liberalization might induce the proliferation of bilateral approaches and bring with it the threat of a "revanche" of protectionism and parochial forces. While the associated risk of increased litigation, trade diversion, and hard-to-remove preferential trade arrangements would adversely affect the world economy, developing countries are likely to disproportionately suffer from such unwelcome developments.

This is where the advocacy role of the Bretton Woods institutions should come forcefully into play, and this is the time when they should be vocal in supporting the revival of the negotiations and in pressing countries to ensure that the benefits of open trade accrue to as many people as possible.

The current failure should not prejudice the Aid for Trade agenda. Aid for Trade should be considered as a powerful development instrument to assist weaker countries to prepare for trade liberalization in ways that maximize its benefits and reduce its costs. In this sense, we strongly support the Bank-Fund commitment to scaling up trade-related work for members.

Conclusion

Given the positive signs of progress towards achieving the MDGs, we need to continue our efforts. The Bank needs to strengthen its involvement with middle-income countries and to align good governance and development goals. In addition, the Bank should continue to develop its approach to clean energy and aid for trade, while maintaining its leadership role in the implementation of the HIPC and MDRI initiatives.

In sum, while progress remains slower and more uneven than we might hope, a critical point has been turned, and I am convinced that the nations of the world have now the elements to make, together, a decisive impact on the problem of poverty.
Statement by Mr. Mr. Henry M. Paulson, Jr., Secretary of the Treasury, United States

We come together, again, at a time when economic growth is strong and great headway is being made at reducing poverty around the world. The progress being made here in Asia is particularly noteworthy. According to the United Nations, the number of people living on less than $1 a day in Asia dropped by over a quarter of a billion people since 1990. But the same UN data shows that progress has been much more difficult in other regions, particularly Africa, reminding us that much work remains to be done.

The agenda for this meeting of the Development Committee covers a wide range of matters: governance, the World Bank’s approach to middle income countries, education, trade and energy. Some of these agenda items remind us of the choices that development agencies face as they determine how they can have the greatest impact on improving living standards in developing countries. Several other topics are linked by the common thread of productivity growth. In fact, most experts agree that among the primary determinants of productivity growth are education, strong institutions, and trade openness. And there is one topic, debt sustainability, which we believe deserves the development community’s serious consideration but which is not included on the formal agenda.

Doha Development Agenda and Aid for Trade

Among the issues on our agenda is trade, a topic that deserves our immediate attention, both individually and collectively. Since the creation of the Bretton Woods institutions the United States has led the effort to create an international economy with free and open markets, competition not protection, and trade not isolation. So it is extremely disappointing to us when we see protectionist interests disrupting concerted efforts to reduce trade barriers. At the same time it is encouraging to see the international financial institutions voicing their strong support for an ambitious Doha Round outcome.

The Doha round of negotiations presents an extremely important opportunity for generating economic growth and increasing living standards that cannot be allowed to slip out of our grasp. We must continue to work together, developed countries, developing countries, and emerging markets alike, to arrive at an ambitious conclusion that will inevitably serve all our interests. Nowhere are the benefits of open trade more clearly visible than the site of our meeting. During its formative years, Singapore had the practical wisdom to open its markets to foreign trade and investment. And over the past four decades, it has achieved extraordinary economic growth, and its four million citizens now enjoy a standard of living that would have appeared impossible in 1965.

We welcome the discussion of Aid for Trade, which was launched at the Hong Kong Ministerial. As we noted in the spring, Aid for Trade will be an important complement to a completed Doha round as it promises to help countries overcome internal obstacles to export growth. For our part, we have already begun to implement our commitment to double our trade-related commitments; aid-for-trade accounts for roughly two-thirds of the total funding in our Millennium Challenge Corporation Compacts, supporting activities such as improving transportation links between farms and export markets and assisting farmers to diversify into export-oriented crops. We believe strongly that trade-related assistance should be governed by principles of aid effectiveness, e.g., results-based, focusing resources on countries committed to reform and ensuring fiduciary, environmental and procurement safeguards in implementation.

Strengthening Bank Group Engagement on Governance and Anti Corruption

The Bank has an important role to play in strengthening governance and fighting corruption. Without viable and working institutions, laws and procedures to fight corruption, there can be no solid foundation for economic growth and poverty reduction. We wish to express not only our support for the
broad elements of the framework put before us, but also for the strong leadership that President Wolfowitz has demonstrated in addressing this topic and the consultative manner under which the report was produced. It has a number of positive elements, including the integration of governance and anticorruption initiatives into a wider range of Bank Group activities; strengthened fiduciary controls and upstream risk-based management of Bank operations; the commitment to putting in place the right internal incentive structures; and the intention to strengthen partnerships within the development community, with the private sector, and among stakeholders.

Effective implementation will require decisive measures to address the staffing, skills, and incentives at all levels that the paper acknowledges are not yet in place to achieve results-oriented changes at the front lines of Bank Group operations. We expect the framework to lead to greater transparency of Bank operations, improved results in its governance programs, and strengthened attention to public financial management.

World Bank's Engagement with IBRD Partner Countries

The World Bank has a critical role to play in helping middle-income countries meet their development objectives. We believe that Bank programs in the middle income countries must focus on improvements to the business climate, for it is only through private-sector led growth that we achieve sustained employment growth in tandem with productivity increases. In this regard, we have found the annual World Bank Group “Doing Business” publication to be an invaluable tool in helping countries understand some of the practical changes needed for greater business activity.

But at a time of increasingly abundant private capital flows, particularly to emerging market economies, what role should the World Bank have in countries where its finances represent such an insignificant part of the picture? First, as an intermediate step, we support the proposal to explore options for a new framework for stand-alone, fee-based, advisory services. These non-financial services include impartial expert policy advice, consulting services and technical training that is not available in the private sector and which can continue to provide benefits to emerging markets in the absence of lending. Second, we agree with those who believe it is time to revisit the Bank’s graduation policy to clarify the graduation criteria and establish a transparent and systematic process for graduating countries that meet the criteria. While recognizing there may be a diversity of views, we believe that such a policy should have access to private capital markets be an initial and key determinant, consistent with the Bank’s Charter.

With respect to issues associated with transaction costs that are mentioned in the Bank’s paper, we have always encouraged the Bank to look to ways to reduce unnecessary financial and non-financial costs of doing business. However, this should not be at the expense of diluting controls, fiduciary standards and environmental safeguards in a manner that risks repeating past abuses. Likewise, we support the use of country systems when they meet mutually agreed, verifiable standards. But we have serious concerns over proposals, particularly in the procurement area, that would lead to premature use of such systems.

Investment Framework for Clean Energy and Development

Like the issue of the Bank’s role in middle-income countries, the topic of clean energy and development is on our agenda in large part due to successful development outcomes. The former is related to an abundance of private capital flows while the latter is related primarily to recent and expected large increases in energy output.
We recognize that increased need and use of energy from fossil fuels, and other human activities, contributes in large part to increases in greenhouse gases associated with the warming of our Earth’s surface. At the same time, we recognize that around 2 billion people lack modern energy services and that secure, reliable and affordable energy services are fundamental to economic stability and development. Moreover, increasing access to modern energy services can have immediate health benefits, not least due to the replacement of dirty fuel sources with cleaner burning sources, such as gas.

The report to the Development Committee proposes a “three pillar” framework for addressing energy investment, with one pillar focused on access, another on mitigation, and another on adaptation. But as our governments have called for at the World Summit on Sustainable Development, in the 2002 Delhi Declaration, and in last year’s Gleneagles G-8 Summit, we must deal with access to energy, air pollution reduction and greenhouse gas reduction in an integrated manner by promoting more efficient, cleaner forms of energy of all kinds, including clean coal technologies, hydropower and civilian nuclear energy, not as independent activities.

Debt Sustainability

To preserve the gains of the historic Multilateral Debt Relief Initiative for the heavily indebted poor countries, and to end the “lend-and-forgive” approach to development assistance, we need to develop an approach that prevents a re-emergence of debt distress. We are already receiving anecdotal evidence of creditors providing large loans, the terms of which are unknown, to countries that have recently received debt relief. We need effective incentives or penalties to deter irresponsible borrowing or lending. The work done thus far by the World Bank and IMF on a Debt Sustainability Framework has a number of positive elements. But further improvements are essential to develop a framework that constrains the pace of new borrowing. This is an urgent task that requires our joint attention.

Education for All Fast Track Initiative

With respect to recent results from our development assistance, it especially encouraging to see that dramatic strides have been made in increasing primary school access, which is one of the indicators to track progress toward the Millennium Development Goals. At the same time, we must recognize that rising primary school enrollments have yet to be matched by similar growth in learning outcomes and student achievement, the fundamental objectives of Education for All. We have confidence that with the right policies and sufficient resources, our success to-date on access will result in achieving the fundamental goal of improving educational performance. As mentioned above, improvements in learning outcomes is critical to improvements in total factor productivity and, consequently, economic growth and job creation.

Closing

The positive economic news that surrounds us should be taken for what it is, a signal that our policies are improving, and that much of what we are doing is right. At the same time, the issues that have been brought to the attention of the Development Committee today demonstrate the vital tasks that lie ahead. As I stated at the outset, the urgency of fighting protectionism and getting the Doha round back on track should be especially compelling to us all. A successful and ambitious Doha outcome would provide a catalyst for our efforts to meet the Millennium Development Goals. It would give hope for millions across the world, particularly in Africa. Our fear is that the good progress we are currently making on development in certain parts of the world will weaken our collective resolve to take difficult decisions. We must fight that temptation through leadership and action.
Statement by Mr. Didier Reynders, Deputy Prime Minister and Minister of Finance, Belgium

The five reports for our consideration strike the right balance between the broad coverage of the Bank’s activities, and an in-depth analysis of timely topics. The scope covers, as in past years, the two main areas of Bank activities: building capacity, and generating opportunities.

Taking Stock

The review of recent developments across the five areas of scrutiny points to a mixed track record. On the upside, good governance has progressed apace in a number of countries, with events such as free and fair elections to underscore the importance of principles such as transparency, checks and balances, and due process. In others, lower-profile but no less important work is progressing on strengthening public financial management and procurement systems. Middle Income Countries (MICs) have grown at consistently high rates that appear to be sustainable. They appear to stem from, and contribute to, a gradual global economic integration to benefit all countries. Solid gains have been booked by the Education For All (EFA) Fast Track Initiative (FTI). Enrollment rates have increased sharply, and are in all likelihood directly attributable to the EFA FTI. Conflicts across poverty-afflicted regions have regressed, allowing for new infrastructure projects to expand access to energy.

On the downside, technical and financial resource needs remain glaring. Progress on governance remains fragile, as capable institutions with clear mandates are sorely missing where progress needs to be entrenched. In the poorest countries, the uncertainty associated with dysfunctional states often preempts entrepreneurs from investing in the country’s future. Opportunities to benefit from trade are missed while local institutions to help cope with the new challenges of liberalization remain to be established. EFA FTI relies firmly on decision-making and implementation mechanisms that are distinct from the budget process, thus undermining ownership in the era of greater donor coordination. Greater energy use is invariably associated with climate change and pollution--two externalities that require clear global thinking and agreement.

Discerning the Outstanding Agenda

The outstanding agenda is bound to remain wide and challenging. In areas where progress has not been booked, it will be important to convert our frustration into inspiration, and adjust our interventions to conquer or avoid obstacles. State-building, access to energy for the poor and international trade facilitation fall in this category.

In areas where progress has been strong, second or third generation challenges emerge. The rapid growth of MICs will require new ways in which to ensure equity between their people, and poses a particular challenge to the Bank in tapping their experience to the benefit of its poorer clients. As regards education, more primary education graduates will expect schooling in much more expensive secondary education, and ultimately employment opportunities to put their skills to good use.

Reaffirming the Bank’s Role

The Bank’s mandate remains as relevant and purposeful as ever. Its business model is fundamentally sound, although it is slated to benefit from some tweaking. Its primary client remains the

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22 On behalf of Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovakia, Slovenia and Turkey.
government of the client country, and its approach of banking on its relationship when it serves the public interest is the right one. The new willingness by the Bank to exercise more judgment in its financing decisions is welcome, as long as it does not compromise the Bank’s reputation as a professional and apolitical organization.

*Its two main lines of activity remain (i) finance; and (ii) policy advice.* In providing customized services to MICs, the Bank will need to loosen the link between its financing and advice. Financing must remain available, especially in economic downturns that require interventions of a fiscal nature. The Bank’s responsiveness is likely to come from process simplifications within the Bank. In the meantime, uninterrupted engagement on the policy front will benefit from a basic package to which all members eligible for borrowing are entitled. Additional services to MICs should be considered with some form of compensation for the Bank.

**Looking Forward – Staying the Course**

*The ripening of the Bank’s thinking on governance has yielded a few important findings,* one of which is that the existing frameworks to address it are broadly adequate and effective. We are strongly supportive of Management’s decision to use them more extensively, and believe that this can lead to noticeably better results. Another important finding is the sound grounding of the Bank’s interventions in the country’s own PRSP— illustrative of a better understanding of the supporting role of the Bank as a bank, with niche expertise in specific policy areas, not as the primary decision-maker. In this connection, the Bank must be comfortable supporting programs and projects that are not necessarily best practice at the design stage, as long as they are conceptually sound and likely to be implemented effectively.

*The MIC strategy also appropriately reflects the idea that the Bank should ultimately respond only to proposals that are clearly articulated by the client.* It does not propose a shift of strategy, but mostly tweaking its various components to retain this demand-driven character. A number of prior adjustments in the course of the year, such as the elimination of pool loans, are an illustration thereof. This approach has our full support.

*The success to date of EFA FTI is a rare achievement.* Not only were the expected results achieved, but the manner in which this was done had been clearly mapped out. The realism of this approach, despite design complexity due to wider donor coordination issues, is a good example to emulate, and should be broadened to countries where the objectives have yet to be reached. When assessing the trade-offs of successfully schooling children with the need to use country systems more broadly, our pragmatic bias makes us lean toward the former.

*The Bank’s work on access to energy, and especially energy in Africa, is not new--we have supported it then, and we will support it for years to come.* Our views are fully aligned with the Bank’s on most points, including the need for massive investments in production, transmission, distribution, and, last but not least, competent and effective regulation.

*As regards the Doha Development Agenda, the Bank’s main role is one of advocacy for the poor--a role it has fulfilled well, and should keep on fulfilling.* Its message is based in solid analysis and its voice is that of the poor, who are otherwise at pains to articulate a coherent message. We encourage a rapid resumption of the Doha trade negotiations. We are confident that when they do, the Bank’s message will be heeded. In the meantime, the Bank’s role in supporting poor countries in adapting to a freer international trade environment deserves full support. This aspect of the Bank’s trade-related work should continue unabated in order to help countries benefit from trade liberalization.
Looking Forward – Going Prudently Where No One Has Gone Before

Ratcheting up the profile of governance within the Bank, and in the dialogue with client countries is mainly a question of leadership. Problems of governance are multi-faceted and often so deep-seated as to be political. Difficult and sensitive calls will need to be made at the senior-most levels of the Bank when the credibility of the Bank’s message on governance will be undermined by pressure to disburse. When these cases materialize, we will be supportive of Management, as long as it will have taken all necessary steps to demonstrate that all countries are judged by the same objective and transparent standards. The answer is to be found in some form of due process, anchored in the Country Assistance Strategy (CAS) framework--with predictable terms of engagement for each of the necessary scenarios over a medium-term time horizon. Specifically, there will need to be a commitment from Management to (i) discuss with the Board circumstances that would invite shifts of engagement under an original “veil of ignorance” (i.e., the scenarios); (ii) come back to the Board for consultation when a decision to change its engagement looms; and (iii) work on pulling together an array of standard indicators that are readily observable in most client countries.

The high profile that has been given to the themes of governance and anticorruption needs to be handled carefully. The CAS is also the right instrument with which to secure the backing of the Board, as it strikes the right balance between the multilateral endorsement of the terms of engagement, and the discretion that Management needs to implement it. Importantly, for Management respond flexibly to changing circumstances, there is a need for an array of standard indicators to be assessed as a whole to justify any one case, and for Management to exercise discretion in doing so after making a case to the Board.

We believe that there is scope for refining the MIC strategy. Specifically, we are not in a position to conclude that the Bank is doing all it can to support the MICs, since we are missing an analysis of the effects of marginal adjustments to the price of loans. We look forward to this analysis in the future, without prejudice to the Bank’s requirement to make only financially prudent proposals. At this stage, given the Bank’s very sound balance sheet, we may be passing up opportunities to make deep inroads in poverty.

As a matter of principle, the political decisions, including the budgetary decisions for primary education, need to be taken in the client country, lest we dismiss the principle of ownership. While the earmarking of donor resources to education has underpinned the success of the FTI, it can also become an obstacle to sound budget management for countries that are ready to take charge of their resource management. For them, distinct resource allocation processes create difficulties in apportioning the proceeds of debt relief efficiently and effectively, and in generating adequate fiscal space. In the case of the EFA FTI, we look forward to innovations that will allow implementation mechanisms to coexist with country systems, while explicitly and methodically bringing the EFA resources within the budget discussions. We look forward to new suggestions in the coming year.

We support the subtle paradigm shift that the Investment Framework for Clean Energy puts to us. Rather than debating the need for transition to a low carbon economy, it takes it as a working assumption, and proposes ways in which to achieve it. We support this paradigm shift, and encourage the Bank to strengthen its mechanisms to deal with the problems of collective action and different understandings of the country-specific paces of transition. Given the Bank’s limited resources and the massive challenge of “transition” to a low carbon economy, we urge it to focus any new initiative on the issue of “transition” rather than “adaptation.” Without prejudice to the need for early action, we find that the challenge of adaptation can probably be tackled by individual countries by mainstreaming it in current sector policies--with steady and continuous Bank engagement through its traditional channels.
Statement by Ms. Heidemarie Wieczorek-Zeul, Federal Minister for Economic Cooperation and Development, Germany

The issues on the agenda of the Development Committee – such as how to promote good and transparent governance and how to foster the use of sustainable energy – are key challenges for all of us. In order to cope with these challenges, we need an open debate with and broad support from our public. Firstly, because we cannot afford to ignore public contributions to this debate; and secondly, the legitimacy of the Bank and of our decisions in the Development Committee ultimately depends on an open exchange of views and the lively participation of the general public. It is therefore with great concern that we have been following the debate about barring the entry of civil society representatives accredited for the Annual Meeting. We find the measures adopted deplorable, because they do not correspond to the culture of open dialogue between the World Bank and the general public which we wish to see. We regard discussions with civil society as an indispensable element of our Annual Meetings.

Boosting Investment in Clean and Sustainable Energy

Germany welcomes the Bank's work on clean energy, climate change and development, as a follow-up to the Extractive Industries Review. Helping to provide sustainable energy is at the core of the World Bank's mandate. The lack of access to modern, efficient and sustainable energy services will not only hamper economic growth but impede human development. Furthermore, the poor in developing countries will suffer most under the impact of climate change. Climate change may be one of the biggest threats to attempts to cut poverty in the world's most deprived nations.

We support pillar 1 as an important contribution to providing access to modern and sustainable energy for the poor. The proposed action plan for sub-Saharan Africa represents a balanced set of approaches, tools and policies, including the use of renewable energy sources. We also welcome pillar 3 on adaptation to the impacts of climate change, as it will help particularly those developing countries which have very little financing capacity of their own. The report presented to us pursues the right approach in placing the main emphasis on pillar 2, transition to a low-carbon economy.

Enhanced energy efficiency and the dissemination of renewable energy must be at the center of our efforts. Germany is keen to see all types of renewable energy included in the implementation of the proposed instruments, particularly solar energy. We welcome the positive comments on the potential of renewable energy sources in the report. The next phase towards implementation must ensure that the economic opportunities involved in renewable energy options are used swiftly and efficiently. The diversification of energy supply through the use of renewable energy sources not only contributes to the protection of the environment, but also to security of supply. The Renewables2004 conference in Bonn reached agreement on the target of providing access to renewable energy for an additional one billion people by 2015. The Bank must support countries in using the advantages of renewable energies, e.g. by enhancing the relevant research efforts and country dialogues. We note that the Bank still has not sufficiently included the renewable energy industry in its consultations.

Nuclear energy is not a "clean" or "cheap" energy. It is not acceptable to define "clean" only by looking at carbon intensity. This is misleading. The objective of the framework is to foster development by identifying and promoting environmentally sound technologies. Nuclear energy is neither environmentally sound nor efficient. It poses high risks for development, especially the risk of accidental radioactive emissions, the unsolved problem of nuclear waste, the risk of proliferation of weapons-grade nuclear material, and the risk of terrorist attacks. If the costs of these risks and external effects are taken into account appropriately, nuclear energy must be considered as a high-cost technology. These considerations apply to developed and developing countries alike. We do not see any role for the Bank in the nuclear energy sector.
Apart from the newly proposed instruments, Germany would like the Bank to give more consideration to how existing budgets and policies might be adjusted to promote clean energy. We welcome that this has been mentioned in the recent progress report. Now, more specific approaches and ideas are needed on how to mainstream the issue throughout all Bank policies and instruments, including a clearer understanding of how to mobilize and steer relevant private investments.

The suggested new financing instruments have to be a coherent part of the existing mechanisms and structure. International carbon markets must be supported and further developed. Strong commitments within UNFCCC and the Kyoto Protocol are therefore needed. Any instruments managed by the World Bank must support, but not replace or weaken these ongoing processes, especially the Kyoto post-2012 negotiations. It must also be made sure that the new instruments will not distort the ongoing European Emissions Trading Scheme and complement the GEF's activities as well as the existing public and private carbon finance funds. The top priority should be to improve the functioning of existing mechanisms. We welcome the fact that the new report expressly mentions the option of integrating any new instruments into the GEF's activities.

The design and the governance structure of the new financing instruments have to take the above aspects into account. We look forward to further proposals.

Coherently Promoting Governance and Anti-Corruption

Germany strongly supports the Bank's enhanced focus on issues of governance, including anti-corruption. The proposed new draft strategy constitutes significant progress. In particular, we welcome the approach regarding corruption in the broader context of governance. Corruption is always a symptom of deficits in governmental and societal structures. The various aspects of governance are closely interlinked and, in some cases, mutually dependent or mutually reinforcing. Moreover, different societies find different ways to break free from clientelism and pursue different paths of governance reform. Only a broad approach will work that fosters this complex process within societies.

It is essential that the new strategy encompass the following principles:

- Basic rules and processes must be in place for management and the Board to foster a shared view on the appropriate level and form of engagement. Predictability, transparency and consistent and equal treatment across member countries, using objective criteria to the extent possible, should remain our guiding principles.

- Country Assistance Strategies are the right instrument to tackle governance and anti-corruption issues. Fighting corruption is an important element of development cooperation.

- For IDA, the preservation of the governance-oriented aspect of Performance-Based Allocation is important. We caution against weakening the established allocation system.

- In implementing the strategy, the collaborative approach to development expressed in the Paris Declaration is crucial. Early strategic engagement with governments and parliaments, UN organizations (UNDP, UNODC), RDBs and other donors as well as additional relevant stakeholders is the best way to ensure transparent and predictable "rules of engagement" and a consistent response to governance challenges across the international community.
One area that requires clarification concerns the tools and modalities for screening countries for governance and corruption risks. The Communiqué of the Spring Development Committee calls for "disaggregated and actionable indicators." The results framework must be formulated clearly, in particular with regard to identifying quantifiable and objective indicators for measuring the development impact of the framework. Specific procedures for the step from identifying corruption risks towards deciding on deviations from the Performance-Based Allocation rules or switching – within the CAS – to a lower-case scenario are critical. This part of the framework must be clarified before the new strategy can be implemented.

National ownership is crucial to ensure sustainable outcomes and progress. As donors, we must ensure that what we do encourages improvements of governance rather than undermining them, by means of closer cooperation amongst each other in line with the Paris Declaration. It will be critical for CASs to be able to duly reflect Bank-wide adopted directives and policies, e.g. the use of country systems and reduced reliance on project implementation units. Recent evaluation findings on what works and how, e.g. regarding conditionality, must be fully reflected in the new approach. The Bank should also support local capacity for developing independent governance analyses. With respect to ownership, the EU's recent governance initiative is exemplary in that it is primarily aimed at supporting peer review mechanisms where they exist (e.g. NEPAD's African Peer Review Mechanism) and arriving – by means of dialogue – at governance assessments shared by the EU and partner countries.

It is key to promote transparent revenue and public asset management frameworks. Non-transparent systems fuel corruption and thwart effective development. In particular, closer attention has to be given to the financing side of the budget, both in analytical and operational terms. It is worrying that a number of countries have seen a decline in the share of revenue intake in budget financing over the last few years. Insufficient domestic revenue mobilization and high rates of tax evasion are not only an economic issue but also have social and political implications: transparent domestic resource mobilization fosters accountability vis-à-vis the citizens.

The transparency initiatives are of outstanding importance. They should be further deepened and broadened. Germany calls upon the Bank to actively explore opportunities for designing transparency initiatives. EITI should be broadened to encompass other extractive industries, beyond oil and gas; this has been an important result of the Bonn EITI preparatory meeting (of 31 August and 1 September) for the upcoming Oslo annual conference. The principles of EITI and FLEG (Forest Law Enforcement and Governance) should be used to improve transparency in other sectors, such as the financial sector, infrastructure, and health. Germany proposes that EITI become a platform for coordinating existing and possible new transparency initiatives, and maybe also create a monitoring mechanism for resource flows.

The industrialized countries, too, must step up their contribution to greater transparency, e.g. with regard to the financial sector – for example by establishing clear transparency guidelines for companies listed on the stock market, increasing transparency with regard to hedge funds and private equity funds, establishing strict policies on the provision of foreign trade guarantees, and expanding cooperation on identifying and repatriating illegally obtained assets and on fighting international tax evasion.

A competitive private sector plays a key role in preventing corruption. However, we need a differentiated approach, especially concerning the possible involvement of private firms in corruption. The crucial issue is not whether certain processes should be organized under private or public ownership, but whether the interactions of these public or private companies with the state, with citizens and with other companies (procurement, acquisition, etc.) are regulated by clear, unambiguous and transparent rules of doing business. It is equally important that countries adopt legal frameworks that require
transparency of company ownership, e.g. in order to ensure that shell companies cannot be used for the purpose of sheltering or laundering corrupt payments.

**Germany calls for an independent evaluation of all of the Bank's governance work to be carried out after three years.**

**Enhancing and Focusing the Bank's Strategy in IBRD Countries**

**Germany welcomes the Bank's reorientation in dealing with its IBRD clients.** The Bank has to be more responsive to their needs with a view to helping them reach the MDGs, also bearing in mind that more than two thirds of the poor worldwide live in these countries. The Bank is a global institution and must continue to work as one. It will only be able to fulfill its role as a knowledge bank and a transmission belt for development experience if it is able to cater to all eligible countries across the spectrum of income levels. IBRD is a cooperative bank that subsidizes knowledge services through lending activities and ensures a certain level of solidarity across its membership through its transfers to IDA. Its lending operations are therefore at the heart of its business model and of its very mission.

*The World Bank still has an important role to play in IBRD countries, especially with a view to:*

- providing cutting-edge knowledge for poverty alleviation, as well as with regard to problems that have resulted from economic growth, such as environmental degradation, social exclusion, etc.;

- providing financial support in frontier areas where access to private capital is not satisfactory, e.g. in the form of financing instruments to reduce vulnerability to external shocks; and

- supporting IBRD countries in contributing to the provision of regional and global public goods, such as the fight against HIV/AIDS or the promotion of sustainable energy sources.

*We support the development of the suggested business lines and welcome the various technical considerations and proposals. Germany explicitly welcomes the proposal for joint IDA/IBRD country missions and joint country directors, as well including IFC and MIGA activities in the CASs. We also support accelerating and broadening the prudent use of country systems for all areas of safeguards and the delivery of fee-based knowledge services and TA.*

*However, the Bank must specify more clearly the rationale for its involvement in these countries, outlining the value added it offers. We need an overall strategy that outlines and proposes a new business model for the Bank, reflecting the changed needs and capacities of IBRD countries, while at the same time preserving the Bank's financial and organizational soundness.*

*Germany welcomes the consideration given to the Bank's ability to help provide regional and global public goods and encourages active follow-up in this area. We believe that more emphasis should be given to this area of work, but that the Bank is not currently well positioned to deal with these challenges. The Bank should address this crucial issue in a specific strategic framework, outlining the criteria for the Bank's involvement, the financing modalities and the governance structure, also taking into account the roles assumed by other players.*

*Similarly, we need a clearer understanding of where blending is justified. Blending could have a role in the area of global public goods (such as HIV/AIDS) or where new and innovative approaches are being tested without any experience to draw on. Blending arrangements for country operations should mainly be based on country-level cooperation between the Bank and bilateral donors. Such arrangements*
need to be carefully designed to avoid sending the wrong signals and providing the wrong incentives, especially since investment decisions must be country-owned. Furthermore, we recommend a more cautious stance on trust-fund-related solutions, in particular those that would lead to institutionalized replenishment commitments. Such funds are very likely to compete with donors' IDA allocations.

We would expect the Bank to be less risk-adverse and to adapt its financing facilities to the needs of IBRD's clients, thus also contributing to the development of their domestic financial sectors. Innovative approaches, such as local currency lending and sub-sovereign lending, should therefore be pursued aggressively.

In general, we need a process for ongoing discussion and agreement with other bilateral and multilateral partners so that the respective comparative advantages and appropriate standards can be identified. This will help prevent an unhelpful race to the bottom between our agencies. Germany would welcome, as a first step, a report on selectivity and harmonization with the RDBs in 2007.

Germany expects the Bank to develop an updated action plan, taking into account the above issues, for discussion in the Board before the Spring Meeting.

Enhancing the Voice of Developing Countries

Governance reforms are essential for the effectiveness and credibility of the IFIs. Germany welcomes the decision on quota and voice reform in the IMF. The reform will achieve significant progress in realigning quota shares in the IMF with countries' respective economic weight in the global economy. It is important that those countries which will benefit from an increase in their quota also assume greater responsibility in the multilateral system, in particular in international development cooperation, e.g. through IDA.

It is equally important now to enhance, as a matter of urgency, the participation and voice of low-income countries, whose weight in the global economy may be small but for which the IFIs play an important advisory and financing role. A key way of enhancing the voice of low-income countries is a substantial increase in basic votes, going beyond a doubling of basic votes.

Reinvigorating Aid for Trade and Regional Integration

I find it regrettable that it turned out to be necessary to suspend the WTO negotiations in July this year as there had been no indications of the negotiating partners' contrary positions converging after months of efforts to achieve agreement. I hope that after a phase of reflection, the partners will return to the negotiating table with new flexibility and that it will then be possible to bring the round to a conclusion that truly deserves the name "Development Round."

The suspension does not mean that the issue of aid for trade has become any less important or urgent. Many developing countries require support in the area of infrastructure or capacity building so as to be able to reap the benefits of global liberalization. In the Integrated Framework Task Force and in the WTO Task Force on Aid for Trade, we have succeeded in developing a shared international understanding of aid for trade and discussing ways of making our related cooperation more efficient. In the WTO, it will be important to continue the discussion so as to spell out in greater detail the proposals that are now on the table.

Regional cooperation and integration can make a significant contribution to developing countries' further integration in the world economy. This idea is also behind the economic partnership agreements that are currently being negotiated between the EU and the ACP countries. We have gained
very good experience with regional approaches in our bilateral development cooperation and in the European Development Fund. The political impact of regional projects has often gone beyond expected project results. The World Bank may have to further develop its instruments along these lines so as to meet these needs.

**Gender – A Renewed Effort**

*Germany strongly supports the Bank's new focus on gender issues and its intention to root gender mainstreaming more profoundly within the economic sectors of its operations under the Gender Action Plan.* Equal opportunities for women in terms of access to land, labor, financial and product markets have long been neglected in the international debate and in donor activities, although the links between gender equality and higher economic growth are more than clear. The special challenges that women face differ from country to country. We therefore support a country-specific approach in implementing the plan. The Bank should pursue this plan with strong financial commitment and should present clear indicators for measuring short-term but also long-term results. In addition, it is important that the Bank enhance and improve its efforts for gender equality in the social sectors as well, such as education and health. In particular, the fact that women are disproportionately affected by HIV/AIDS must be taken into account. The issues of gender and HIV/AIDS can only be tackled appropriately if the sexual and reproductive rights of all individuals – women and men – are recognized and guaranteed. Germany therefore calls on the Bank to assume a clear and unambiguous stance on the question of these rights.

**HIV/AIDS Control**

*Germany notes with concern the decline of the World Bank's financial support for HIV/AIDS control.* We call on the Bank to reverse this trend. For this global challenge to be met, the Bank, too, must provide commensurate support, along with other multilateral and bilateral partners. The Bank is requested to submit a progress report on this matter.

**Consistently Implementing the Education for All Fast-Track Initiative**

*The German government strongly supports the Education for All initiative. Germany focuses its bilateral contributions under the Fast-Track Initiative (FTI) on Mozambique, Yemen, Honduras, Guinea, and Tajikistan.* The Fast-Track Initiative has proven a successful instrument for country-level coordination and harmonization. For the Initiative to be successful, it will be vital that donor contributions increase. Germany will double its bilateral contributions as against 2002, bringing them to €120 million in 2007.

*The World Bank should give increased support to partner countries in future with a view to developing their implementation structures and data base, as had been discussed at the DC meeting in April 2002.* However, the Initiative will only succeed if the increasing external contributions are paralleled by growing mobilization of national resources, ownership, the development of organizational and human resource capacity, and constant monitoring of teaching and learning quality at the classroom level.
Statement by Ms. Agnes van Ardenne, Minister for Development Cooperation, The Netherlands

On behalf of my constituency, I would like to thank the Singaporean authorities for graciously hosting this year’s World Bank-IMF Annual Meetings. We feel that Singapore is a good illustration of how rapid economic growth and poverty reduction can go hand in hand. These are the real topics of our discussions here.

The Bank’s role in middle-income countries

My constituency supports a strong and at the same time relevant presence of the World Bank Group in IBRD partner countries. In order to maintain such a presence in the current changing circumstances, including increased net private capital flows to middle-income countries and a strong demand from these countries for more tailored support, we think that the Bank’s role should be modernized. Although the Bank’s mandate remains directed towards poverty reduction and the creation of the required preconditions for development, it should focus its activities on achieving value added, both compared to the market and compared to other IFIs. Added value has several dimensions, such as the provision of financial support in cases of insufficient capital market access, improving the quality of projects, programmes and policies, inter alia in terms of poverty reduction and catalyzing private investment. The Bank should assess the relevance of these different added values consistently when deciding whether or not to pursue a certain activity.

Added value changes as countries develop. In IBRD partner countries with little access to the capital market, a strong financial role is natural, in combination with policy advice and technical assistance. In countries with substantial and sustained capital market access, the Bank should focus more on non-financial activities and indirect financial instruments such as guarantees, and on co-financing in order to catalyze private capital. Ultimately, the Bank should focus on helping MICs achieve the necessary conditions to graduate and to be able to fight poverty on their own. Our constituency believes that the Bank’s graduation policy should be a process and not an abrupt moment. The current graduation policy should be defined better.

MICs are heterogeneous in various dimensions such as income level, quality of institutions and access to capital markets. The Bank should take this diversity into account when dealing with MICs and Bank involvement should be tailored to specific country circumstances.

In order to prevent unnecessary duplication with other International Financial Institutions, a clearer division of labor is called for, based on the comparative advantages of each institution and on the characteristics of the sector at hand (level of demand, scale economies). Greater efforts need to be made in the field of harmonization and alignment and in reducing the non-financial costs of doing business with the World Bank Group. We therefore call upon all signatories of the Paris Declaration, including the Bank, to do their utmost to meet the targets which were agreed upon a year ago.

A modernized role of the World Bank in IBRD partner countries also requires the strengthening of the Bank’s governance and that of other IFIs. My constituency encourages all shareholders to speak with consistent and coherent voices in the different IFIs and we would strongly recommend that the Bank and the Board of Executive Directors use the concept of value added when discussing projects and programmes.

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23 Representing the constituency consisting of Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, the Republic of Macedonia, Moldova, The Netherlands, Romania and Ukraine
Governance and anti-corruption

My constituency fully supports strengthening the Bank’s strategy on governance and fighting corruption. Governance and anti-corruption should be addressed from a development perspective and within the Bank’s mandate. Fighting corruption can only be effective when it is part of a wider governance and development strategy. Recent proposals on governance, sanctions reform and the Voluntary Disclosure Program should be part of this strategy. The principal objective of the Bank’s governance work should be to help build capable, accountable and responsive states that deliver services to the poor, promote private sector led growth and tackle corruption effectively and firmly.

We welcome the strengthening of the Bank’s country teams in the governance area so as to find country-specific solutions. These teams can also help with the provision of technical assistance to the local authorities. The Bank should strengthen the institutional capacity that is required for gathering evidence of corruption and guaranteeing due process of law. Initially, this may entail engaging international anti-corruption and forensic accounting firms, and then gradually developing local independent and professional oversight authorities.

The current strategy could give more attention to a number of issues that we feel are important, such as capacity building at both national and sector levels, transparency in public finance, democratisation and the participation of civil society, and application of the rule of law. In all areas, the Bank should cooperate with other IFIs, the UN, OECD, EU, NGOs, civil society, financial intermediaries and bilateral donors.

When trying to improve governance and fighting corruption, the Bank should balance a country’s need of Bank assistance against the fiduciary risks it runs. This assessment should be made on the basis of clear, transparent and objective criteria, not on the basis of impressions. It should also lead to consistency of treatment among Bank clients. The Bank should take decisions to alter its assistance to a client country for reasons of fraud or corruption in a predictable way and in consultation with other multilateral and bilateral institutions involved. The Bank’s methodology for assessing and measuring corruption should be made public so as to avoid the impression of arbitrary decisions or political interference.

Next steps under the clean energy and development investment framework

Within the investment framework for clean energy and development, my constituency favors a balance between access to modern energy services for the poor and the promotion of a low carbon economy. We would like to call on the Bank to use its convening power to convince both developed and developing countries to sign up to the Bank’s proposals.

We feel that the World Bank should further develop the funding mechanisms for the provision of access to modern energy services for the poor in the framework. We support the framework’s emphasis on Africa, through a special action plan for this continent and invite African governments to also incorporate access to modern energy services into their development strategies. Our constituency believes that all the poor of Sub-Saharan Africa should have access to modern energy services by off-grid electrification and modern cooking energy. Together, we should aim for a significant increase of investment in this area.

My constituency recognizes the potential of the financial mechanisms that the framework proposes for the promotion of a low carbon economy and would welcome their further elaboration in terms of value added and effectiveness. At the same time, we feel that existing instruments should also be strengthened for the mobilization of more resources. The Netherlands and the Bank will host the
conference Make Markets Work for Climate (Amsterdam, 16 and 17 October 2006) to discuss the opportunities for these and similar instruments.

We support the Bank’s conclusion that, for the time being, there is no need for a new set of instruments to deal with adaptation, but we do think that a debate on the funding of adaptation and the mobilization of current instruments is urgently needed.

**Education for All and the Fast Track Initiative**

Predictable long-term funding as well as high-quality education programmes are required to meet the education MDGs by 2015. This is why we would like to call on all donors to convert their promises into cash and transfer their decision-making from headquarters to the field level, so as to accelerate implementation of the Fast Track Initiative. To this end, the Netherlands recently increased its 2006 allocation by €100 million to a total of €150 million and is committing €150 million annually to the Fast Track Initiative I for the next several years. We call on other development partners to formulate similar commitments. Recognizing the urgent need to provide predictable and longer-term finance, our Constituency is working with other Fast Track Initiative partners to create a more appropriate financing mechanism within Fast Track Initiative, which will hopefully be operational by early 2007.

In return, recipient countries will have to continue to improve their medium-term expenditure frameworks and link them to good long-term development strategies. We are very pleased to see that a number of countries are on track in terms of enrolment rates, but we should not forget that enrolment rates as such do not reflect the quality of the education provided.

**Rationalizing funding for the health sector**

The need for long-term funding and high-quality programmes is not confined to education. In too many countries the health sector has lacked focus and financing, and approaches have at times been fragmented and duplicative. We appreciate the World Banks’ leadership in highlighting these crucial issues and its initiative for *scaling up for better health*: improving ways of working starts at home. Over the last few years, the Bank’s lending and grants have increasingly focused on disease-specific interventions at the expense of support to building health systems capacity and demand-led approaches at the country level. We are pleased to see that the Bank’s new Health Nutrition and Population strategy suggests this be corrected, and that the Bank focus on its core mandate of building systems capacity. We would also appreciate further work by the World Bank, and other multilateral agencies with a mandate in health-related issues to define comparative advantages, and clarify roles, responsibilities and working relations.

**The Debt Sustainability Framework and the free riding issue**

Last year, the Multilateral Debt Relief Initiative was one of the main topics at the Annual Meetings. Its focus is to solve the debt problems that still plague HIPC s and to provide extra resources to achieve the MDGs. More than ever, we now have to look forward and try to avoid the build up of new, unsustainable debts. Our constituency believes more attention should be given to build up debt management capacity in the countries to enable the countries themselves to take responsibility for maintaining a sustainable debt level.

The Debt Sustainability Framework (DSF) developed by the IMF and World Bank, should be one of the main elements in solving these debt problems. Its success, however, depends on the involvement of all parties concerned, not only multilateral lenders, but also bilateral lenders, export credit agencies, the private sector and, last but not least, the recipient countries themselves. In relation to this, free riding
should be prevented, which means that both recipient countries and creditors must accept their responsibilities. My constituency supports a further discussion on the issues of maintaining debt sustainability and preventing free riding during the Mid-Term Review of IDA 14 in November. That discussion should not be an abstract one, but should lead to concrete proposals and recommendations on ways to operationalise the forward-looking aspects of the Debt Sustainability Framework, apply the Framework more broadly and consistently and, by doing this, help to prevent free riding. All actors urgently need to make a concerted international effort to break through the vicious circle in which countries borrow, acquire unsustainable debts, receive debt cancellation, borrow again, etc.

*IDA’s future*

Over the last few years, IDA grants have grown substantially. In order to maintain IDA’s role of helping the poor in the future IDA should be fully compensated by donors to finance the provision of these grants. Financial compensation by donors is also needed in relation to the Multilateral Debt Relief Initiative. In April, the Bank expected that even with full donor compensation by donors for forgone reflows, IDA’s liquidity is expected to plunge from the actual $14 to 15 billion to just $1 billion remaining available for commitment in IDA 15. Although it is of course positive that the two cumulative thresholds for effectiveness of the Multilateral Debt Relief Initiative are met now, these are still alarming numbers. IDA’s commitment authority could be affected which could result in lower amounts of lending to poor countries.

*Multilateral Debt Relief Initiative*

We expect all donors to pay their agreed share for MDRI, HIPC and increase their contribution to IDA in the IDA 15 replenishment. Donors should be open and transparent on the question of their pledge, either to be seen as a regular contribution or as compensation. My constituency is willing to take its responsibility in preparation of the Mid Term Review of IDA 14 and the IDA 15 replenishment, in order to retain a strong and financially viable IDA.

We have our work cut out. One year after the New York Summit, we cannot afford to slacken our efforts. We cannot fail the poor of this world, who expect us to fulfill our commitments on the MDGs by 2015, only nine years from now!
Statement by Mr. Haruhiko Kuroda, President, Asian Development Bank

On behalf of the Asian Development Bank (ADB), I wish to express our appreciation for the invitation to attend the 74th meeting of the Development Committee as an Observer.

*Sustained Growth and Poverty Reduction in Asia*

The Asia and Pacific region has been experiencing high and sustained economic growth in recent years. While the outlook for the region will clearly depend on the global economic prospects, these are seen as remaining broadly favorable and supportive of growth in the region. The region is favored by geography, demographics, and the conviction among leading policymakers that integration with the global economy will strengthen the region. Asian economies will take strength from the continuing upswing in the global electronics sector and fast growth expected in China and India. According to ADB’s recent forecast, annual GDP growth for the region as a whole is expected to be at 7.7% in 2006 and 7.1% in 2007. Developing Asia is well-positioned for sustained growth over the medium-term, although there are several risk factors such as disruptive resolution of global imbalances, rising inflation, and further rise in oil prices.

*The Region Faces Major Challenges*

The rapid decline in poverty notwithstanding, the absolute number of poor people in the region remains very large (around two-thirds of the world’s poorest people) and inequality is increasing both within and among countries. ADB estimates suggest that more than 600 million people in the region are surviving on less than $1 a day. Non-income poverty is proving to be persistent, as evidenced by the millions of children living in hunger, unacceptably high maternal and child mortality, poor quality education in many countries, and lack of access to adequate water and sanitation. Although the region is on track to meet the millennium development goal (MDG) target of reducing by half the proportion of people living on less than a dollar a day, it is unlikely to meet the MDGs for reducing non-income poverty. The region also faces challenges of environmental degradation, inadequate infrastructure and energy supplies, major natural disasters, rapid urbanization and migration, as well as threats of regional or global pandemics.

The effectiveness of overcoming these challenges depends on how the costs and benefits of growth are distributed and how far the growth process creates opportunities for poor people to participate in economic activity. Growth alone cannot eradicate poverty without public action by governments in the region to tackle problems of exclusion, marginalization and the threat of rising inequality. In response to the prevailing situation in and emerging challenges of the Asia and Pacific Region, ADB has adopted the second medium-term strategy (MTS II) covering 2006 – 2008. MTS II aims to strengthen the impact of ADB’s assistance on poverty reduction by focusing on five strategic priorities; catalyzing investment, strengthening inclusiveness, promoting regional cooperation and integration, managing the environment, and improving governance and preventing corruption. Simultaneously, ADB is in the process of initiating the review of its long-term strategic framework to enhance its effectiveness and relevance as a development bank operating in a dynamic and challenging region.

The following sections discuss some of ADB’s main responses to the key developmental challenges of the region.
Strengthening Good Governance and Combating Corruption

The state plays a key role in promoting growth and poverty reduction for Asia and the Pacific region. A supportive policy environment to foster trade, investment and technological development is a critical determinant of the economic success of many countries in the region. But the continued centrality of state institutions in many Asian countries also poses severe governance challenges. Corruption is a problem faced to varying degrees by many Asian countries. Governments in the region have been making efforts to contain the problem through the formation of anticorruption agencies, vigilant commissions and improved legal measures to punish corrupt officials. These are beginning to produce results, but more should be done to reduce the opportunities and incentives for corruption.

ADB recognizes the importance of good governance for equity and pro-poor development. ADB works with governments to strengthen governance, improve institutions and reduce vulnerability to corruption. ADB has recently reviewed its Governance and Anticorruption Policies and has prepared a second governance and anticorruption action plan. Under the action plan, ADB will assess governance and corruption risks at the country, sector and project levels, and develop plans to manage and mitigate these risks. Given ADB’s limited resources, the action plan is focused on public financial management, procurement and corruption, concentrating efforts in sectors ADB has operational activities. That said, depending on country demand and ADB’s comparative advantage, broader governance initiatives and programs at the country level will also be supported.

Collaboration and coordination among development finance institutions is critical for achieving progress on governance and anticorruption. Donor agencies, including ADB, are investing substantial resources to assist countries to improve governance and control corruption. Some examples of country-level good practice on harmonization are emerging. But a greater effort needs to be made to ensure complementarity in this work. Cooperation could lead to innovative approaches that yield stronger improvements in governance over time. Cooperation could focus on sharing of information and joint diagnostic work; well-aligned donor support to government-led governance and anticorruption programs; coordinated country strategies, where governments may request and require support across a range of governance and anticorruption matters drawing on the different capacities of agencies that are present within the country; and support for initiatives to promote collective action for governance and anticorruption.

In February 2006, the heads of the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, International Monetary Fund and the World Bank agreed on the need to standardize their definition of corruption and develop a common framework for preventing and combating fraud and corruption. An interagency task force was established for these purposes. The task force has now completed its work and has agreed in principle on standardized definitions of corrupt and fraudulent practices and on common principles and guidelines for investigations. On 17 September 2006, the leaders of the above-mentioned seven institutions adopted the framework recommended by the task force.

Supporting the Weakly Performing Countries

Many of the region’s poor people live in countries with weak governance, ineffective public administration, and civil unrest. The challenges involved in working effectively with these weakly performing countries are many. They include; (i) weak policy formulation, policy implementation, and management capacity; (ii) small, isolated market conditions; (iii) physical and social disruption linked to violent conflict; (iv) meager public sector resources; and volatility and unpredictability of aid flows. Under these conditions a concerted attention is required, examining critically the local conditions with the aim to find ways of working more effectively.
ADB has remained engaged with these countries through lending operations and technical assistance, country programming, and ongoing dialogue with governments, country-level stakeholders, and development partners. Though extreme cases may prompt ADB to consider suspending operations, it would be our intent to monitor the situation and identify entry points for re-engagement. Technical assistance continues to be important even when lending levels decline.

ADB’s approach is based on two pillars:

(i) Selectivity and focus. ADB must be realistic in its objectives and develop selective, focused, and inclusive programs in weakly performing countries. Interventions should include a consistent focus on policy and institutional reform, with an emphasis on achieving early benefits.

(ii) Strategic partnerships. ADB, consistent with the Paris Declaration and other global commitments to harmonization and alignment, collaborates closely with its development partners to avoid duplication of effort and allow each institution to focus on its respective comparative advantages.

ADB is aware of and participates in the global dialogue on weak performance and fragility and continues to (i) refine a logical approach to identifying and defining weak performance, (ii) re-think its operational planning, and (iii) adapt its business processes and instruments. Each country is unique and the specific application and sequence of activities should be grounded in country analysis and dialogue. The approach is now in its formative stage and is expected to evolve over time.

The Continuing Need to Assist Middle Income Countries

In Asia as well as elsewhere, middle income countries (MICs) have become important economic players at both regional and global levels. They also play an increasingly important role in the areas of global public goods such as trade integration, global financing stability, environmental protection, and the fights against communicable diseases. Should they fail to address these issues internally, there would be major implications well beyond their own borders. MICs vary widely with regard to income, poverty incidence, capital market access and the progress they have made in policy reform and institution building. MDB support therefore needs to be highly customized to the development needs of each country. Providing effective assistance to MICs in Asia is essential if ADB is to achieve its vision of an Asia and Pacific region free of poverty.

Again, in Asia as well as in other regions, MICs’ interest in external assistance is evolving: (i) a broadening of assistance to include programmatic approaches such as policy based lending and sector wide approaches; (ii) increasingly drawing on Multilateral Financial Institution’s (MFI’s) products to mitigate risks such as guarantees and local currency lending; (iii) increased support to the private sector and sub-sovereign entities; and (iv) analytic and advisory work provided by MFIs particularly in cutting-edge areas.

ADB, along with other MDBs, have taken actions in recent years to enhance their support to middle-income countries. Efforts have concentrated in three main areas: (i) simplification and harmonization of existing operational procedures; (ii) introduction of new operational and financial policies and instruments; and (iii) strengthened collaboration among MDBs to maximize individual and collective impact on development results at the country level. ADB has been collaborating with other MDBs through MDB working group on MICs. In April this year, ADB and the World Bank jointly undertook regional consultation with Asian MICs. The event promoted an active exchange of views.
Overall, MICs recognized that MDBs can continue to play an important role in supporting their growth and development agenda but identified areas where more work is needed. In July this year, ADB reported to its Board of Directors on measures that are expected to reduce costs to MICs from doing business with ADB, enhancing and expanding the range of lending and nonlending instruments, and enhancing service quality. Some measures have already been approved and are currently being implemented. Others are for consideration in the remainder of 2006 and 2007. The main challenge now will be to maintain the momentum for continuous improvement in the planning and design of a strong portfolio of cost effective operations in our MICs.

Clean Energy and Energy Efficiency

Climate change, clean energy and sustainable development are a priority of the international community, as evidenced by the G8 Gleneagles Plan of Action, July 2005. ADB has been working closely with other MDBs on an associated investment framework. ADB is taking the lead on energy efficiency in the transport sector and has provided inputs that have highlighted Energy Efficiency Initiative and Carbon Market Initiative.

ADB has established the Energy Efficiency Initiative (EEI) in July 2005 with a mandate to: (i) compile and analyze existing knowledge and experience on energy efficiency (EE) policies, potential investments and strategies, from in-house, DMC and international expert sources; (ii) identify strategies for expanding ADB EE investments and activities; and (iii) define a near- and medium-term operational plan. EEI will define a cohesive way forward for ADB to expand its EE investments, with an indicative target of $1 billion per year by 2008. EEI is being implemented in three phases. Phase I was completed in June 2006 with the approval of ADB’s Management of the EEI Report that firmly establishes the rationale for expanded and sustained ADB action and EE investment, defines the general principles of the EE investment and action plan, and provides priorities and a framework for next steps. Phase II (ongoing from July 2006 through December 2007) will: (i) develop country-level and regional strategies and action plans on how to reach the target set for EEI, and (ii) develop the Asia Pacific Fund for Energy Efficiency. Immediate EE investment opportunities will be pursued even during Phase II. The strategies and action plans will implemented in Phase III (2007–2010).

While many countries and institutions have launched funds to purchase carbon credits on payment-on-delivery terms from projects, there are still very few vehicles that make funds available upfront to co-finance projects that promote development and greenhouse gas (GHG) reduction to move forward. A critical lack of project financing exists, and many have suggested that governments and MDBs should play a greater role in stimulating investment in such projects, rather than just focusing on back-end procurement of carbon credits from projects that are already happening.

ADB’s Carbon Market Initiative explores an ADB-backed cofinancing scheme that will help address the aforementioned financing gaps. The proposal is intended to explore the following three interrelated activities:

- Establishment of a special cofinancing facility, focusing on the implementation phase of projects;
- Provision of marketing/brokerage support to developers and sponsors with projects with carbon credit content; and
- Technical services to operations departments – covering work at the country partnership strategy, project processing and implementation level.
ADB is working to establish regional knowledge hubs to act as regional think tanks for ADB as well as DMCs on clean energy. The knowledge hubs will support and strengthen the Asia-Pacific’s regional capacity to generate innovative concepts, science, technology, and management development on clean energy. They will also promote information exchange and sharing of knowledge by establishing a network on clean energy among the regional institutes. ADB will provide technical expertise and financial support to establish and operate the knowledge hubs in the selected topics. Initially, three knowledge hubs have been identified: (i) The Energy Research Institute in New Delhi, India for renewable energy, (ii) Tsinghua University in Beijing, People’s Republic of China for energy efficiency and CDM, and (iii) Asian Institute of Technology in Bangkok, Thailand for 3R (reduce, reuse and recycle).

Trade Facilitation

ADB adopted a new strategy to guide its work on regional cooperation and integration in July 2006. The strategy aims to build and deepen integration in four interrelated pillars; regional and sub-regional programs on cross-border infrastructure and related software, trade and investment, monetary and finance, and regional public goods such as prevention of communicable diseases and environmental degradation. Of the four pillars, ADB has been extensively involved in cross-boader infrastructure projects, monetary and finance, and promotion of regional public goods. ADB’s involvement in Trade, however, has thus far been limited.

In terms of trade liberalization, ADB recognizes the WTO-led process of multilateral trade negotiation as the most important mechanism for Asia and the Pacific given that the region’s economic future depends to a significant extent on the openness of global markets. The Doha Round of World Trade Organizations (WTO) negotiations have been suspended indefinitely and prospects for a restart remain undefined. But the countries of developing Asia can do a number of positive things on their own.

First, since the largest benefits from liberalization accrue to those economies that lower barriers to their own markets, governments should go it alone and liberalize on a unilateral basis, lowering tariffs and other barriers, including those that are “behind the border,” such as licensing requirements. Second, the benefits of trade facilitation measures are potentially large and open to all countries, and investments in streamlining customs procedures or improving port infrastructure, for example, help move goods to market more quickly and at less cost. Third, within existing regional and bilateral agreements, frictions to trade can be lowered by paring back exemptions and expanding coverage—not just in manufactures but also in agriculture and services—and by simplifying and rationalizing crisscrossing and often incompatible rules of origin that are both costly to administer and to comply with.

In terms of regional cooperation in trade facilitation, how to improve transparency, efficiency, and procedural uniformity of cross-border transportation of goods has increasingly become a major concern for DMCs. According to an APEC study, clearing the red tape at country borders would generate approximately twice as much GDP than tariff liberalization would. Trade facilitation measures would particularly benefit developing countries, where the inefficiencies are sometimes more costly to industries than are tariff barrier. However, many DMCs do not have the resources necessary to undertake trade facilitation measures (e.g., updating their customs procedures to more modern technological standards and harmonization of standards). With a track record of supporting trade facilitation in some of its regional and subregional cooperation programs, ADB is well placed to provide capacity building support to DMCs in promoting trade facilitation.

Taking these factors into account, ADB can play a more proactive role in aid for trade. Besides financing of infrastructure that would support trade, such ADB activities could include: (i) support to regional and subregional forums by playing a facilitating role in regional trade and investment policy...
dialogues; (ii) capacity and institutional development for DMCs on issues related to free-trade agreements and trade facilitation; (iii) research and information dissemination, including support for establishing a database on institutions that support regional cooperation and integration in trade and investment in Asia and the Pacific as well as elsewhere.

Staying Engaged with Developing Asia

In conclusion, let me again emphasize that poverty in developing Asia presents challenges that require the continued engagement and strong support of the international community. And collective action is at the core of effective development assistance to the region. Such collective action should encompass partnerships among developed and developing countries, multilateral and bilateral institutions, civil society, and the private sector. Among these, multilateral institutions represent an effective intergovernmental system that combines knowledge, skills, financial resources and special relationship with governments to address priority development challenges. A multilateral development finance institution, such as ADB, provides a sound institutional framework to build, enlarge and sustain a broad coalition of interests and commitments to tackle poverty.

Collective action is effective not just at the global level but also at the regional and subregional levels. Such regional collective actions, assisted by ADB with its regional mandate, can reinforce national development efforts, and make effective regional contributions to addressing global challenges.
Statement by Mr. Louis Michel, Commissioner for Development and Humanitarian Aid, European Commission

Strong Financial and Political Commitment from the EU on Governance

Progress towards good governance is crucial for poverty eradication and the achievement of the Millennium Development Goals (MDGs). However, this does not mean that the international Community should shift priorities in the development agenda. Poverty eradication is and must remain the overarching priority.

Extraordinary efforts towards progress on reaching the MDGs have been made over the past year by most developing countries, as well as by donors. The EU made strong financial and political commitments and is now moving firmly to implementation. It is clear that in parallel to the scaling up of aid, aid resources have to be used more effectively. This is why efforts to operationalize the principles of the Paris Declaration on harmonization, ownership, alignment and management by results must be intensified. This should also apply to the support to Governance.

Following a mandate by the 25 EU Member States, European Commission has worked out a proposal for a more effective and harmonized approach to governance for the EU, namely the Communication on “Governance in the European Consensus on Development – towards a harmonized approach”, which was adopted on 30 August.

Both, the World Bank and the EU’s proposed governance strategies call for better harmonization of governance support among donors. This would reduce the burden of too many, and at times contradictory, donor strategies on the administrations in our partner countries. A logical start for those harmonization efforts are the analytical and diagnostic tools of governance. However, harmonization also has to extend to response strategies, particularly in countries at “exceptional risk” and in fragile states.

The proposed EU policy on democratic governance, promotes a broad and holistic approach, addressing political, economic, environmental, and social dimensions of governance. This applies both to the analyses of governance situations in specific countries and regions and to support provided to governance reform processes.

Good governance means more than tackling corruption. The EU is firm in not tolerating corruption, viewing it as a major obstacle to achieving development goals. The EU nevertheless sees corruption as a symptom of poor governance and a lack of transparent, accountable management and control systems. Tackling corruption must not be addressed in isolation but has to be integrated into development and poverty reduction strategies. This also requires strengthening the role of civil society and the media, protection for multiparty democracy and electoral competition, a transparent system for financing political parties and support for parliamentary oversight and for other public and judicial institutions. In this context, we must continue to pursue the efforts made by the international community, with a strong involvement of the EC, to develop a common approach to supporting the strengthening of public finance management systems.

Dialogue has to be the preferred means of encouraging countries to embark on reform. This dialogue has to include a preventive dimension and permit the discussion of politically sensitive issues. When problems of bad governance occur, our approach should be progressive, proportionate, transparent, and based on dialogue. Sanctions may prove necessary in serious cases. But much more time and effort should be invested in developing incentive approaches designed to raise standards gradually. Again, as in other areas, imposing new conditions unilaterally should be avoided.
Governance reform cannot be imposed from the outside. In the relations between partner countries and donors, it is vital that ownership of the reform processes be respected. Results will depend on real political will. When such political will exist, which we believe is the case in most countries, it will be crucial that donors are responsive and provide the necessary political and financial support to institutional reform and capacity building. The European Commission has decided to set aside a 3 billion Euro incentive envelope financed by the 10th European Development Fund for African, Caribbean and Pacific countries. This will be additional to initial country aid allocations to promote governance reform. In deciding how to allocate this incentive tranche, the assessment of the governance situation at present as well as the relevance, ambition and credibility of government’s commitments to reform will play a key role. This assessment will also become the basis for identifying weaknesses in the democratic governance process and for engaging more effectively in dialogue with partner governments on improving governance in priority areas.

In Africa, the EC will support the Africa Peer Review Mechanism (APRM) as a unique tool for peer review and peer learning, offering a very good potential to trigger African-owned governance reforms. The European Governance Strategy therefore proposes to support the APRM at Pan-African, regional and national levels.

Middle Income Countries

MICs are a heterogeneous group of countries facing a range of challenges. They have an important un-finished development agenda. These countries are becoming important actors in terms of promoting global governance, the international respect of the rule of law, democratic principles and human rights, as well as in the provision of global public goods. The EU and the WB can work better together in full respect of their specific mandates and policy agenda towards MICs. Pooling grants and loans together is an important policy option to consider, while ensuring adequate EU visibility. Decisions in this respect should be taken on a case-by-case basis. We already support many WB geographical and thematic Trust Funds (e.g. Gaza, Iraq, Avian Flu, Tsunami) and we co-finance many joint programs or specific projects in other MICs. The WB supports the EU's Neighborhood Policy (ENP) towards Eastern Europe and the Mediterranean region and the EU pre-accession strategy in the Balkans. We also work together in many MICs in Asia and Latin America to promote regional integration and social cohesion. Our focus is on policy dialogue, technical assistance, governance, reform and direct budgetary support. New cooperation opportunities should be drawn from the lessons of previous experience. We look forward to the outcome of the evaluation on WB Trust Funds’ involving MICs and the finalization of a more operational plan of action by the Bank.

The EU’s Commitments on Aid for Trade

The EU deeply regrets the suspension of the Doha Development Agenda (DDA) negotiations in July. For its part the EU remains fully committed to the Round. We continue to strive for a balanced outcome that would deliver development results in terms of real cuts in tariffs, effective cuts in subsidies, real new trade flows and better rules. We are ready to go back to the negotiation table as soon as realistically possible on the basis of the existing negotiation framework.

It is important that the work on a number of issues which are relevant for development continue. Aid for Trade is one of them. Aid for Trade is a critical complement to enable the weakest and most vulnerable developing countries to take advantage of trade opportunities. Stepping up Aid for Trade does not diminish the importance of new market opportunities and better trade rules.

We strongly welcome the recommendations of the Aid for Trade Task Force, which received a strong input from the ACP, LDC and African countries as well as from the G20. We are pleased to note
that, notwithstanding some minor differences in emphasis, the recommendations are well in line with the European Consensus on Development policy. The time out of the DDA negotiations does not diminish the importance of Aid for Trade. It is necessary to continue the work to make Aid for Trade more effective, and we are ready to work with donors and beneficiary countries to implement its' recommendations. It is also important to speedily implement the recommendations to enhance the Integrated Framework for the Least Developed Countries.

The European Commission has already stepped up its efforts in this area and we are close to reaching the €1 billion target. The EU Member States are also increasing their efforts and plan to reach also €1 billion of Trade Related Assistance in 2010. We welcome the World Bank’s increasing engagement in this the area, and particularly in trade facilitation.

Finally, Aid for Trade can only be successful if it is fully incorporated in the development and poverty reduction strategies. The role of the Bretton Woods institutions is crucial to ensuring this is applied.

**Progress on the Education for All Fast Track Initiative (FTI)**

As the Co-chair of the FTI, the Commission welcomes the Progress Report prepared by the World Bank. We note with satisfaction the progress made towards the education MDGs, service delivery and resource mobilization in education in the countries endorsed for the FTI. This is a clear sign of the success of the FTI in forging partnerships between countries and donors in support of country-owned education plans. The FTI has led the way in harmonization and alignment in education in line with the Paris Declaration and can today demonstrate tangible results at country level with donors agreeing on common approaches and aligning their support behind national education plans. The Initiative should continue to build on these results within the unique FTI dual approach combining country-level action by local players with global level advocacy for education.

While the FTI has been a successful catalyst for raising both domestic spending and donor financing for education, major challenges remain in terms of the volume and long-term predictability of external assistance. Given that the European Union collectively already is a vital force in the FTI funding – through both country level channels and FTI Funds – we welcome the focus on these two issues. Ensuring predictability and adequacy of external financing is a critical factor for securing the investments needed in education. Since several years the European Commission supports national budgets through its budget support operations. The European Commission will increase the amount of development assistance channeled through budget support. The European Commission will also look into possibilities to improve the long-term predictability of these programmes (covering up to 6 years) and will reinforce the link between budget support and the progress towards the Millennium Development Goals. We will be happy to share our experience on this with the FTI Partnership.

**Clean Energy and Development**

We congratulate the World Bank for its work on the Investment Framework on Clean Energy and Development and welcome the increased focus on energy and poverty. We support the suggestion to simultaneously strengthen the actions around the three key pillars identified in the report.

The report contains interesting proposals for filling the huge financing gap in the energy sector, particularly for providing universal access to energy in developing countries. Under the EU Energy Initiative, the Commission has established new instruments to address this, offering possibilities for co-financing with EU Member States and leveraging funds from others. The €220 million ACP-EC Energy Facility will co-finance investments to improve rural energy access. The EU-Africa Partnership for
Infrastructure will attract substantial additional investment to the energy sector. A trust fund has been established with the European Investment Bank to attract financing for cross-border and regional infrastructure. The Fund is open to financing from European and African financing institutions. Other innovative proposals are being developed.

Experience gained with the EU Emissions Trading Scheme and the Clean Development Mechanism will help design a long term stable regulatory framework to establish an effective global carbon market. Such a market will help finance the incremental costs of decarbonizing power. EU Member States already mobilized € 2.7 billion additional public finance for emission reduction projects mostly through the Clean Development Mechanism. Moreover, the EU action plan on Climate Change and Development contains concrete recommendations on how to integrate adaptation into the climate change agenda. We note the Bank's recommendation to earmark at least US$ 1 billion ODA per year to make current flows of development finance climate-proof.

The EU is committed to assist developing countries in solving their energy problems, to tackle climate change and other serious environment and health problems. We are fully open to collaborate with the World Bank and others on further developing and implementing the three pillars of the Framework.
Statement by Mr. Lennart Båge, President, International Fund for Agricultural Development

A growing consensus is emerging with regard to the need to focus resources, institutional and policy reforms, and innovative initiatives on agricultural and rural development. This is particularly encouraging, given that three quarters of the world’s extreme poor, 900 million women and men, live in rural areas and depend on agricultural and related activities for their livelihood.

Agricultural development makes a critical contribution to overall economic growth in many developing countries. Estimates of the multiplier effect of agricultural growth in Africa, for example, range from an additional $0.60 in non-agricultural income in Niger for every $1 increase in farm income to a near doubling effect in Burkina Faso of $1.88 additional income outside of agriculture for every $1 increase in agricultural income. Agriculture in Africa, in fact, generates thirty percent of GDP, forty percent of exports and over seventy percent of employment.

Thus, global leaders at the 2005 World Summit last September affirmed the necessity “to increase productive investment in rural and agricultural development to achieve food security.” They went on to commit themselves to “increasing support for agricultural development and trade capacity-building in the agricultural sector in developing countries.”

To realize the potential of agricultural and rural development to translate into sustainable poverty reduction requires a targeted approach that focuses on the constraints and opportunities that confront poor producers in rural areas. In recent years, these producers and their communities have often been overlooked or neglected in national development plans and programs. These producers must be at the center of a revitalized global approach to agricultural and rural development, enabling them to gain greater access to economic and productive assets, services, markets, and policy processes. And, of fundamental importance, their own collective efforts to overcome poverty must be supported and promoted.

IFAD has learned, through its efforts to enable the rural poor to overcome poverty, that inclusive, well-organized communities are an essential component of effective, sustainable development. Organization is the catalyst for strengthening local leadership, enabling poor communities to develop the capacity to articulate and negotiate their needs and interests, and mobilize the community’s own resources for overcoming poverty. As such, organized communities are in a better position to demand government responsiveness, effectiveness, and transparency. As World Bank’s draft anti-corruption framework points out, this kind of local community participation in and oversight of development processes is an important aspect of well-functioning governance.

Challenges in Strengthening Local Governance

Strengthening processes of local governance to achieve greater transparency and accountability on a sustainable basis is extremely challenging, both in scope and complexity. Efforts in this regard must help to build the administrative, financial, and technical capacity of local government institutions and transform local institutions so that they can effectively fulfill their important role in overall efforts to promote development and overcome poverty.

Equally important, strong local governance requires a diversity of well-functioning community organizations -- such as village development councils, farmers’ cooperatives, water users’ groups, and

savings and credit associations -- as well as higher level associations of local organizations that can reach development planners and policy makers with the collective voice of rural poor people.

On both the supply and demand side of the equation, an approach to strengthening local governance requires flexibility and a clear focus on enhancing social, human, and financial capital. It needs to involve ongoing policy dialogue at both the national and local levels to ensure that the enabling environment for transforming local institutions and promoting community organizations is in place and functioning and that it reflects the perspectives of the full range of stakeholders. Often, it includes the development of more appropriate, simplified procedures for project administration that is better suited to the capacity of local organizations. And, it is important to recognize, projects that include a major capacity building component can be more costly in the short and medium-term, with payoffs being realized in the long-term, particularly with respect to sustainability.

IFAD’s work in decentralizing environments and in supporting community driven development has yielded a number of important insights. In fostering strong community organizations, for example, it is important to work with traditional institutions in a non-exclusive manner, while still guarding against elite capture of benefits. At the same time, early, concerted efforts need to be made to identify the poor in rural communities to ensure their participation in project design and their inclusion in the benefits of development processes and projects. In this regard, the limited participation of rural stakeholders in the development of Poverty Reduction Strategies (PRSP) is being examined as part of a multi-institutional initiative to determine why most PRSPs lack a rural poverty focus or fail to translate poverty assessments into policy priorities and resource allocations focused on rural development. The study, which will be completed in September 2007, is expected to provide insights regarding ways the PRSP process can be improved to increase its development impact.

IFAD has found that, in many cases, the responsiveness and accountability of decentralized government can be enhanced by supporting the capacity building of elected institutions of local government rather than focusing only on the administrative institutions. In addition, supporting the development of a diversity of community groups and the establishment of working relationships among these groups, other civil society groups, the private sector, and local government contributes to the development of a pluralistic local governance system.

Assessment of Local Governance

National government policies and practices provide the framework for strengthening local governance and accountability. As such, IFAD has incorporated governance indicators as part of the rural development sectoral assessment of its Performance-Based Allocation System (PBAS). The inclusion of these measures reflects the growing emphasis on good governance within IFAD’s programs, based its critical role in the effective and efficient use of development resources. One of the two governance indicators focuses on the allocation and management of public resources while the other assesses accountability, transparency, and corruption in rural areas. While IFAD’s PBAS has been in effect only from the beginning of 2005, initial feedback indicates that the rural sector assessments have provided a platform for dialogue at the programming and operational level.

Corporate Policy

Believing that preventing corruption is inherent to its mandate, IFAD last year put in a place a policy for preventing fraud and corruption in its operations. The policy establishes zero tolerance for fraudulent, corrupt, collusive, or coercive actions within its loan and grant activities or for such actions by staff, consultants, or individuals acting as representatives of the Fund. It also commits the Fund, within
the bounds of its mandate, to explicitly consider and support measures aimed at the prevention of corruption as it affects the rural poor.

IFAD has already implemented steps to provide confidential channels for communicating allegations of fraud and has strengthened its oversight mechanisms for investigating irregular practices. More broadly, IFAD is currently reviewing and amending its internal procedures and legal instruments to integrate anti-corruption provisions.

Similar to provisions in the Bank’s proposed anti-corruption framework, IFAD’s policy provides for strengthening coordination with development partners as part of its anti-corruption efforts. This is particularly important for IFAD because of its reliance of cooperating institutions for the administration and supervision of its lending activities. As part of this effort, cooperation agreements and letters of appointment for cooperating institutions are being reviewed and, where necessary, amended. Improved arrangements with cooperating institutions for communicating and investigating allegations pertaining to IFAD projects and programs are also being developed.

Heavily Indebted Poor Countries (HIPC) Initiative

IFAD welcomes the report of progress in implementing HIPC and the Multilateral Debt Relief Initiative. IFAD remains deeply committed to HIPC implementation and as such, looks forward to consideration of its request to access the HIPC Trust Fund during the next HIPC technical meeting. IFAD also looks forward to the finalization of IDA’s Debt Sustainability Framework as a prerequisite to the formulation and adoption of its own framework.
Statement by Mr. Juan Somavia, Director General, International Labour Office

The September 2006 meetings of the World Bank and the IMF are faced with the complex task of trying to anticipate and address risks to continued global growth. There are, as the IMF has recently noted, more clouds on the horizon than there were six months ago. Furthermore, the multilateral system is itself under strain with worries about the stalemate in the trade negotiations and a growing political sentiment that institutions, mechanisms of governance and policies require reform.

My view is that there is one major underlying concern driving the re-examination of how the global political economy operates – the concern over jobs. And it is a concern even here in Asia, the world’s most economically dynamic region.

Good News and Bad in the Global Economy

The IMF now forecasts that the present, fourth consecutive year of global GDP growth of over four per cent will be followed by a fifth in 2007. Indeed, we are witnessing the strongest growth in Sub-Saharan Africa in 30 years. Interest rates still remain relatively low – and where they have inched upward, as in Europe, it has been partially in response to improved prospects for growth. And corporate profits are robust. World trade is forecast to continue growing at around 7% in 2006 despite the worries stemming from the breakdown of the multilateral trade negotiations. The world economy, in short, does not appear to be in such bad shape.

Yet there are concerns. The appreciable inflationary risk of high oil prices aside, a likely explanation for the worry is that over “global imbalances”.

Just what are these imbalances? The short answer is that they are more – quite a bit more – than is commonly acknowledged. The best known refer to the persistent and large imbalances in the global economy. As the IMF Managing Director, Mr. de Rato, recently observed, “the risk of a disorderly adjustment of global economic imbalances has not gone away, and could be exacerbated by the other risks. So policy makers are facing an increasingly challenging environment, and should be proactive in addressing the risks.”

And the risks loom large: an abrupt depreciation of the US dollar or rapid expansion of protectionist policies, for example, could cause havoc to the global trading system, and dampen those robust growth rates – costing job loss worldwide. Speaking at last Spring’s Board of Governors’ meeting of the Asian Development Bank, China’s Vice Minister of Finance, Li Yong, noted in an apt description of the current phase of globalization, that “we are all in the same boat, and if it sinks, no one will escape.”

The “Global Jobs Imbalance”

The concern is well placed, then. But from my vantage point, it is too narrowly placed: one other major imbalance has all too often been neglected in discussions of the global economy – it is the imbalance between economic growth and the opportunity for decent work. We are in the midst of a global jobs crisis. Indeed, particularly in a period of rosy news about GDP growth, we must guard ourselves against the risk of taking a “why worry?” attitude toward that which is most fundamental to most people – the chance at a decent livelihood for working men and women and their families.

25 Speech by Mr. Rodrigo de Rato, Managing Director of the International Monetary Fund, at the Brookings Institution, Washington D.C., 5 September 2006.

Evidence of the jobs crisis abounds. For example, despite record-high corporate profits, job-generating investment has been relatively meager. The employment content of growth in the formal economy has declined in most places; that is to say that the same level of growth today generates fewer jobs than it did in the past. Thus, one finds anomalous situations, even here in Asia, in which an economy can manage to grow at over 6 percent – and the unemployment rate can rise! In 2005, Asia had more than 48 per cent, or 41.6 million, of the world’s young people without work.

To put the matter differently while saying the same thing, one could ask how much growth is needed just to maintain things as they are – for example, a constant employment rate. The stark conclusion to draw is that, for almost all the world’s regions, growth needs to be greater than it is forecasted to be, just to sustain the status quo.

In large portions of the world, the bulk of new “jobs” is being created in the over-crowded informal economy, whether urban or rural, where working men and women eke out their livelihoods at low productivity and, consequently, low earnings. Indeed, the absolute number of working people who earn US$ 2 a day or less for themselves and their families stands today at the same level as it did 10 years ago. Today, that’s about 50 per cent of the global labor force.

Here in dynamic Asia, informal employment as a share of non-agricultural employment still ranges from 83 per cent in India, 78 per cent in Indonesia, 72 per cent in the Philippines to 51 per cent in Thailand.

Another shred of evidence of the problems we face is the decline in labor’s share in national income, more so in developing countries than in developed ones. While this could be a reflection of many things, one plausible explanation relates to globalization: rising import shares place downward pressure on wages – and, indeed, can result in outright job loss in domestic firms unprepared for global competition. Too many are unprepared for the necessary adjustment.

And, of course, it is not the quantity of jobs alone – or their quality as measured solely by income – where evidence can be sought on what’s happening in the world of work. We at the ILO have embarked on a broad reflection on changing patterns in the world of work. Consider, for example, the problem of rising inequality. The phenomenon appears in part to be related to widespread skills shortages. Thus, paradoxically, amidst abundant surplus labor in the global economy, employers find it difficult to locate the skills they need for their firms.

**Decent Work as a Global Goal**

Institutional reform of the IMF and the World Bank, as well as the relationship between the two organizations features prominently in the Singapore meetings. More broadly, however, the reform of the multilateral system as a whole is a hot item on the global agenda. The multilateral system bears a common responsibility for addressing the global social imbalance, but we have been far from fulfilling that mission – and this, despite the fact that the objectives of “raising productivity, the standard of living and conditions of labor” and “the promotion and maintenance of high levels of employment and real income” figure in the articles of agreement of many of our organizations, not just the ILO, but the World Bank and the IMF as well. It is time to fulfill this mandate and to do so in a much more coherent way than in the past. The multilateral system – which should be working together – is clearly underperforming in advancing policies to generate more investment and decent work opportunities.
Primary responsibility for creating the conditions in which decent and productive jobs can flourish remains with national authorities. But the multilateral system can do better and more than it has done.

The world’s heads of state and governments have given their explicit support to the objective of fair globalization, full and productive employment and decent work in the Outcome Document from the UN World Summit in 2005. They made decent work for all a truly global goal.

And further progress has been made in generating the means to deliver on this commitment:

- The Asian Development Bank has taken up the challenge of decent and productive employment by devoting significant effort to understanding and endeavoring to remedy the problems of un- and underemployment in Asia. It is particularly noteworthy that it is doing this both as a development bank, and in a region that is perhaps better known for its success as an engine of growth. Growth alone is not enough is one message to retain.

- It is equally encouraging that the World Bank is seriously engaged in the analysis of the factors that underlie the creation of what it calls “good jobs”. The World Bank’s focus on equity is one recognition of the fact that globalization has been accompanied by inequalities. Its promotion of “shared growth”, growth with better distribution – is most welcome.

- The decision by the World Bank’s private-sector-lending arm, the International Finance Corporation, to include the implementation of core labor standards as criteria in its lending to the private sector is an important step. It suggests that just any job is not good enough.

- Finally, a milestone in the recognition of the need to make decent work a global goal were the conclusions of this July’s Ministerial Meeting of ECOSOC, devoted to the theme of “creating an environment at the national and international levels conducive to generating full and productive employment and decent work for all, and its impact on sustainable development.”

The Ministerial Declaration concluding the High-Level Segment included a number of points for consideration by Ministers meeting in Singapore. These include:

“We invite all the relevant international organizations, at the request of national Governments and relevant stakeholders, to contribute, through their programmes, policies, and activities, to the goals of full and productive employment and decent work for all in accordance with national development strategies...”

“We also request the functional and regional commissions to consider how their activities contribute, or could contribute, to the goals of full employment and decent work for all...”

“We commit ourselves to the implementation of the present declaration and invite all relevant actors, including the Bretton Woods institutions and other multilateral banks, to join our efforts in this regard.”

These are invitations with which I would like to associate myself in full. Righting the global social imbalance, stemming the global jobs crisis, can only be achieved if we, all of our organizations, commit ourselves to making decent and productive employment a more central objective to what we do, and to what is discussed here in Singapore.
Statement by Dr. Ahmad Mohamed Ali, President, Islamic Development Bank (IsDB)

The Islamic Development Bank (IsDB) Group has the privilege and honour to participate in the 74th meeting of the Development Committee, which has on its agenda the following items: (i). Strengthening Bank Group Work in Governance and Anticorruption and (ii). Strengthening the World Bank’s Engagement with IBRD Partner Countries. In addition, following Progress Reports are submitted for the consideration of the Development Committee: (iii). An Investment Framework for Clean Energy and Development, (iv). Progress Report for the Education Fast Track Initiative, and (v). Doha Development Agenda and Aid for Trade. These two agenda items and the three Progress Reports address major development challenges facing the developing countries, including the IsDB member countries. The Reports provide insights in terms of enhancing the effectiveness of assistance provided by multilateral development banks, including the IsDB Group.

Developing countries and the international community are ten years away from the target date of the U.N. Millennium Declaration. The adoption of the MDGs galvanized the development community and focussed attention on poverty alleviation and social progress in the developing world. Indeed, many regions and countries have achieved significant improvements in various socio-economic indicators. Efforts by the development community, including the IsDB Group, to assist the African countries by way of supporting human development initiatives, enhancing capacity and expanding market access opportunities, and strengthening external sector sustainability by way of debt write-off have certainly assisted in the revival of economic growth and social progress across many regions. Indeed, progress towards achieving MDGs-related targets by some African countries have started to show some progress yet, for many, the serious slippages warrant major concern and redoubling of efforts.

On this occasion, the IsDB Group wishes to reiterate its commitment to forge further collaboration with the development community in the common cause of social emancipation and economic progress of the poor and the underprivileged people in the developing world. Along with other participants, the IsDB Group welcomes the opportunity to participate in the discussion on the major developmental challenges during the 74th meeting of the Development Committee. The IsDB Group would like to briefly update the recent economic performance of the IsDB member countries, to share its perspectives on the agenda items, and to identify areas for further cooperation and partnership.

Recent Economic Performance of IsDB Member Countries

According to the latest estimates, the global economic growth during 2006 is expected at 5.1 percent and is projected to slowdown to 4.9 percent in 2007. Given the sustained global economic growth over the past four years, it appears that output gaps are narrowing with attendant concerns over inflationary pressures, vulnerability to shocks in the oil market, and potential disorderly conditions in the foreign exchange markets owing to the persistent global imbalances.

In line with global trends, the real GDP growth of fifty-six IsDB member countries, as a group, decelerated from 6.2 percent in 2004 to 5.6 percent in 2005 with a 5.8 percent upturn expected during 2006. In contrast, economic growth in the twenty-eight least developed member countries (LDMCs)27 accelerated from 6.4 percent in 2004 to 7.9 percent in 2006. Inflationary pressures in IsDB member countries which used to be traditionally higher as compared to developing countries, as a group, now appear to moderating as the inflation rate in IsDB member countries, as a group, after rising from 7.2 percent in 2004 to 8.4 percent in 2005 declined to 7.3 percent in 2006.

27 Of the fifty-six member countries, the IsDB Group classifies 28 countries as the ‘least developed member countries’ (LDMCs), which makes them eligible to receive concessional financing and flexible terms and conditions on other modes of financing.
The upturn in economic growth in IsDB member countries, as a group, appears to be led by an increase of over 1 percentage point of investment to GDP ratio. Current account surplus of IsDB member countries surged from 5.5 percent of their combined GDP in 2004 to 11.3 percent in 2006, which is owing mainly to higher revenues of oil-exporting member countries. Fortuitously, the current account deficit of LDMCs, as a group, was reduced from 4.6 percent of their combined GDP in 2004 to 3.9 percent in 2005 and is expected to further fall to 1.7 percent during 2006. The flow of net foreign direct investment (FDI) to IsDB member countries rose from a paltry amount of US$5.6 billion in 2000 to its record level at US$42.5 billion in 2006. In recent years, the annual increase in the stock of external debt of LDMCs, as a group, ranged between $3 to $4 billion, which appears to be sustainable owing to a steady debt servicing ratio.

For the IsDB member countries, uncertainties arising from global financial imbalances generate concerns for the future economic development prospects. During the last two years, as a result of tightening global liquidity conditions accompanied by rising energy prices, global economic growth appears to be slowing down, particularly in the developed economies. A global slowdown of economic growth could setback the gains achieved by developing countries through macroeconomic stability, wide-ranging market reforms, and trade liberalization measures. In recent years, there has been sustained economic growth in the developing world, with oil-importing developing countries holding up well as their exports, capital inflows and aid provided cushion against higher energy prices.

Developing countries have generally mitigated external sector vulnerabilities through accumulation of foreign exchange reserves. However, in some developing countries there remains the worrying tendency for government spending and public debt to rise simultaneously. This could be potentially worrisome in the wake of tightening of global liquidity conditions. A major lesson of emerging market crises, such as the Latin American debt crisis and the Asian financial crisis, were associated with reversals in private debt flows and the lagged effects of global liquidity tightening. In the present situation, this suggests that those developing countries are at serious risk which are more dependent on external financing, more open to trade, and more vulnerable to commodity price declines.

The stalled Doha Development Round is most unfortunate as further growth impetus, particularly in the Africa region, would have come from the elimination of trade-distorting subsidies. Nevertheless, the emergence of major growth nodes in the Asian region provides an opportunity to other least developed countries, including the LDMCs, to diversify and strengthen new economic and trade relations. In this regard, the IsDB Group would like to call upon the major economies in the Asian region to launch an initiative for granting of unhindered market access to exports from the least developed countries, in particular to exports of Sub Saharan African countries. Such an initiative by the major emerging Asian economies will most likely accelerate growth impetus of Sub Saharan African countries, assist in the attainment of MDGs, and strengthen South-South cooperation.

*Strengthening Bank Group Work in Governance and Anticorruption*

The IsDB Group would like to compliment the World Bank for preparing a well researched document which addresses complex set of issues related to governance and corruption. Good governance creates an enabling environment for sustainable development and emergence of a competitive and dynamic private sector. During the last three decades, greater role of private sector in economic activities in the developing countries, including the IsDB member countries, makes it imperative to strengthen and enhance governance regime. A transparent economic governance regime is essential to ensure that the fruits of economic growth are equitably distributed.
Good governance simply means that rules of business in all spheres of activities are codified, widely and transparently understood, effectively implemented along with strong commitment to the institution of accountability. In the absence of progress towards the goal of good governance, the incentives for private sector activities become distorted. These distortions may manifest themselves in various forms with varying intensity such as brain drain, investing in speculative activities which generate relatively high short-term profits, pursuing rent-seeking economic activities, and seeking to profit from capture of regulatory institutions.

It is important to highlight risks posed by weak governance and corruption to ensuring equitable gains from the development process. Given the complexity of development process, improving governance parameters can occur over longer term. Under deteriorating governance parameters, the challenge is to continue partnership with authorities and yet bring about mutual accountability, transparency, and strengthened state institutions. Unbundling governance status across different sectors and setting benchmarks of good governance can garner greater support from various stakeholders. However, effective and sustained improvements in governance will also require a better and nuanced understanding of social norms and values.

As a project financing institution, the IsDB Group has put in place a comprehensive system to ensure good governance in its operational activities in member countries. In particular, various guidelines exist to ensure transparency in the procurement phase and accountability of the project implementation unit in the beneficiary countries. The guidelines aim to ensure that gains from implemented projects indeed reach the intended beneficiaries and scope for cost-related slippages is minimized.

In addition, during 2004-05, the IsDB Board of Executive Directors adopted information disclosure policy which aims at bringing about transparency and enhance public knowledge about the Bank’s activities. As part of its efforts to bring about greater disclosure, the IsDB Group is seeking mandatory permission of member countries for releasing information about the various approved projects.

*Strengthening the World Bank’s Engagement with IBRD Partner Countries*

The World Bank paper raises major operational issues of relevance to the MDBs/MFIs in terms of broadening relationship with the middle-income countries (the IBRD partner countries). It is estimated that middle-income countries (MICs) produce about 20 percent of the world output but where 70 percent of the world's poorest also live. Major development challenges faced by MICs include shortfalls in physical and social infrastructure, high rates of unemployment and vulnerability to exogenous shocks, etc.

If development challenges are not properly addressed, they can hamper the extent to which MICs will be able to achieve the Millennium Development Goals (MDGs). In addition, access of MICs to international capital markets is mostly uneven. Financing terms are not consistent with long-term development projects as many MICs borrow at market rates. Therefore, a major area of operational concern to the MDBs/MFIs is how to address the evolving financing, and in some cases non-lending, needs of MICs.

In the case of the IsDB Group, 24 of its 56 member countries fall in the middle income group, of which eighteen are classified as lower middle-income and six are classified as upper middle-income countries. These member countries constitute around 30 percent of the total population and more than 60 percent of the total GDP of all IsDB member countries.

In cumulative terms up to the end February 2006, the IsDB Group has approved development assistance amounting to US$15.5 billion to lower middle-income member countries, which constitute about 38 percent of total net approvals. In the case of upper middle-income member countries, the development assistance totaled US$7.1 billion, which corresponds to a share of about 17 percent of total net approvals. Recognizing the development challenges faced by the middle-income member countries,
the current strategic plan of the IsDB Group focuses on increasing both the average size of projects and to deliver niche knowledge-based services. The IsDB Group also aims to achieve greater developmental impact through improvements in quality-at-entry of projects and more effective supervision during the project implementation stage. In terms of sectoral allocation, IsDB Group development assistance to the public sector in MICs is mainly in the areas of physical infrastructure, health, education, energy, and transport and communication.

The IsDB Group is committed to alignment with the MFIs and other donors concerning the commitments made in the Forum which included, among others, the implementation of common arrangements at country level for planning, funding (e.g. joint financial arrangements), disbursement, monitoring, evaluating and reporting to government on donor activities and aid flows; and working together to reduce the number of separate duplicative missions to the field and diagnostic reviews; and promoting joint training to share lessons learnt and building a community of practice. The IsDB Group, along with the MFIs, is fully active in the alignment of operational procedures, particularly in MICs. We fully support increasing aid effectiveness through greater use of country systems, harmonization of donors' procedures, and reducing the reporting burden of beneficiaries in MICs. The IsDB Group hosted a regional consultation on harmonization and alignment targeting donor institutions in the Middle East and North Africa region in February 2005. The outcome of this regional consultation fed into the Paris Declaration on Aid Effectiveness adopted at the High Level Forum on Aid effectiveness (HLF-2), which was held in March 2005.

In order to provide development assistance on competitive terms to operations in MICs, the IsDB introduced during 2004-05 new features and flexibility in the terms of modes of ordinary financing. As a "AAA" rated institution, the benefit of relatively lower cost of resource mobilization by the IsDB is passed on to the beneficiaries in member countries. In order to be competitive and achieve social goals, the IsDB Group has a long experience of blending different modes of financing to support development projects in member countries, especially to invigorate economic activities in depressed areas in middle income member countries.

The IsDB Group has undertaken a number of inter-related initiatives to support the growth of private sector, particularly in the form of public-private partnership in infrastructure development. Between 1996-2002, public-private investment in telecommunication, energy, transport, water and sanitation sectors in IsDB member countries has been on the rise totaling about US$87 billion. In order to support and further enhance public-private investment in IsDB member countries, the Bank launched an IsDB Infrastructure Fund with a total size of US$930.5 million. The Fund mobilized public-private resources to finance infrastructure projects in power, petrochemicals, telecommunications, transport, and mining sectors in MICs. In addition, given the significant availability of liquidity in the Middle East region, the IsDB is seeking partnership to mobilize additional resources for infrastructure development in its member countries.

In partnership with the MDBs, IsDB Group has been supporting member countries’ efforts to enhance the impact of its development assistance in terms of making progress towards poverty reduction and improving socio-economic conditions of the people. In this regard, Country Assistance Evaluation (CAE) studies provide a comprehensive analysis of projects in terms of design, implementation, achievement of objectives, performance assessment, and sustainability. With a view to adding value to its evaluation activities, the Bank jointly conducted CAE studies for Jordan and Tunisia with the World Bank during 2002-03 and 2003-04, respectively. In 2004-05, the Bank conducted joint CAE for Mauritania with the African Development Bank. This joint analytical work with other MDBs provided valuable lessons and areas for improvement such as to pay greater attention to project selectivity, capacity assessment of the executing agency, and to ensure robust project follow-up and supervision.
Global economic performance during the last two years has been resilient in the face of rising energy prices. In the context of rising incomes and improving social indicators in the developing countries, meeting the energy needs of underserved population could lead to both massive environmental degradation and soaring prices. Such a vulnerability to long term economic growth can be addressed by forging an equitable global energy compact that embodies security, access, and greater investment in developing alternative sources of energy.

The Progress Report on Investment Framework for Clean Energy and Development highlights that there remains large investment gap in the energy sector amounting to about US$80 billion. Currently, there are 1.6 billion people without access to electricity, mostly residing in South Asia and Sub-Saharan Africa regions. The need for new investment to meet the growing energy needs can be significantly reduced through demand management, planning, and cross-border trade in electricity through regional projects. According to the International Energy Agency (IEA) estimates, improved energy efficiency in buildings, industry, and transport could lead to between 17 and 33 percent lower energy use by 2050. Achieving these savings would reduce carbon emissions, decrease import bill of energy-deficient developing countries, alleviate affordability constraints for the poorest households, and increase the competitiveness of local businesses.

Nevertheless, an investment framework is needed that is predicated on diversification of sources of energy, utilization of clean and efficient energy technologies, addressing impact of energy on climate change and mitigating greenhouses gases. For energy-deficient developing countries, including many IsDB member countries, some of the major options to gain energy efficiency are:

- develop clean energy alternatives particularly ethanol;
- promote use of flex-fuel passenger and transport vehicles; and
- invest in energy-related R&D for sustainable development.

In addition to reforming energy policies and development of energy sector at the national level, there is a clear need to develop regional approaches for meeting the energy requirements of developing countries. For instance, developing energy corridors between west/central Asian region and the rest of Asian countries offers not only attractive investment opportunities but it also utilizes cleaner energy sources beside being potentially cost effective for meeting energy needs of the poor. In addition, involvement of MDBs in financing of nuclear-based parks for energy generation, albeit under international safeguards, could also be considered as a viable option for generating efficient and clean energy.

IsDB Group's energy sector cumulative financing totaled US$2.9 billion for 177 operations up to the end-1426H (Feb. 2006). Financing of energy projects by the IsDB accounted for 21 percent, followed by the IsDB Infrastructure Fund at 15 percent and the ICD at 4.3 percent. At the IDB Group level, energy financing represents about 7 percent of the cumulative net approvals. In supporting energy-related operations in member countries, the IsDB Group is guided by the following major considerations:

- support and participate in R&D development of clean energy alternatives;
- finance development of new refinery capacities of member countries as a means of alleviating the adverse effects of rising global energy prices; and
• establish strategic alliances in the area of energy security with member countries particularly those that depend on oil imports.

The very first project funded by IsDB, in 1976, was in fact a hydropower project, namely, Cameroon's Song Loulou Hydropower scheme. Since then, Bank’s operations in the energy sector have traditionally focused on power generation and transmission in middle-income member countries (e.g., Arab states region) and power distribution in low-income member countries (e.g., sub-Saharan Africa). The Bank has strongly supported (regional) hydropower development in sub-Saharan Africa, including programs along the Senegal, Niger and Gambia Rivers (e.g., OMVS, NBA, OMVG). Furthermore, the Bank supports the development of regional power grids and other regional power projects.

In recent years, the IsDB Group has been involved in financing of clean energy projects in its member countries. For instance, IsDB, in November 2005, approved financing of its debut private sector 80 megawatt run-of-the-river hydropower project in Pakistan, which will not involve any resettlement, displacement or construction of a new dam. During 2005-06, the IsDB Group approved financing of $150 million in a refinery and petrochemical project in Saudi Arabia. With increased global refining capacity, this project will contribute to alleviating the current supply-side constraints. As part of its advocacy efforts to develop clean sources of energy, the IsDB organized in 2005, a Roundtable with MDBs and regional donors to discuss the financing package for construction of two major dams, namely, the Taoussa (previously Tossaye) Dam in Mali, and the Kandadji Dam in Niger.

Recently, the IsDB participated in the World Bank-spearheaded "Clean Energy and Development Investment Framework" initiative. In doing so, IsDB collaborated in the mapping exercise led by the World Bank. The Bank is currently involved in discussions with regional partners on the implementation of the Clean Development Mechanism (CDM), which is the overarching theme of a major international conference to be hosted by Saudi Arabia, in partnership with OPEC and the European Commission which will be held on 19-21 September 2006 in Riyadh. CDM is a mechanism, within the Kyoto Protocol, which underpins the development of a carbon finance market.

Progress Report for the Education Fast Track Initiative

The ‘Education for All’ initiative was launched by UNESCO to assist countries in two education related MDGs: achieving universal primary education by 2015 (MDG 3), and eliminating gender disparity at alls levels of education no later than 2015 (MDG 4). The Fast Track Initiative (FTI) is a global partnership of major donors led by the World Bank to accelerate education related spending by providing adequate and predictable funding to sound multi-year education programmes. So far, twenty countries have endorsed FTI, of which nine are IsDB member countries while 15 more member countries are expected to join by 2008.

The IsDB Group would like to commend the World Bank for the progress made in education outcomes in the FTI-endorsed countries. Based on the measurement of indicative benchmarks in a sample of eleven countries who have been participating in the FTI for more than two years, significant progress has been noted in education outcomes indicators such as enrolment, primary completion rate, teacher pupil ratio, scaling up and delivery of teaching materials. A cause of concern is the projected financing gap for fully funding the education programmes in the twenty FTI countries. For instance, the total primary education programme cost in twenty FTI countries is estimated at US$5.1 billion in 2006 which is projected to rise to US$5.4 billion in 2008. To implement this programme, however, there exists a financing gap from donors estimated at US$513 million in 2006 and, based on current commitments, is projected to further rise to US$752 million in 2008. The IsDB Group would urge the international
community to fully commit to funding the implementation ‘education for all’ programme in the twenty FTI countries.

The IsDB Group supports comprehensive vision of human development through acceleration of literacy and expanding the coverage of quality healthcare. Over the past decade, the overall adult illiteracy rate in member countries has declined from 43 percent in 1990 to 30 percent in 2005. Life expectancy has also improved from 59 years in 1990 to 62 years in 2004. Despite the overall progress in human development, the Bank has up-scaled its efforts to alleviate widespread poverty in member countries through sustained support aimed at improving primary education and healthcare services.

In providing human development related assistance, IsDB ensures quality-at-entry of projects in terms of their potential impact or outcomes in the education-related operations in member countries. Beginning from 1420H, the Bank has substantially increased its net approvals in the education and health sectors. Up to the end-1426H, the cumulative assistance provided by the Bank in the education sector in member countries totalled US$1.5 billion for 288 operations. Beside supporting the education sector, a unique feature of IsDB human development approach is qard hasan based scholarship programme in non-member countries and two scholarship programmes for students from member countries in the various areas of science and technology. So far, 4,809 students have been awarded scholarships.

A landmark decision was adopted by the IsDB Board of Governors during the 31st Annual Meeting held in Kuwait in May 2006 to launch an IsDB Poverty Alleviation Fund (PAF). Currently, preparatory work to establish PAF is underway and the size of the Fund is tentatively expected to range between US$5-10 billion. With the expected establishment of PAF by the end of 2007, the IsDB Group looks forward to substantially scaling up operations in MDGs-related sectors, including the promotion of learning-based outcomes in the education sector of least developed member countries.

**Doha Development Report and Aid for Trade**

The launch of the new multilateral trade negotiations in Doha, 2001, was deemed to be a major step towards achieving the objectives envisioned by the Marrakech Declaration at the conclusion of the Uruguay Round of trade negotiations. The Doha Development Round focuses on the developmental aspects of its work programme. Hence, when the Doha Round of trade negotiations started in 2001, developing countries, and the LDCs in particular, expected that the outcome would meet their economic development needs. The expectations of the developing countries were, that the Doha Round would help to remove supply-side constraints, improve trade-related infrastructure, diversify export capacities, enhance productivity and competitiveness, and above all improve their market access.

Given that the WTO Ministerial Conferences in Seattle and Cancun faltered, the Hong Kong Ministerial Conference in December 2005 gained added importance. Despite strenuous efforts, the Doha work programme related negotiations are now in a state of suspension, which has raised questions regarding the credibility of the multilateral trading system. The suspended negotiations mainly resulted from the failure of major trading countries to agree on targeted reductions in tariffs and domestic support in the agriculture sector. It is generally hoped that, by the end of this year, the negotiations will again commence in earnest by exercising political leadership on many difficult and vexing questions.

The IsDB Group welcomes the progress made in the area of “aid of trade”, especially the work of the WTO’s Integrated Framework Task Force and Aid for Trade Task Force, as well as the World Bank and IMF aid for trade initiatives. Since inception, the IsDB Group has been supporting wide-ranging

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28 The students receive loans at zero cost who upon their employment refund the loan. The refunded loans are deposited in trusts to give scholarships to other students.
trade-related capacity building programmes and financing of trade operations in member countries. The Bank has developed an active WTO technical assistance program to strengthen member countries capacity in their WTO trade negotiations and to assist in regional-level trade integration initiatives.

Since its inception, IsDB has been aiming to forge greater economic and trade cooperation among the member countries, especially at the regional level. As a result of sustained economic growth, intra-trade among the IsDB member countries currently stands at 13.3 percent. A noteworthy feature is that, during the three-year period from 2001 to 2003, exports of IsDB member countries destined to industrial and developing countries increased by 18 percent and 27 percent, respectively. However, for the same period, the intra-trade among IsDB member countries increased by 31 percent, which reflects their growing economic cooperation.

Progress in forging greater trade complementarities amongst the member countries has been in part due to the trade financing operations of the IsDB Group. The cumulative trade financing provided by the IsDB Group stands at $24.4 billion by end-February 2006. Traditionally, IsDB Group provided intra-trade financing to the relatively developed member countries countries. Following the 27th IDB Annual Meeting, which was held in Ouagadougou, Burkina Faso in October 2002, the Board of Governors issued a ‘Declaration on IDB Group Cooperation with Africa’ committing the Bank to reach a financing target of $2 billion from 2003 to 2007. Under the Ouagadougou Declaration, the IsDB Group has approved total development assistance amounting to $1.2 billion up to the end-February 2006. Of this assistance, the volume of trade financing operations amounts to $292 million covering the following LDMCs: Benin, Burkina Faso, Chad, Mali, Niger, Senegal, and Sudan. Innovative trade financing instruments, such as structured trade financing and issuance of irrevocable commitment to reimburse, have been adopted by the IsDB Group to finance intra-trade operations in the LDMCs. In 2005, IsDB launched a new entity in the Group – the International Islamic Trade Finance Corporation. The new Corporation will seek to consolidate trade related activities at the Group level by bringing about greater synergy in the trade promotion and financing operations.

In 1997, the IsDB launched the WTO-related Technical Assistance Programme (TAP) for strengthening the human and institutional capacity of OIC member countries and to enable them to better participate in the multilateral trading system. The TAP supports a number of activities, such as holding of workshops/seminars on WTO Agreements, organization of Trade Policy Courses in different languages, and undertaking of subject-specific studies. In addition, IsDB organizes Ministerial-level consultative meeting on the occasion of the WTO Ministerial Conferences. The Ministerial-level consultative meetings provide an opportunity to the trade ministers of member countries to exchange views and share information on the latest WTO-related developments with emphasis on market access, services, accession and cotton issues, particularly in the OIC least developed member countries in West Africa.

As part of its efforts to promote greater regional integration, IsDB strongly supported trade liberalization under the “Protocol on the Preferential Tariff Scheme for the OIC Trade Preferential System”, which was ratified in September 2005. In fact, IsDB is committed to further assist the efforts of OIC trade ministers to deepen tariff reductions in the future trade negotiation rounds and to encourage more member countries to ratify the Framework Agreement of the OIC Trade Preferential System.

At the sub-regional level, IsDB supports the efforts of regional organizations to make effective the regional or bilateral trade liberalization arrangements. There are six regional trade arrangements whose composition entirely consists of IsDB member countries. So far, only the six-member Gulf Cooperation Council has achieved a customs union while efforts are underway to arrive at preferential tariffs or free trade agreements in the case of five other regional trade arrangements. Indeed, the Economic and Monetary Union of West Africa achieved the highest level of intra-trade at 13 percent amongst the six regional organizations. Many IsDB member countries are negotiating bilateral free trade
agreements and, in some cases, negotiations are at an advance stage to reach towards the so-called ‘early harvest’ bilateral free trade arrangements.

It needs to be stated that the various "Aid for Trade" initiatives should not become a substitute for successful conclusion of Doha Round. With this understanding, the IsDB Group supports various initiatives under the "Aid for Trade" as a way of strengthening trade related infrastructure, reduce supply-side constraints, and address the adjustment costs associated with the implementation of various WTO agreements. We express our support to various activities under the “Aid for Trade” in the areas of technical assistance, capacity building, institutional reforms and other related areas. The IsDB Group stands ready to support the IF initiative and to further contribute to partnership with other MDBs. The IsDB is ready to take its share of responsibility and further strengthen its technical assistance activities with respect to aid for trade to its member countries.

Finally, the IsDB Group expresses dismay at the loss of life and infrastructure during the recent hostilities in Lebanon. The IsDB Group has already approved US$250 million package of economic assistance aimed at assisting the people of Lebanon in their reconstruction activities and to invigorate the economy. Beside this initiative, the IsDB is also coordinating efforts of regional civil society institutions to deliver reconstruction assistance for the affected people of Lebanon. The IsDB Group welcomes the World Bank initiative to establish a US$70 million to finance an emergency recovery programme in Lebanon. The IsDB Group looks forward to working jointly with the World Bank and the international community aimed at assisting the people of Lebanon to rebuild their lives.

With these words, I wish the 74th meeting of the Development Committee every success.
Statement by Mr. Angel Gurría, Secretary General of the OECD, and Mr. Richard Manning, Chairman of the OECD Development Assistance Committee,

Governance and Anti-Corruption

Improving governance must be at the core of anti-corruption efforts

- Good, effective governance is essential in order to strengthen democracy, promote economic prosperity, reduce poverty, and deepen confidence in government and public administration.

- OECD has a multi-faceted approach to governance and is working to improve the key pillars of governance in the public and private sectors through its work on transparency, accountability and integrity.

- OECD countries can no longer just point the finger at weak or unaccountable leaders in the developing world. Confronting bribery, money laundering, tax havens and assets illegally held in foreign bank accounts requires concerted action by developing and developed countries. All countries share the responsibility to fight corruption; they have common issues to tackle and lessons to share.

- The OECD recognized at an early stage that corruption is more than a question of individual criminal acts. It is also the result of systemic failure and therefore a combination of governance and anti-corruption mechanisms is needed to address corruption.

- Preventing corruption requires not only designing and implementing core integrity and anti-corruption standards but also creating a supportive environment in the administration in which transparency and accountability play an essential role.

- Administrative simplification, regulatory reform, e-government, control in public finance and public employment are essential elements for increasing resistance to corruption, especially in higher risk areas such as public procurement.

Key OECD Actions on Anti-corruption

- The OECD is at the forefront of the fight against corruption. The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, which makes bribery of foreign officials a crime in OECD countries, has been signed and ratified by 36 countries. It has catalyzed a significant shift: changing bribery from a “business as usual” practice to a crime subject to harsh punishment. The OECD is committed to strengthening the Convention’s enforcement and implementation, including through Peer Reviews of countries that are parties to the OECD Convention.

- But as we all know, fighting corruption means bringing about cultural change. We in the OECD are therefore helping countries in the development of a combination of elements that constitute an Integrity Framework for preventing corruption in the public service.

- The OECD plays a prominent role in identifying and addressing risk areas for corruption, such as the public-private interface of government operations, public procurement, lobbying or post-public employment.
• In this context, we use the OECD Recommendation and Guidelines on Managing Conflict of Interest in the Public Service to analyze the experience of member countries and design instruments to help countries measure progress in implementing reforms to improve integrity.

• Using its leverage and multidisciplinary efforts to prevent, detect, and monitor corruption, the OECD will support greater policy coherence by:
  
  – Better co-ordination among different parts of government; connecting the development agenda with actions within OECD governments to tackle corruption.
  
  – Supporting greater international cooperation among a whole range of actors, especially civil society and the private sector.
  
  – Putting even greater emphasis on responsible business conduct by companies.
  
  – Collaborating more closely and strengthening mutual accountability with major emerging economies in the global fight against corruption.

Setting an agenda for Collective Donor Action

An agenda for collective action is emerging in a Policy Paper on Anti-Corruption being considered by the Development Assistance Committee (DAC). It has two pillars:

(i) Promoting a concerted and harmonized approach to anti-corruption at the country level, as set out in the Paris Declaration on Aid Effectiveness

• Under this pillar, it is proposed that donors conduct joint assessments of corruption and the wider governance context in high-risk countries.

• This work started with a pilot multi-donor assessment mission to Cameroon under the DAC umbrella. Emerging recommendations propose that the international donor community invest in a multi-donor funded ‘Cameroon Transparency Support Facility’ to take future work forward.

• The DAC Policy Paper also proposes committing to a set of principles on harmonized donor responses to deteriorating corruption contexts, to avoid having to “pull the plug” on aid flows, while staying firmly consistent in these countries.

(ii) Working with other international actors

• OECD and DAC will work with their own members, who are also the major donors, to generate a joint and coherent agenda on anti-corruption.

• OECD will also support the UN in its efforts to implement early action on UNCAC.

• OECD stands ready to work closely with the World Bank in a context of greater harmonization with bilateral donors and the DAC, as well as with other multilateral institutions including the UN.
Scaling up ODA for Results

Scaling up ODA for Results – time for action

- The breakthrough agreements in 2005 at Gleneagles and at the UN Summit to scale up aid by USD 50bn by 2010, including doubling aid for Africa, imply the most important and rapid expansion of ODA since its beginning. These amounts are based on simulations made by the DAC Secretariat, extrapolating the public commitments given by Heads of State up to and beyond 2010.

- At this point however, we do not yet have a working model of how to engineer scaling up at the country level. It is urgent that such a working model be devised and applied in a number of countries and generalized to more countries within the next two years. Otherwise, we will not be able to meet the commitments made.

- Scaling up is clearly a complex task, requiring that significantly increased resources from a set of donors with different aid systems and instruments be connected to the medium term budget frameworks of specific partner countries, each with their own budget and political cycles. Structuring this complex set of connections is the heart of the challenge.

- The DAC, with the World Bank and the UNDP, has been convening meetings of donors, bilateral and multilateral, to address this challenge. The concept of Results and Resources Frameworks as the aid partners’ working matrix/interface for pulling expanded resources and expanded country programmes together has emerged from World Bank/UNDP consultations, and has recently been tested in Ghana, where there exist concrete opportunities for a major scaling up of aid. But it is clear that the donor community is not yet geared to this approach and “here and now” opportunities are being lost.

- Country-level initiatives need to be based on the forward-planning systems of development agencies. The DAC has therefore launched a survey of “forward information” from bilateral and multilateral donors and global funds, to provide, over time, a shared overview of scaling up plans and allocations, as a basis for policy exchanges on the emerging size and pattern of allocations.

- Two thirds of the agencies responded to the Survey, but they covered only a quarter of aid flows. The numbers did not indicate that scaling up is about to take off, but the survey showed that most donors are now able to provide aid commitments for the medium term and discuss medium-term expenditure plans as part of a collective donor effort with partner countries.

- We must now move forward quickly to build a scaling up process which involves going beyond our previous aid co-ordination models, in terms of time horizons and predictability (at least matching the horizon of medium-term expenditure framework and providing an outline framework for the sustainable expansion of health and education systems and major infrastructure investments, which may typically require even longer time horizons).

- The Progress Report presented at this meeting on the Education for All Fast Track Initiative puts it quite bluntly – “The volatility of donor support and the building of a
vibrant educational system, with all the needed inputs on a consistent basis, are not compatible”.

• DAC Chair Richard Manning and World Bank Vice President Danny Leipziger have written to donors on the need for medium-long term predictable funding and have indicated their readiness to facilitate the establishment of some working examples of the scaling up process in a few countries in the coming months.

• There are close linkages between scaling up and the governance and anti-corruption item on the agenda of this meeting. Clearly, the prospect of a further USD 50 billion passing through the aid system will require a change in the public’s perception in both donor and partner countries that aid money is all too often being diverted away from its purpose of producing development results for poor people.

• But there is an important opportunity here. A significant expansion of public expenditure and predictable aid flows, in the context of transparent, medium-term, results-based budgetary frameworks, offers the opportunity for strengthening domestic accountability mechanisms.

What progress has been achieved on the Aid Effectiveness Agenda set by the Paris Declaration of March 2005?

• The past few months have seen the first attempt to monitor progress in the 12 Indicators of Progress of the Paris Declaration on Aid Effectiveness. Monitoring, based on a common model, has been carried out in more than 30 countries, and a consolidated report will be presented to the DAC Working Party on Aid Effectiveness in December.

• First indications are that the monitoring has contributed to a shared agenda to improve the impact of aid and increase transparency on how resources are used.

• The results of the monitoring will be made widely available, and are important for carrying forward work on aid effectiveness in the run-up to the Third High Level Forum on Aid Effectiveness to be held in Accra, Ghana, in 2008. A summary will be incorporated in the OECD statement to the Development Committee next April.

• “Using a country’s own institutions and systems, where these provide assurance that aid will be used for agreed purposes, increases aid effectiveness by strengthening the partner country’s sustainable capacity to develop, implement and account for its policies to its citizens and parliament” (Paris Declaration)

• This is closely related to the discussion at this meeting on governance and anti-corruption, as noted above. The Paris Declaration rightly puts great weight on the need to strengthen capacity, by:

  – increasing the proportion of capacity-development support provided through coordinated programmes consistent with partners’ national development strategies (Indicator 4),
targeting a sharp reduction (two-thirds by 2010) in the stock of project implementation units that parallel local structures, reflecting much experience that such approaches seldom lead to sustainable institutional change (Indicator 6).

**How can we build a more effective culture of Managing for Results?**

- Managing for Results is central to the Paris Declaration. *Increased levels of aid can only be sustained if taxpayers in donor countries can be shown that aid does indeed help to deliver results*, for which the Millennium Development Goals remain a key international reference point.

- *An effective culture of Managing for Results* is needed in development agencies, but much more importantly in developing countries themselves.

- The Third Roundtable on Managing for Development Results, to be held in Hanoi, Vietnam on 4-7 February 2007, is thus of critical importance. There will be a particular focus on building capacity for Managing for Results. The agenda should be seen in the context of developing a stronger culture of evidence-based policy making and greater domestic accountability.

- *Most developing countries need substantially better and more timely policy-relevant statistics on all aspects of development*. The OECD/DAC hosts the Partnership in Statistics for the Twenty-First Century, or PARIS21, which has successfully promoted the production over the past two years of some 88 National Strategies for Statistical Development (NSSDs), as mandated by the “Marrakech Action Plan for Statistics”.

- There is now a real challenge for the recipient countries and their donor partners to put resources behind these strategies in an effective and coordinated way, in order to provide policy makers with relevant data and to underpin a focus on results – particularly ahead of the 2010 Census round and the next major international review of progress towards the Millennium Development Goals.

- Equally relevant to is a stronger effort in evaluation of the impact of developing countries’ projects and programmes, including those financed by aid.

- Valuable work has been done under the leadership of the Center for Global Development to stimulate more and better quality impact evaluations, drawing on the very positive experience of some developing countries. The OECD/DAC will remain involved in this area and that of evaluation methodology and good practice in all its aspects. The Roundtable on Results is an opportunity to bring these strands together in a way that supports the policies and actions contained in the World Bank paper on Governance and Anti-Corruption.

**Aid for Trade**

**The WTO Task Force Reports- where to now?**

- *The Reports of the two WTO Task Forces*, attached to the Development Committee paper on the Doha Development Agenda and Aid for Trade, provide important roadmaps.
The OECD’s input into these Task Forces was to argue strongly that the key Paris Declaration principles of country-ownership, alignment, harmonization and mutual accountability (including joint monitoring and evaluation) should be given practical application in the aid for trade domain, as effectiveness rather than money is the primary problem. We are pleased to see how thoroughly the Reports have built the Paris Declaration principles into their recommendations and also pleased that the private sector and civil society are identified as key partners in the national dialogue on aid for trade.

The heart of the challenge is connecting up disparate donor resources with a country-owned medium term budget.

Results and Resources Frameworks, as the aid partners’ working interface for scaling up, based on the PRSP or other national strategies, would provide the currently missing instrument for matching demand and response and for mutual accountability in aid for trade.

An adequate system for treating aid for trade at the regional level has yet to emerge. This is a crucial gap. The concept of Regional Aid for Trade Committees, as noted in the Report of the Task Force on Aid for Trade, does indeed merit further exploration.

It is possible for poor developing countries to transform their economies and drastically cut poverty through trade-oriented growth strategies. Thus there is much knowledge to share among developing countries, and the OECD is working with others to create a knowledge-sharing and learning hub, with a first workshop scheduled for Doha on 6-7 November, co-hosted by the Government of Qatar.

Responding to the Recommendations of the WTO Aid-for-Trade Task Force, the OECD continues to stand ready to contribute to the implementation process, and in particular, to improve the monitoring of commitments through the joint WTO/OECD database on trade related assistance, in line with the expanded scope of aid for trade proposed in that report.

Also following the Recommendations of the Task Force, we are proposing to work with donor countries in the DAC to integrate trade issues more effectively in aid programmes, strengthen their expertise both in the field and in capitals, and to develop tools for results based management of aid-for-trade programmes.

And we are ready to support the global periodic reviews of aid for trade by a monitoring body situated in the WTO.

**Strengthening Engagement with IBRD Partner Countries**

**Importance of IBRD Partner Countries**

The OECD welcomes the World Bank’s strategy to strengthen the Bank’s engagement with IBRD Partner Countries. International financial institutions can be an effective agent promoting policy change and international standards.
• The World Bank’s IBRD partner countries (including blend countries) have received a slightly declining share of the growing aid cake from all donors since 2000 – going from a 57% share of gross ODA in 2000 to 49% in 2004 (or from 53% to 47% in terms of net ODA minus debt relief). This reflects the growing attention to the least developed and other low income countries by many donors.

• Nevertheless, the gross volume of ODA to IBRD partners rose from 34 billion USD in 2000 to 47 billion USD in 2004.

• This large quantum of new concessional funding together with World Bank and other MDB non-concessional lending needs to provide more coherent support for sustainable reduction of poverty in these countries where as the paper for this meeting points out, 70 per cent of the world’s people on less than USD 2 a day live.

• The proposal to develop a menu of options for blending ODA with MDB loans directed at public good or affordability challenges in IBRD Partner Countries will require, as recognized, consultations with ODA suppliers. The new OECD Global Forum on Development (see below) offers a potential locus of discussion on the aid architecture for Middle Income Countries.

OECD’s relations with IBRD partner countries, its Global Relations Strategy and the Joint OECD-World Bank Statement of Cooperation

• The OECD cooperates with the Middle Income Countries on a broad range of issues, often in co-operation with the World Bank. The following four areas are highlighted because of their implications for the discussion at this Development Committee:

  – Our Initiative on Middle East and North Africa is a regional effort, initiated and led by the MENA countries. It promotes broad reforms to enhance the investment climate, modernize governance structures and operations, strengthen regional and international partnerships, and promote sustainable economic growth throughout the MENA region. The Initiative will strengthen countries’ capacity to design and implement policy reforms. It will facilitate policy dialogue and sharing of experience on public governance and investment policies among policy makers from MENA countries and their OECD counterparts.

  – In the OECD, our interaction with developing countries, at both the expert and policy levels, is designed to help them strengthen systemic capacities for managing their public sectors, adopt and implement good economic and social policies and provide effective domestic accountability. That should support the MDBs objective of relying on country systems as far as possible.

  – Our new “Global Forum on Development”, one of ten such OECD Global Forums, is focusing its attention on development finance architecture, and in that context is working closely with the Bank on developing policy guidance and good practice in the setting up and operation of Global Programmes. This work relates closely to the recommendation to the Development Committee today that the Bank develop a forward-looking menu of financing options to enhance support for high priority global undertakings. The OECD and the World Bank (in association with other
MDBs) are co-sponsoring a Policy Workshop on the role of Global Programmes under the Paris Declaration in Paris on 4-5 December 2006.

– We are ready to collaborate on the formulation and implementation of an effective coherent strategy on governance and anti-corruption, following this meeting in Singapore, integrating the OECD’s anti-corruption instruments and setting an agenda for collective donor action.

• OECD member countries have recently agreed on a global relations strategy, that builds on OECD outreach activities which have intensified and widened since the end of the 1980s. Based on multiple relationships, mutual influence and partnerships, it seeks to include emerging world economies in the OECD’s work to improve public policy formulation, focusing on the OECD’s areas of strength: multilateral rule making, monitoring through peer reviews, policy dialogue through comparative research and capacity building through the dissemination of best practices.

• Recognizing our common concerns and the wide range of collaboration that had already developed, President Wolfowitz and outgoing Secretary General Don Johnston signed last January in Davos, a new Joint Statement on Cooperation between the World Bank and the OECD. Under this agreement, and its predecessor, the World Bank has actively contributed to OECD’s Global Relations programmes, including through supporting the work of OECD Global Forums.

• The strategic aims of this OECD-World Bank cooperation include sharing institutional knowledge and policy insights, incorporating the needs and experiences of developing countries in the development and application of OECD standards, guidelines and best practices and avoiding duplication of work. A regular consultation mechanism is in place to monitor cooperation and review priority areas.

Clean Energy and Development

The role of climate change adaptation

• We support the aim of the Progress Report on An Investment Framework for Clean Energy and Development, namely, to keep up the momentum on all three key fronts – energy for development and access for the poor; the transition to a low carbon economy; and adaptation to climate change.

• We focus our remarks here on the adaptation to climate change component, which merits more systematic attention within our development co-operation efforts. This was underscored by OECD Development and Environment Ministers when they met in April 2006 and endorsed a Declaration on Integrating Climate Change Adaptation into Development Co-operation.

• Recent work by the World Bank and the OECD has shown that consideration of short and long-term climate risks is quite critical for development investments and projects. This is particularly true for investments in water supply and sanitation, energy and transport infrastructure, tourism, urban development, and food security and emergency assistance.
OECD analysis of the composition of Official Development Assistance (ODA) flows to six developing countries has shown that a significant portion of this aid is directed at activities potentially affected by climate risks, including climate change (Figure 1). Building in considerations of adaptation to climate change in development activities can help to avoid costly climate damage later.

We therefore share the Bank’s view that assessment of climate risks needs to become part of the “due diligence” of development planning. Currently, however, not all climate risks are being considered in development planning and assistance, even with regard to natural weather extremes.

An analysis by the OECD of national development plans, poverty reduction strategy papers, sectoral strategies and project documents in climate-sensitive sectors indicates that such planning documents at present generally pay little or no attention to climate change, and often only limited attention to current climate risk. Even when climate change is mentioned, specific operational guidance on how to take it into account is generally lacking.

Given these challenges, implementing the ambitious agenda for adaptation in the context of the Investment Framework and the OECD Declaration will require strong political will and close co-operation among bilateral and multilateral aid agencies.

The Bank, the OECD, and other organizations have been informally sharing information on their adaptation activities through mechanisms such as the Vulnerability and Adaptation Resources Group (VARG). But there are many opportunities for further analysis and collaboration through analytical work, stock-taking exercises, and policy dialogues.

Some key priorities for further work include: systematic stock-taking across IFIs and bilateral donors of the degree of attention to climate risks within various agencies; development of analytical tools or checklists that would help development practitioners screen their investments for near and long-term climate risks; development of Best Practice Guidance on better integrating consideration of climate risks in development activities; and analytical work on adaptation costs, benefits, and distributional implications.

We at the OECD look forward to playing an active role together with the Bank and others in addressing what is clearly the biggest environment and development challenge of our time.
Figure 1: Annual official flows and share of activities potentially affected by climate change
Source: Bridge Over Troubled Waters: Linking Climate Change and Development (Paris, OECD, 2005)

“OECD fights corruption” brochure is available at the meeting room and at http://www.oecd.org/document/34/0,2340,en_2649_34565_19392866_1_1_1_1,00.html.
Statement by Supachai Panitchpakdi, Secretary-General, United Nations Conference on Trade and Development (UNCTAD)

Since 2002, world economic expansion has had a strong positive impact on growth in most developing countries and has helped to move forward towards the United Nations Millennium Development Goals (MDGs). Many developing countries have benefited from this growth momentum as a result of strong demand for their exports of primary commodities, but an increasing number of countries have also strengthened their competitiveness in world markets for manufactures.

The expansion of world output has been continuing in 2006, with GDP growth projected to reach 3.8 per cent over the year. So far, high prices for oil and industrial raw materials and tighter monetary policies have not had a strong dampening effect on output growth in the developed countries, but the risks of a slowdown are clearly higher than a year ago.

Since demand from industrialized countries for their exports is a key factor determining the external environment for developing countries, the continued expansion in the developed world has raised export earnings and GDP in large parts of the developing world. But at the same time the developing countries have themselves contributed to the fast pace of global growth, with an overall growth rate for the group as a whole exceeding 6 per cent for the third consecutive year. China and India have again played an important role in this outcome. But it is also noteworthy that the recovery in Latin America has continued, and that the poorest region, sub-Saharan Africa, can be expected to achieve an overall income expansion in the order of 5 per cent this year. This is much more than what the region had been used to in the 1980s and 1990s, but for several countries the growth performance still falls short of what is required to meet the Millennium Development Goals. Another reason for concern is that some developing countries have encountered terms-of-trade and payments problems, because the prices for their imports of oil and other raw materials have risen faster than their export prices.

Recently, there have also been signs of increasing volatility in stock, commodity and currency markets, as well as in short-term capital outflows from some emerging markets. International investors appear to have become nervous in the face of continuing global imbalances and rising interest rates. In this situation the dollar appears vulnerable. Moreover, a number of developing countries have experienced a sharp drop in their stock market prices and some emerging-market currencies have fallen markedly against the dollar, the euro, the yen and the currencies closely attached to them. But these turbulences are limited to some areas and to a number of countries with fairly high current-account deficits. Overall, there is little evidence of a looming major financial crisis, comparable to the Asian or Latin American crises some 10 years ago, mainly because most emerging-market economies are much less vulnerable than at the time of the big shocks that occurred over the past two decades.

In 2005, East and South Asian countries recorded a large surplus on their current accounts and Latin America as a whole was also in surplus. This is the result not only of global demand conditions but also of the path of adjustment followed by these countries; they have stabilized their exchange rates at a rather low level, run sizeable current-account surpluses and accumulated large amounts of dollar reserves. This practice may be suboptimal, because in most cases the sterilization of the monetary effect of reserve accumulation involves considerable costs. However, it represents one of the only feasible ways in which developing countries can successfully adapt to the absence of a multilateral approach to exchange-rate management.

An increasing number of countries, especially among those that went through the experience of financial crisis following previous financial and capital account liberalization, have shifted policies from reliance on foreign savings to an alternative strategy that aims at the generation of trade surpluses as the engine for investment and growth. This strategy can only function as long as there is at least one country
in the global economy that accepts running the corresponding trade deficit. A reduced deficit of the United States could therefore have strong negative repercussions on developing countries.

Indeed, the serious global imbalances, which sooner or later will need to be corrected, are the most worrying current feature of the world economy. There is now an increasing risk, that the United States economy may become overburdened in playing the role as the main engine of world growth. It is unlikely that the United States personal savings rate will decline by another 5 percentage points over the next decade, or that the public sector deficit will be allowed to rise by another 6 per cent of GDP. This means that the world economy might soon be without the growth stimuli that have driven it for the past 15 years.

Further dollar depreciation would help restore the competitiveness of the United States economy and rebalance its external accounts. But in addition, other leading economies will need to provide greater stimulus to the world economy if a severe worldwide slowdown is to be avoided. It is true that a number of developing countries have been running large trade surpluses, but the main reason for the United States’ perhaps increasingly unmanageable global burden is that some other key industrialized countries have not played a supportive role. Japan and Germany, in particular, have been recording large external surpluses as a result of significant improvements in their competitive positions in recent years. The process of correcting the global imbalances would be greatly facilitated if domestic demand in these economies were to become more buoyant.

By contrast, domestic demand in China, which has also registered increasing trade surpluses, has grown very strongly since the beginning of the 1990s, and so have its imports. The Chinese economy has played a central role in spreading and sustaining growth momentum throughout the developing world – a process that must not be derailed. Therefore, renminbi revaluation should continue gradually, rather than abruptly, taking due account of the regional ramifications. More recently, the main oil-exporting countries have also played a significant part in the imbalances. Should the high level of oil prices persist, they could contribute to a benign redressing of global imbalances through stronger domestic demand growth and greater social and physical investment with a view to diversifying their economies.

In any case, it would be inappropriate to seek a redressing of the global imbalances mainly through pressure on parts of the developing world. Instead, a coordinated multilateral approach is needed, which needs to be initiated and carried forward by the major industrialized countries, but should also involve the developing countries. The IMF could play a major supportive role, not least through its multilateral exchange rate surveillance.

The continuation of recent trends in the developing countries thus depends to large extent on factors outside their control. But translating recent gains form improved external demand conditions into sustained growth also requires renewed efforts on their part. While the accelerated pace of growth over the past three years has allowed many developing countries to advance in their development at many fronts, including progress towards the MDGs, it must not be forgotten that this phase of relatively fast growth comes after two decades of unsatisfactory growth in most developing countries, especially in Africa and Latin America.

The results of the far-reaching market-oriented reforms that most developing countries undertook in the 1980s and 1990s did not meet the expectation that capital accumulation would follow quasi-automatically from market liberalization, which was supposed to improve allocation of existing resources.

In order to achieve the MDGs and, beyond that, to reduce the income gap with the more advanced countries, developing countries will have to achieve faster growth of domestic value added, employment and investment than they have done over the past 25 years. This will require more than a mere reliance on
market forces and strengthened social policies. More proactive policies in support of capital accumulation and productivity enhancement will be needed. Obviously, any prescription for development policy must recognize the large differences among countries and respect their unique characteristics.

As a consequence of the disappointment with past economic policies many developing countries have begun to reconsider the use of proactive trade and industrial policies in their development strategies. Indeed, recent research has produced evidence that an exclusive concentration on allocative efficiency implies a lack of sufficient attention to stimulating the dynamic forces of markets which underlie structural change and economic growth, and that industrial policies were an important supportive factor for East Asia’s economic catch-up as well as for industrialization in today’s mature economies.

But such proactive trade and industrial policies must not be conceived as a tool of defending firms and industries where production and employment are threatened by more dynamic foreign competitors. Rather, the role of national support policies should be to strengthen the creative forces of markets and related capital formation. The policies should help solve information and coordination problems arising in the process of capital formation and productivity enhancement. They should also ensure that production experience is translated into productivity gains. This kind of industrial policy support should be complemented by a trade policy designed to achieve international competitiveness in increasingly more sophisticated products. Applying some temporary trade protection in this context is not equivalent to an anti-trade strategy, but can be a key element of strategic trade integration.

The increasing need for more proactive development policies has been accompanied by an intensification of external influences over national policy targets and a tightening of external constraints of national policy options. The latter is often viewed in connection with commitments undertaken by countries in international agreements, especially in the area of trade, and the conditionalities of the international financial institutions, and their proliferation over the past 20 years, which have added to the constraints on national policy autonomy. It is also important to recognize that national policy autonomy has been reduced additionally by policy decisions relating to the form and degree of a country’s integration into the international economy.

WTO rules and commitments have made it far more difficult for developing countries to combine outward orientation with the kind of policy instruments that today’s mature and late industrializers employed to promote economic diversification and technological upgrading. Nevertheless, even under the current set-up of multilateral trade rules, countries still have the possibility to pursue policies that will help them generate new productive capacity and new areas of comparative advantage. Such policies largely concern the provision of public funds in support of R&D and innovation activities. Countries in a position to use the WTO rules and commitments to this effect can continue to support their own industries, target national champions, and generally promote national efforts towards technological advancement.

Although there remains some freedom for national policy-making, there are several asymmetries in the multilateral agreements that put developing countries at a disadvantage. They result from the fact that while the negotiated agreements apply to all WTO members equally in terms of legal obligations, they are much more burdensome for developing countries in economic terms. For that reason exceptions for LDCs are to be applauded. The Doha Work Programme has yet to deliver on the development promises of the Doha Declaration. It would be desirable, and in line with the ambition of a "development round" that any outcome of that round would keep in mind the policy space of developing countries, particularly as the use of industrial tariffs is concerned. Further trade negotiations will also need to explore a range of options aimed at creating a new framework or new guidelines for special and differential treatment (SDT) in the WTO that would allow developing countries to compensate some of
their structural disadvantages. From this perspective, and in the spirit of the global partnership for
development, developed countries would need to agree to a new framework or new guidelines for SDT.

The ongoing process of globalization has also changed the framework of national macroeconomic policy. Deregulation of domestic financial markets, including the elimination of credit controls, deregulation of interest rates and the privatization of banks, was a key element in the reform agenda of the 1980s and 1990s. It was based on the belief that lifting “financial repression” and freeing prices on the capital and money markets would improve intertemporal resource allocation, enhance willingness to save and attract additional resources to the banking system. Combining this with a liberalized capital account, developing countries would attract financial savings originating in more prosperous and capital rich economies, and thus overcome a major barrier to growth.

At the same time, however, there was no clear concept of how the most important international price, the exchange rate, and, closely related to it, the interest rate, should be determined or regulated. For small open economies, and developing countries in particular, the exchange rate has a strong impact on the domestic price level and on overall competitiveness. It must be flexible enough to prevent persistent misalignments that would harm the competitiveness of domestic producers and their trade performance. At the same time, excessive volatility of the exchange rate must be avoided, as this would heighten the risks for long-term investment, increase domestic inflation and encourage financial speculation.

The experience with the “corner solutions” has been unsatisfactory. While free floating exchange rates have proved to be highly unstable, leading to long spells of misalignment, with dire consequences for the real economic activity of the economies involved, hard pegs precluded correction in cases of external shocks or misalignment, and adjustments were often very costly in terms of lost output. Intermediate regimes appear more appropriate for developing countries with open capital markets as they provide more room for maneuver when there is instability in international financial markets and enable adjustment of the real exchange rate to a level more in line with a country’s development strategy. Clearly, it is impossible to combine a completely open capital account with full autonomy in monetary policy and absolute exchange-rate stability, but engaging in a managed-floating exchange-rate regime, combined with selective capital controls, (i.e. reclaiming some monetary policy autonomy) seems to be a viable second-best solution.

Capital-account regulation may help to contain, and to some extent also prevent, crises, but the prime objective of economic policy should be to prevent the emergence of large interest rate differentials, arbitrage possibilities and incentives for speculation. However, as speculation on currency appreciation and the concomitant destabilizing inflows of hot money cannot completely be avoided, a pragmatic approach to managing such flows has proved helpful.

In any case, greater independence from international capital markets allows central banks to use the instruments at their disposal for actively pursuing development targets. External financing remains necessary to the extent that greater imports of capital goods as a result of higher investment cannot be financed from higher export earnings and, thus, lead to a current-account deficit. But many successful cases of economic catch-up, and most recently China, have shown that such deficits do not necessarily occur, and that domestic financing of investment can substantially lift growth rates without foreign savings.

The perception that price stability is the most important condition for satisfactory growth performance has dominated the assignment of macroeconomic policy instruments in both developed and developing countries in the last two decades. The question is whether the use of monetary policy for the exclusive use of ensuring price stability is the best, or the only possible, assignment of policy instruments. In some of the most successful developing countries, an acceleration of inflation was kept in check by
non-monetary instruments, such as an incomes policy, institution building in support of creating a national consensus on reasonable wage claims, or direct government intervention in determining prices and, more importantly, nominal wages. This allowed authorities to gear their monetary and fiscal policies to achieving fast growth and high investment, with low interest rates and, more recently, a slightly undervalued exchange rate, combined with fiscal stimulus whenever that was required in light of cyclical developments.

The observation that national policy space has been increasingly constrained by international agreements and obligations, and that future trade negotiations should keep in mind the options for development policies further, is not the same as arguing against multilateral rules and disciplines. On the contrary. Appropriate multilateral rules and regulations in trade and finance can be of considerable benefit for launching and sustaining a dynamic growth process in developing countries, and the considerable and still growing degree of global interdependence in contemporary world economic relations provides a strong rationale for a well-structured system of global economic governance.

There can be no doubt that the multilateral trade regime overseen by the World Trade Organization (WTO) contributes to certainty and predictability in international trade. It provides a framework for an orderly, rules-based system of international trade, with appropriate checks and balances, arbitration of inter-State disputes and determination of the sanctions to be applied. But it is a form of global collective action that must be acceptable to all parties, and this requires that it must result from a consultative process based on full, equal and voluntary participation of all the parties concerned.

Moreover, the multilateral trade regime has been under pressure to expand regulation into an increasing a number of areas and to move towards the establishment of a homogeneous regulatory framework. Such changes are unlikely to take adequate account of the asymmetries existing between the different actors in the world economy. In order to avoid a lasting deadlock in multilateral negotiations the multilateral trade regime must be fully inclusive, and have a sufficient degree of flexibility to reflect the interests and needs of all its members.

The rapid pace of globalization in monetary and financial relationships, in contrast, has not been accompanied by an equally rapid change in multilateral monetary and financial rules and disciplines. Above all, the existing system lacks institutional arrangements for the enforcement of multilateral discipline on exchange rates. Notwithstanding recent progress with regard to multilateral exchange-rate surveillance, which are highly welcome, the Fund's policy oversight remains confined primarily to its poorest members who need to draw on its resources and, occasionally, to emerging-market economies that experience disruptions in financial markets and financial crises.

In today's globalized economy a new multilateral approach to exchange-rate management is indispensable for the promotion of a predictable trading environment and a more symmetrical treatment of all countries in global economic governance. It should involve close monitoring of trade imbalances and global exchange-rate misalignments in both surplus and deficit countries. A further strengthening of the Fund's surveillance function to ensure that all IMF members respect their obligations to conduct exchange rate and monetary policies in a manner consistent with global financial stability is an obvious need given the increasing interdependence and integration in the world economy and especially in light of the existing global imbalances. Separating surveillance from lending decisions could improve its quality, legitimacy and impact. The IMF could then play a more meaningful role in managing or preventing fragile situations of the world economy like the present one that is marked by serious imbalances in the pattern of global demand and international trade.
Statement by Kemal Derviç, Administrator of the United Nations Development Programme (UNDP)

An Age of Divergence in Countries’ Economic Performance

In the last two centuries the ratio of real per capita income in the richest countries to that in the poorest countries has jumped from about two to over thirty-five. The share of global inequality caused by differences between countries—as opposed to differences within countries—increased from less than 15% at the beginning of the 19th century to about 60% in the post-World War II period. Since then, some parts of the developing South have started catching up with the richer North. After 1980 in particular, a number of emerging-market economies gained ground on the more mature advanced economies, with growth in some, especially India and China, lifting hundreds of millions of people out of poverty.

Most of the poorest economies, however, were unable to increase their real incomes significantly over this period, and the gap between the richest and the poorest economies has widened since 1980. The gap narrows when development is measured by broader yardsticks such as the Human Development Index (HDI) because life expectancy and school enrollment have converged more than income, but huge gaps remain in these broader indices as well. Today, our world remains one of great income divergence between the richest and poorest countries, as is documented in the United Nations Department of Economic and Social Affairs’ (UN DESA) latest World Economic and Social Survey. One should add that within-country inequality has been increasing in most of the world over the last three decades. Another major problem is that the causal link between growth and decent work, which should be an extremely important ultimate policy objective, has weakened over the recent past, as documented for example by the ILO.

Explaining Divergent Economic Performance: The Role of Institutions

Economists and social scientists have long sought to explain the tremendous differences in economic performance that have created this world of divergence. Global and comprehensive answers still elude us. But we have found ample evidence that institutions and economic governance strongly influence economic performance, as reiterated in the latest World Economic and Social Survey.

The institutions that enable growth and development are those that encourage investment, ensure the rule of law, and lead to overall social stability and a sense of ‘legitimacy’ about economic outcomes. Institutions are not only determinants of economic performance; that causality also runs in the other direction, since prosperity increases demand for strong institutions and enhances the conditions that sustain them. But the differing quality of institutions is certainly an important part – the key, in many instances – of the explanation for the divergent development between countries that we see today.

Governance Reform for Embedding Markets in Political and Social Institutions

There is today wide agreement that both efficiency in resource allocation and the drive for innovation require markets and entrepreneurial activity. We have also learned, however, that development demands an enabling state that allows markets to function, ensures adequate competition and pursues redistributive policies to make market outcomes more acceptable to all. Unregulated markets can’t provide efficient outcomes because a number of market failures must be addressed. These include abuse of monopolistic positions, externalities and the existence of public goods, and information asymmetries. At the same time progressive taxation as well as the provision and/or subsidization of public services to the poorer segments of the population help to legitimize the market economy.
Thus, private markets require building state capacity for regulation, providing public goods, ensuring the fairness of rules, enabling consensus building and avoiding social conflict. We can see that in today’s most successful advanced countries, the development of competitive markets and vigorous entrepreneurial activity driving innovation and growth has gone hand in hand with the establishment of a strong and effective state that reflects the interests of and is legitimized by the consent of its citizens. As expressed by Karl Polanyi, markets have been embedded in social and political institutions.

Embedding market systems in these institutions requires strong and effective governance structures. While appropriate governance is intrinsically difficult to design fully and in terms applicable to all countries, it always involves creating well-functioning, legitimate public institutions supportive of development.

**Challenges in Implementing Governance Reform**

Capacity development in public administration is a crucial part of governance reform. Election support and anti-corruption measures often take the limelight, but a democratically elected and honest government may still fail to deliver services if it is not able to attract and retain qualified employees, or if teachers and doctors fail to be present at schools and hospitals. Neglecting the need for an effective public administration and civil service often represents a weak link in overall efforts to enhance governance and economic performance. In some cases, for example in Afghanistan, the reluctance of many donors to channel support through the new national administration has seriously weakened overall progress.

Public-administration reform and the need to strengthen the civil service have been perennial concerns for development strategies. The results of efforts in the past, both at the national level and at the level of the international community, have been mixed at best. While specific challenges differ among countries and evolve over time, three common, interrelated issues emerge again and again in hindering the effectiveness of public administrations in the developing world.

**Striking the right balance between politics and autonomy**

Too often public servants are forced to respond to purely partisan political demands and are chosen on political criteria rather than on merit. A public administration with these characteristics will not have the professional competence and the longer term perspective that is crucial for effective regulation. Good economic governance also requires the ability to credibly pre-commit to certain stability and growth enhancing policies. That is why the most successful modern economies, in addition to a professional civil service, have non-partisan and to some extent autonomous regulatory bodies and central banks. At the same time one has to be careful not to separate these agencies from the hopefully democratic and legitimizing political process. Good economic governance must be politically legitimate. There is need for the right kind of balance, therefore, involving laws that guarantee objectivity, competence and the ability to pre-commit, with strong accountability and transparency in the regulatory and decision making process, including regular reports to parliaments, open debates with civil society and public access to the information that leads to particular decisions as well as the explanation for the rationale underlying the decisions taken.

**Incentives and compensation**

Poor incentives sap the motivation of civil servants to do their jobs well and adhere to high standards of integrity. They also inhibit the attraction and retention of qualified and talented staff. Merit-based appointment and career-progression policies, for example, seem to bring higher levels of
performance and integrity, as noted, for example, in UN DESA’s *World Public Sector Report 2005*. But they are still a rarity in many developing countries.

One major drag on performance in education and health public services is absenteeism. A recent study in a sample of developing countries for the World Bank found that on average, 19% of teachers and 35% of health workers were absent from their workplaces. Further, the study found that absences were most frequent among the highest-ranking providers, with older, more educated and head teachers, as well as doctors, more frequently missing work. Better incentives would seem to reduce absenteeism, including more reasonable expectations – for example, asking health workers to cover a smaller geographical area – better monitoring of attendance, and more effective reward/penalty structures.

The salaries of civil servants in most developing countries are very low, in some cases barely providing enough income to subsist. In almost all instances, compensation for highly skilled professionals is not competitive with the private sector, though public- and private-sector wage differentials vary widely between and within countries. Civil-service pay is also often dramatically lower than the compensation paid by international donors to consultants. International consultants may earn as much as US$200,000 a year, a large multiple of what top civil servants are paid, according to the 2005 OECD DAC’s *Development Co-operation Report*. This same report shows that about 25 percent of all development assistance is in the form of technical cooperation and a large portion of the funds are spent on foreign experts who may often be very competent and naturally demand compensation commensurate to income levels in their home countries. The question arises, however, whether much of that money should not be spent on truly building and sustaining the domestic capacities of the public administration in recipient countries.

Inadequate compensation is not only reflected in average salary levels. The salary structure in the public administration of developing countries is often compressed, which makes it difficult to adequately compensate better qualified, more experienced or more senior civil servants. A salary-compression ratio of 2 or 3 (calculated as the ratio between the mean of the highest salary grade and the mean of the lowest salary grade), which is not uncommon, means that employees with major managerial or leadership responsibilities, often charged with making key strategic decisions, can earn only slightly more than workers with the most routine tasks. These inadequacies in compensation further aggravate the problem of motivating civil servants to perform at a high level, and with integrity.

*Emigration of Skilled Professionals*

The emigration of skilled professionals from developing countries further depletes the already limited pool of highly qualified people upon which the public sector relies, as emphasized by the recent report of the UN Secretary-General on international migration and development. In some developing countries, as many as two-thirds of highly educated citizens live abroad, with several countries seeing more than 20 percent of highly skilled workers living as expatriates. The situation is particularly dire in some sectors such as health where research carried out by the Center for Global Development shows that about 28% of sub-Saharan Africa-born physicians live in developed countries.

There are, of course, advantages to having citizens living abroad – remittances and, often, the added experience, exposure, and contacts acquired by expatriates. It helps if developing countries are able to tap into the skills and experience that their expatriates have gained abroad. But in reality, developing countries are often unable to compete with the appeal emigrants see abroad. The net effect of this “brain drain” in depleting the country’s human capital – the product sometimes of significant domestic investment over many years – makes public service delivery much more difficult.
Governance Reform and the United Nations

Developing countries can face great difficulties and setbacks despite markets strengthening if governments remain weak and under-staffed. A weak public administration will threaten market development itself, as a grossly enfeebled state will not be able to uphold the very conditions that sustain free and productive economic activity. Such weakness also frustrates expectations for public service delivery, leading to a perception that governments are being irresponsible to the needs and concerns of citizens, breeding instability and insecurity.

This is why support for governance is a priority within the United Nations family, including UNDP. This fits with the UN experience of and focus on the “software” of development rather than the financing of physical infrastructure or the balance of payments support provided by other development partners such as the multilateral banks. At the core of the work of the UN and its funds, programmes and agencies are wide ranging governance capacity development programmes. These include democratic governance and support for elections, as is currently the case in the Democratic Republic of Congo. But elections are only the first step in a longer-term process of strengthening state capacity and legitimacy.

Now that the importance of improving governance and reducing corruption is so widely accepted and is the focus of so much energy and so many resources, it would be disappointing to see reforms fail to work because of a failure to address the fundamental issues of public service reform. It is, therefore, crucial to imbue efforts for public service reform with a new impetus and new resources to make them progress so that effective economic governance, appropriate to the specific circumstances of each country, can embed and legitimize the indispensable working of markets.
Statement by Mr. Pascal Lamy, Director-General, World Trade Organization (WTO)

The heart of the Doha Development Agenda is a "trade and growth" agenda that is of central importance to helping developing countries and LDCs to reach their Millennium Development Goals.

The multilateral trade negotiations are of course at the core of the DDA. They are widely accepted to offer a major opportunity to reinforce and broaden medium-term growth prospects worldwide.

In the past twelve months, Aid for Trade has become an important political and economic complement to the negotiations that can contribute greatly to unlocking the full growth potential of a successful Doha Round.

Last July, as you know, together with members, I decided to suspend the trade negotiations to allow a period of "time-out" for Ministers to consider how they can each contribute to breaking down the remaining obstacles to substantial liberalization of trade, particularly in agriculture. I know that a serious political reflection has been taking place in capitals since then. I am convinced that the result of this process will be an acknowledgement that there is no acceptable alternative to the successful conclusion of the Round.

The real questions, then, are "how" and "when" we can conclude the trade negotiations. The right answers, I believe, are "ambitiously" and "soon". We are close to moving the trade and growth agenda a big step forward and that is an opportunity that we cannot afford to miss.

A factor that is complicating the conclusion of the negotiations is the evolving public response to globalization in many parts of the world. Today it is not only global income growth that matters, it is also who shares in that growth and how. Politically, we cannot leave the question of "who gains what?" from trade liberalization up to market forces only.

We have to address concerns about adjustment costs, capacity constraints and supply responses in developing countries and LDCs. Where those cannot be taken care of with national resources or by the private sector alone, we must try to build an effective international response.

That is why Aid for Trade has such an important role to play in support of the conclusion of the Doha negotiations, and why WTO Ministers took the initiative in Hong Kong to mandate me and a Task Force of member governments to produce recommendations on raising additional financial resources for Aid for Trade and making the Aid for Trade initiative operational.

I am working closely with Paul Wolfowitz, Rodrigo de Rato and your regional development financial institutions on Aid for Trade, and will continue to do so as the implementation stage gains momentum under your leadership. Aid for Trade is not part of the WTO single undertaking and will continue to move forward despite this temporary suspension of negotiations. We consider a comprehensive Aid for Trade package as necessary in itself and a necessary part a successful Round.

The WTO's role in Aid for Trade is predominantly one of advocacy for additional resources and enhanced coordination both at the multilateral level and at the domestic level in the case of beneficiary countries.

Advocacy, on the one hand, with trade and finance Ministers and their officials, to encourage them to raise the profile of the trade and growth agenda at the domestic level, to ensure it is appropriately incorporated in their national development programmes, and use ODA best practices when presenting their trade-related needs for international support.
And, on the other hand, advocacy also with finance and development Ministers and officials, to encourage them to provide a well-coordinated and generous response to requests for additional development assistance for trade projects and programmes that is commensurate with the needs of developing countries and LDCs, particularly once the results of the Doha Round start to be implemented.

WTO Members will discuss the recommendations of the Aid for Trade Task Force in mid-October. I expect their consideration of any institutional role for the WTO on Aid for Trade to focus on monitoring, using our Trade Policy Review process for example. No direct development assistance role is foreseen for the WTO.

I also wish to note the success we have collectively achieved in revamping the Integrated Framework for LDCs which we consider an important milestone in our coherence and cooperation efforts. Work is underway to operationalise the revamped IF with an executive secretariat that will better coordinate the implementation process and also support efforts to enhance the capacity of LDCs to benefit from the IF.

In our view, the test for our collective success in bringing more and better A4T should not be limited to trade mainstreaming in national development plans only but to the increased capacity of LDCs and developing countries to translate the trade opportunities that trade opening will provide into increased trade flows of goods and services. This is the foundation of any successful integration in the multilateral trade system.

We shall work closely with established mechanisms – at the bilateral, regional and multilateral levels – to help us make the Aid for Trade initiative operational and successful. I know I can continue to count on the support of my colleagues in the Bank, the Fund and the regional development banks to do that. I am seeking also the support of you, Ministers, in this Committee, to help bring the WTO's trade and growth agenda to a successful conclusion.
NOTICE OF MEETING

The 74th meeting of the Development Committee will be held on Monday, September 18, 2006, commencing at 9:00 a.m. in Ballroom II of the Suntec Singapore International Convention and Exhibition Centre, Singapore.

PROVISIONAL AGENDA 1

I. Strengthening Bank Group Work in Governance and Anticorruption
II. Strengthening the World Bank’s Engagement with IBRD Partner Countries

Progress Reports:

III. An Investment Framework for Clean Energy and Development: A Progress Report
IV. Progress Report for the Education Fast Track Initiative
V. Doha Development Agenda and Aid for Trade

1 The President of the World Bank and the Managing Director of the International Monetary Fund will each provide a statement, in advance of the meeting, focused on agenda topics and other items. A Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI): Status of Implementation Report will be provided as background information relevant to the Committee’s work.

On this occasion, there will be only one session of the Committee – from 9am until 1pm. The session will be followed by a Chairman’s Luncheon for Members (1:15-3pm) in Ballroom III of Suntec Singapore.
FOR IMMEDIATE RELEASE

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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Singapore, September 18, 2006

DEVELOPMENT COMMITTEE COMMUNIQUÉ

1. We met today to discuss progress in implementing the development agenda for achieving the Millennium Development Goals (MDGs). We reviewed the World Bank’s proposed governance and anticorruption strategy, and the priorities for its evolving engagement with middle-income countries. We also celebrated the 50th anniversary of the International Finance Corporation, which has contributed to fostering sustainable private sector development and promoting market development in developing countries.

2. Building on five consecutive years of strong growth, policymakers in developing countries now need to prepare for a more challenging global environment. This will entail maintaining macroeconomic stability, further strengthening public sector financial management, and continuing to improve domestic resource mobilization. More also needs to be done to improve the business climate and governance.

3. The pledges made last year to substantially increase the volume of official development assistance (ODA), including a doubling of aid to Africa by 2010, must be delivered in a predictable manner. We urged those donors that have not done so to make concrete efforts towards the target of 0.7 percent of Gross National Income as ODA in accordance with their commitments. We look forward to a successful IDA 15 replenishment next year and urged donors to ensure that their commitments to make the multilateral debt relief initiative (MDRI) and the Heavily Indebted Poor Countries (HIPC) Initiative additional to other aid flows be met. We noted the substantial progress made on Advance Market Commitments for vaccines and the work in progress in order to launch a pilot project by the end of 2006. We also welcomed the launch of the International Financing Facility for Immunization and of the International Drug Purchase Facility. We asked the Bank, within its overall strategy, to develop a framework for its role in the provision of global and regional public goods including criteria for its involvement and financing modalities.

4. The international commitments to improve aid effectiveness embodied in the principles of the Paris Declaration must now be consistently translated into action at the country level. We called on the Bank to deliver on its commitments to scaling up and aid effectiveness, including the implementation of the best practice principles identified in the Bank’s conditionality review. We noted the country-based “results and resources meetings” approach to facilitate scaling up aid now being piloted in several African countries with the help of the Bank and the Development Assistance Committee, and urged developing
countries to prepare well-defined and costed programs for using scaled up aid to step up the poverty reduction effort. Noting the Bank’s role in helping to ensure that additional assistance is effectively coordinated and aligned with country priorities, we asked for a progress report on the Bank’s Africa Action Plan at our next meeting. We welcomed the Bank’s Gender Action Plan to expand women’s economic opportunities in developing countries. We also looked forward to hearing about progress towards achieving the gender MDGs in the next Global Monitoring Report.

5. We welcomed the progress report on Education for All-Fast Track Initiative (EFA-FTI), and the contribution it is making to increasing primary school completion rates. The initiative offers a promising approach to donor harmonization and scaling up at the sectoral level. We recognized the importance of country ownership and the quality of education, and the need to expand the initiative to larger countries and fragile states. We called for predictable and long-term funding for this initiative, including domestic funding. We also urged the Bank to strengthen its work on measurement of learning outcomes in order to ensure continuous attention to the quality of education. In this regard, we look forward to a further update on progress to the Board.

6. September 2006 marks the tenth anniversary of the HIPC Initiative. We welcomed the substantial reduction of debt stocks and noted the increase of poverty-reducing expenditures of the 29 HIPCs that have reached the decision point. We also welcomed the decision to allow the sunset clause to take effect at end-2006 and to grandfather the countries that are assessed to have met the HIPC criteria based on end-2004 data. We welcomed the implementation of the MDRI by the IMF, IDA and the African Development Fund. Debt relief has provided many low-income countries with additional resources that can be used to make progress towards the MDGs. We cautioned against excessive borrowing after the relief which may lead to re-emergence of debt distress. We therefore underscored the importance of the Joint Debt Sustainability Framework of the Fund and the Bank for low-income countries in helping ensure that new borrowing in post-MDRI countries does not undermine their long-term debt sustainability, and look forward to the review of the framework. We asked all the multilateral development banks, bilateral donors, export credit agencies and commercial creditors to adhere to this framework. We stressed the importance of implementing the Bank’s approach to deal with the issue of free riding and the need to address the issues of official creditors’ coordination. We also stressed the importance of Bank and IMF support for strengthening public financial management including, debt management.

7. The de facto suspension of the Doha negotiations represents a setback in our effort to make more rapid progress towards achieving the MDGs. We re-emphasized the importance of the multilateral trading system and called upon all WTO members to avoid backsliding and provide trade ministers with the necessary flexibility to resume the negotiations by the end of the year. We also called on the Bank and the Fund to continue their global advocacy role on trade and development, and to foster the integration of trade into country programs. While recognizing that aid for trade is not a substitute for trade liberalization, we reiterated our commitment to expanding the funding and strengthening the mechanisms for Aid for Trade. We welcomed the recommendations of the WTO Task Forces on Aid for Trade and the Integrated Framework (IF), both of which explicitly recognize the need to adhere to the Paris Declaration on aid effectiveness. We took note of the new governance mechanisms proposed for the enhanced IF, and reiterated the importance of working through established channels with proven development expertise. We noted the interest in extending a similar process to other poor countries that are not Least Developed Countries. We urged the Bank to work with these countries to incorporate trade needs into their national development strategies. We also agreed on the need to improve existing instruments to address cross-country and regional projects and strengthen the monitoring of regional initiatives and funding.
8. Actions to promote good governance are crucial to successful development and poverty reduction, and helping member countries on these issues is therefore important to the Bank’s mission and to achieving the MDGs. Tackling corruption effectively and firmly is a significant part of this. The principal objective of the Bank’s governance work should be to help develop capable and accountable states to deliver services to the poor, promote, private sector led growth and tackle corruption effectively. We supported the Bank’s engagement in governance and anticorruption work. Country ownership and leadership are key to successful implementation. Governments are the key partners of the Bank in governance and anticorruption programs, while, within its mandate, the Bank should be open to involvement with a broad range of domestic institutions taking into account the specificities of each country. We also emphasized that predictability, transparency, and consistent and equal treatment across member countries are the Bank’s guiding principles. In stepping up attention to governance and anticorruption in Country Assistance Strategies, we asked the Bank to further develop and use disaggregated and actionable indicators, recognizing that IDA resources will continue to be allocated through the existing Country Performance and Institutional Assessment and Performance Based Allocation system. We recognized that the strategy will evolve with implementation and in the light of experience, but the paper sets out a framework for continued Bank engagement in this work and the further consultation which is planned with partner countries, with the Fund and with other donors and multilaterals, with civil society, and with the private sector. Given the importance of this issue, we stressed the importance of Board oversight of the strategy as it is further developed and then implemented, and we look forward to a report from the Board at our next meeting.

9. Middle income and emerging market countries (MICs), partner countries of the IBRD, are home to 70% of the world’s poor. They constitute an extremely diverse group of countries. While many of them have made dramatic improvements in economic management and governance over the past two decades, as a group they still face major challenges of poverty reduction and development and in their contribution to provision of important regional and global public goods. We strongly endorsed the statement of the Bank’s corporate role and mission to eradicate poverty in its partnership with MICs. We reviewed the Bank’s proposals to strengthen the IBRD’s value-added and engagement in response to the evolving and diverse needs of middle-income countries. We recognized that as MICs develop they will eventually graduate from IBRD lending. We also noted that in parallel, in implementing its medium-term strategy, the IMF is making efforts to adapt, better focus, and enhance its engagement with emerging market countries. We welcomed the Bank’s proposals to deliver better and more flexible country partnership strategies reflecting diverse country circumstances; to reduce the cost of doing business with the Bank by streamlining internal Bank procedures; to simplify loan pricing and make its products more competitive; to develop new ways to help countries facing external shocks; to increase provision of fee based expert services, unbundled from lending; to continue to work towards scaling up Bank Group lending to sub-national entities within frameworks agreed with national governments; and to better exploit synergies between the different arms of the Bank Group within their respective mandates. Increasing the use of country systems where mutually agreed and verifiable standards are in place to ensure effective execution is an important part of this agenda for scaling up development impact. We encouraged the Bank to give greater emphasis to issues of regional and global concern in areas where it has a comparative advantage. We also called for deeper cooperation between the Bank, regional development banks and other development partners in their engagement with MICs, and encouraged the Bank to develop a menu of options to respond to country demand-driven initiatives for targeted blending of concessional donor support with multilateral development bank loans in cases of market failure or where there are affordability issues.

10. We welcomed the progress made in developing a Clean Energy Investment Framework, including the review of the adequacy of existing financial instruments. The global community faces a major challenge in securing affordable and cost-effective energy supplies to underpin economic growth and
poverty reduction while preserving the local and global environment. We agreed that this challenge requires sound country energy policies and regulatory frameworks. We found broad support for the Bank’s approach in addressing the three inter-related issues of: (i) energy for development and access to affordable energy for the poor; (ii) the transition to a low carbon economy; and (iii) adaptation, and support continued work on each of them. In particular, we recognized lack of access to energy as an acute problem in many low income countries, especially in Sub Saharan Africa, supported the Action Plan for improved energy access and urged donors to provide additional funding and other assistance required. We encouraged activities that cost-effectively and sustainably promote the transition to a low-carbon economy, respecting circumstances of individual economies, without hindering the growth of developing countries and mitigating the incremental costs to them. We asked the Bank to work with the regional development banks, United Nations agencies, the Global Environment Facility (GEF), private sectors and other interested parties to maximize the use of existing instruments. We support further examination of the future Bank role in the transition to a lower-carbon economy, taking into account all issues raised in the progress report and recognizing the primary institutional responsibility of the UN Framework Convention Climate Change. We asked the Bank, in close coordination with the GEF, to continue to work on further exploring financing options to support investment in clean energy for development. We welcomed the Bank’s proposal to consider new means and mechanisms to make pricing of existing instruments more transparent and competitive to provide incentives and resources to countries to pursue clean energy alternatives. We also stressed the need to develop strategies, tools and financing to help meet the challenge of adaptation to increased climate variability, which can adversely affect the livelihoods of people, especially the poor, and undermines the achievement of the MDGs. We noted the value of protecting future investments from climate volatility.

11. We look forward to considering the findings of the External Review Committee to review various aspects of Bank-Fund collaboration. We asked the Bank and the Fund to ensure that their institutional responsibilities continue to cover all the critical issues relating to reaching the MDGs within their mandates.

12. We welcomed the Managing Director’s report on progress made in the reform of IMF quotas and voice. Acknowledging the measures already taken by the Bank to enhance capacity in EDs’ offices and capitals of developing and transition countries, we asked the Bank to work with its shareholders to consider enhancement in voice and participation in the governance of the Bank.

13. We wish to thank the authorities and people of Singapore for their excellent hospitality and facilities.

14. The Committee’s next meeting is scheduled for April 15, 2007 in Washington, D.C.
DEVELOPMENT COMMITTEE MEETING

Monday, September 18, 2006
Ballroom II, Suntec
Singapore

CONSTITUENCY LIST
### Members

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<th>Title and Position</th>
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<tr>
<td>Kazuyoshi Akaba (attending)</td>
<td>Senior Vice Minister of Finance, Japan</td>
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</tr>
<tr>
<td>Hiroshi Watanabe</td>
<td>Vice Minister of Finance for International Affairs, Ministry of Finance</td>
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<tr>
<td>Ibrahim Al-Assaf (not attending)</td>
<td>Minister of Finance, Saudi Arabia</td>
<td>2</td>
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<tr>
<td>Hamad Al-Sayari (attending)</td>
<td>Governor for the Saudi Arabian Monetary Agency</td>
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<tr>
<td>Ahmed bin Mohammed Al Khalifa</td>
<td>Minister of Finance, Bahrain</td>
<td>3</td>
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<tr>
<td>Hilary Benn (Mr.) (attending)</td>
<td>Secretary of State for International Development, United Kingdom</td>
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### Executive Directors

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<tr>
<td>Makoto Hosomi</td>
<td>Bank</td>
<td>1</td>
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<tr>
<td>Shigeo Kashiwagi</td>
<td>(Fund)</td>
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<tr>
<td>Abdulrahman Almofadhi</td>
<td>Bank</td>
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<tr>
<td>Sulaiman M. Al-Turki</td>
<td>(Fund)</td>
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<tr>
<td>Mahdy Ismail Aljazzaf</td>
<td>Bank</td>
<td>3</td>
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<tr>
<td>A. Shakour Shaalan</td>
<td>(Fund)</td>
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<tr>
<td>Tom Scholar</td>
<td>Bank and Fund</td>
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### Countries

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<td>Bahrain, Arab Republic of Egypt,</td>
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<td>Iraq, Jordan, Kuwait, Lebanon,</td>
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<td>Libya, Maldives, Oman, Qatar,</td>
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<td>Syrian Arab Republic, United Arab Emirates, Republic of Yemen</td>
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<td>United Kingdom</td>
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<tr>
<td>Members</td>
<td>Executive Directors</td>
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</tbody>
</table>
| Bohoun Bouabré  
Minister of State, Planning and Development  
Côte d’Ivoire | Paulo Gomes  
(Bank)  
Damian Ondo Mañe  
(Fund) | Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Côte d’Ivoire, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Republic of Congo, Rwanda, São Tomé and Principe, Senegal, Somalia (informally), Togo | 5 |
| Thierry Breton (not attending)  
Minister of Economy, Finance and Industry  
France | Pierre Duquesne  
(Bank and Fund) | France | 6 |
| Alternate Member  
Xavier Musca  
Director General of the Treasury  
Ministry of Economy, Finance and Industry | | | |
| Temporary Alternate Member  
Brigitte Girardin (attending)  
Minister of Cooperation, Development & Francophone Affairs | | | |
| Luis Carranza Ugarte (not attending)  
Minister of Economy and Finance  
Peru | Jaime Quijandria  
(Bank)  
Héctor Torres  
(Fund) | Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay | 7 |
| Alternate Member  
Juan Miguel Cayo (attending)  
Vice Minister of Economy | | | |
| P. Chidambaram (attending)  
Minister of Finance  
India | Dhanendra Kumar  
(Bank)  
B.P. Misra  
(Fund) | Bangladesh, Bhutan, India, Sri Lanka | 8 |
| Alternate Member  
A. K. Jha  
Secretary  
Department of Economic Affairs | | | |
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<th>Members</th>
<th>Executive Directors</th>
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<tr>
<td>James Michael Flaherty <em>(not attending)</em>&lt;br&gt;Minister of Finance&lt;br&gt;Canada</td>
<td>Marcel Massé&lt;br&gt;Bank&lt;br&gt;Jonathan Fried&lt;br&gt;Fund</td>
<td>Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines</td>
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<tr>
<td><em>Alternate Member</em>&lt;br&gt;Josée Verner&lt;br&gt;Minister of International Cooperation&lt;br&gt;and Minister for Francophone and Official Languages</td>
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<tr>
<td>Mark Carney <em>(attending)</em>&lt;br&gt;Senior Associate Deputy Minister and G7 Finance Minister</td>
<td>Luis Marti&lt;br&gt;Bank&lt;br&gt;Moisés Schwartz&lt;br&gt;Fund</td>
<td>Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, República Bolivariana de Venezuela</td>
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<tr>
<td>Jorge Giordani <em>(not attending)</em>&lt;br&gt;Minister of Planning &amp; Development&lt;br&gt;Venezuela</td>
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<tr>
<td><em>Alternate Member</em>&lt;br&gt;Nelson Merentes Diaz&lt;br&gt;Minister of Finance&lt;br&gt;Venezuela</td>
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<tr>
<td><em>Temporary Alternate Member</em>&lt;br&gt;Eudomar Tovar <em>(attending)</em>&lt;br&gt;Vice Minister of Finance</td>
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<tr>
<td>Eero Heinaluoma&lt;br&gt;Minister of Finance&lt;br&gt;Finland</td>
<td>Svein Aass&lt;br&gt;Bank&lt;br&gt;Tuomas Saarenheimo&lt;br&gt;Fund</td>
<td>Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden</td>
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<tr>
<td>Ms. Sri Mulyani Indrawati&lt;br&gt;Minister of Finance&lt;br&gt;Indonesia</td>
<td>Mr. Herwidayatmo&lt;br&gt;Bank&lt;br&gt;Hooi Eng Phang&lt;br&gt;Fund</td>
<td>Brunei Darussalam, Fiji, Indonesia, Lao People’s Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Vietnam</td>
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<tr>
<td>Jin Renqing <em>(attending)</em>&lt;br&gt;Minister of Finance&lt;br&gt;Ministry of Finance&lt;br&gt;P.R. of China</td>
<td>ZOU Jiayi (Ms)&lt;br&gt;Bank&lt;br&gt;WANG Xiaoyi&lt;br&gt;Fund</td>
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<td><em>Alternate Member</em>&lt;br&gt;Li Yong&lt;br&gt;Vice-Minister of Finance</td>
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<td>Aleksei Kudrin&lt;br&gt;Minister of Finance&lt;br&gt;Russian Federation</td>
<td>Alexey G. Kvasov&lt;br&gt;Bank&lt;br&gt;Aleksei V. Mozhin&lt;br&gt;Fund</td>
<td>Russian Federation</td>
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<tr>
<td>Okyu Kwon <em>(attending)</em>&lt;br&gt;Deputy Prime Minister and&lt;br&gt;Minister of Finance and Economy&lt;br&gt;Republic of Korea</td>
<td>Joong-Kyong Choi&lt;br&gt;(Bank)&lt;br&gt;Jong Nam Oh&lt;br&gt;(Fund)</td>
<td>Australia, Cambodia, Kiribati, Kiribati, Republic of Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Papua New Guinea, Republic of Palau, Samoa, Solomon Islands, Vanuatu</td>
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<tr>
<td>Alternate Member&lt;br&gt;Dong-soo Chin&lt;br&gt;Vice Minister&lt;br&gt;Ministry of Finance and Economy, Republic of Korea</td>
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<tr>
<td>Doris Leuthard&lt;br&gt;Federal Councillor&lt;br&gt;Minister of Economic Affairs&lt;br&gt;Federal Department of Economic Affairs&lt;br&gt;Governor to the World Bank&lt;br&gt;Switzerland</td>
<td>Pietro Veglio&lt;br&gt;(Bank)&lt;br&gt;Thomas Moser&lt;br&gt;(Fund)</td>
<td>Azerbaijan, Republic of Serbia, Kyrgyz Republic, Poland, Switzerland, Tajikistan, Turkmenistan, Uzbekistan</td>
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<tr>
<td>Guido Mantega <em>(not attending)</em>&lt;br&gt;Minister of Finance&lt;br&gt;Brazil</td>
<td>Otaviano Canuto&lt;br&gt;(Bank)&lt;br&gt;Eduardo Loyo&lt;br&gt;(Fund)</td>
<td>Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Panama, Philippines, Suriname, Trinidad and Tobago</td>
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<tr>
<td>Mr. Henrique de Campos Meirelles <em>(attending)</em>&lt;br&gt;President&lt;br&gt;Central Bank of Brazil</td>
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<tr>
<td>Trevor Manuel&lt;br&gt;Minister of Finance&lt;br&gt;South Africa</td>
<td>Mathias Sinamanye&lt;br&gt;(Bank)&lt;br&gt;Peter J. Ngumbullu&lt;br&gt;(Fund)</td>
<td>Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Seychelles, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe</td>
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<td>Fathallah Oualalou&lt;br&gt;Minister of Finance &amp; Privatization&lt;br&gt;Morocco</td>
<td>Sid Dib&lt;br&gt;(Bank)&lt;br&gt;Abbas Mirakhor&lt;br&gt;(Fund)</td>
<td>Islamic State of Afghanistan (informally), Algeria, Ghana, Islamic Republic of Iran, Morocco, Pakistan, Tunisia</td>
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<td>Tomasso Padoa-Schioppa <em>(not attending)</em>&lt;br&gt;Minister of Economy and Finance&lt;br&gt;Italy</td>
<td>Biagio Bossone&lt;br&gt;(Bank)&lt;br&gt;Arrigo Sadun&lt;br&gt;(Fund)</td>
<td>Albania, Greece, Italy, Malta, Portugal, San Marino, Timor-Leste</td>
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<tr>
<td>Alternate Member&lt;br&gt;Mario Draghi <em>(attending)</em>&lt;br&gt;Governor, Bank of Italy&lt;br&gt;Italy</td>
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| Henry M. **Paulson**, Jr. *(not attending)*  
Secretary of the Treasury  
United States | Vacant  
Jennifer Dorn, Alternate  
(Bank) | United States | 21 |
| **Alternate Member**  
Josette S. **Shiner**  
Under Secretary for Economic, Business  
and Agricultural Affairs  
Department of State | Vacant  
Meg Lundsager, Alternate  
(Fund) | | |
| **Temporary Alternate Member**  
Clay **Lowery** *(attending)*  
Assistant Secretary for International Affairs | | | |
| Ms. Jennifer **Dorn**  
Alternate Executive Director  
The World Bank | | | |
| Mr. Kenneth **Peel**  
Deputy Assistant Secretary | | | |
| Didier **Reynders** *(not attending)*  
Deputy Prime Minister and  
Minister of Finance  
Belgium | Gino Alzetta  
(Bank)  
Willy Kiekens  
(Fund) | Austria, Belarus, Belgium, Czech  
Republic, Hungary, Kazakhstan,  
Luxembourg, Slovak Republic,  
Slovenia, Turkey | 22 |
| **Alternate Member**  
Jean-Pierre **Arnoldi** *(attending)*  
Administrator General of the Treasury  
Ministry of Finance | | | |
| **Heidemarie Wieczorek-Zeul** *(attending)*  
Federal Minister for Economic  
Cooperation and Development | Eckhard Deutscher  
(Bank)  
Klaus D. Stein  
(Fund) | Germany | 23 |
| **Alternate Member**  
Thomas **Mirow**  
State Secretary  
Federal Ministry of Finance | | | |
| Gerrit **Zalm** *(not attending)*  
Minister of Finance  
The Netherlands | Jan Willem van der Kaaig  
(Bank)  
Jeroen Kemmers  
(Fund) | Armenia, Bosnia and  
Herzegovina, Bulgaria, Croatia,  
Cyprus, Georgia, Israel, former  
Yugoslav Republic of  
Macedonia, Moldova,  
Netherlands, Romania, Ukraine | 24 |
| **Alternate Member**  
Agnes **van Ardenne** *(attending)*  
Minister for Development Cooperation  
Ministry of Foreign Affairs  
The Netherlands | | | |
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<tbody>
<tr>
<td>African Development Bank</td>
<td>Mr. Donald Kaberuka, President</td>
</tr>
<tr>
<td>Arab Bank for Economic Development in Africa</td>
<td>Mr. Abdelaziz Khelef, Director General</td>
</tr>
<tr>
<td>Arab Fund for Economic and Social Development</td>
<td>Mr. Abdulatif Y. Al-Hamad, Director General/Chairman of the Board</td>
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<td>Arab Monetary Fund</td>
<td>Mr. Jassim Al-Mannai, Director General/Chairman of the Board</td>
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<td>Asian Development Bank</td>
<td>Mr. Haruhiko Kuroda, President</td>
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<td>Commonwealth Secretariat</td>
<td>Mr. Donald C. McKinnon, Secretary General</td>
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<tr>
<td>Cooperation Council for the Arab States of the Gulf</td>
<td>Mr. Abdulrahman H. Al-Attiyah, Secretary General</td>
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<td>Council of Europe Development Bank</td>
<td>Mr. Raphaël Alomar, Governor</td>
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<td>Development Assistance Committee</td>
<td>Mr. Richard Manning, Chairman</td>
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<td>European Bank for Reconstruction &amp; Development</td>
<td>Mr. Jean Lemierre, President</td>
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<td>European Commission</td>
<td>Mr. Louis Michel, Commissioner for Development and Humanitarian Affairs</td>
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<td>European Investment Bank</td>
<td>Mr. Philippe de Fontaine Vive, Vice President</td>
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<td>Food and Agriculture Organization</td>
<td>Mr. Jacques Diouf, Director General</td>
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<tr>
<td>Inter-American Development Bank</td>
<td>Mr. Luis Alberto Moreno, President</td>
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<tr>
<td>International Fund for Agricultural Development</td>
<td>Ms. Cheryl Morden, Director, a.i., North American Liaison Office</td>
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<tr>
<td>International Labour Organisation</td>
<td>Mr. Juan Somavia, Director General</td>
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<tr>
<td>Islamic Development Bank</td>
<td>Mr. Ahmed Mohamed Ali, President</td>
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<tr>
<td>Nordic Development Fund</td>
<td>Mr. Jens Lund Sørensen, President <em>(not attending)</em></td>
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<tr>
<td>Nordic Investment Bank</td>
<td>Mr. Johnny Akerholm, President and CEO</td>
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<tr>
<td>OPEC Fund for International Development</td>
<td>Mr. Suleiman Jasir Al-Herbish, Director General</td>
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<tr>
<td>Organization for Economic Co-operation and Dev</td>
<td>Mr. Angel Gurría, Secretary General</td>
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<tr>
<td>United Nations</td>
<td>Mr. Kwame Sundaram Jomo, Assistant Secretary General</td>
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<tr>
<td>United Nations Conference on Trade and Development (UNCTAD)</td>
<td>Mr. Dirk Jan Bruinsma, Deputy -Secretary General</td>
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<tr>
<td>United Nations Development Programme (UNDP)</td>
<td>Mr. Kemal Dervis, Administrator</td>
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<tr>
<td>West African Development Bank</td>
<td>Mr. Issa Coulibaly, Acting President</td>
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<tr>
<td>World Health Organization</td>
<td>Mr. Xavier Leus, Director, Office to the WB and IMF</td>
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<tr>
<td>World Trade Organization</td>
<td>Mr. Pascal Lamy, Director General</td>
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