RECORD OF DISCUSSION OF THE FIFTY-FIRST MEETING
OF THE DEVELOPMENT COMMITTEE

Chairman: Mohamed Kabbaj, Morocco

Washington, D.C.
October 9, 1995

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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 fifty-first meeting on October 9, 1995 in Washington, D.C. The meeting comprised a short plenary session and a restricted session. The members circulated their statements in advance. The plenary session started at 9:00 a.m.

Introductory Remarks

The Chairman made the following introductory statement:

I have the privilege to call to order the fifty-first meeting of the Development Committee. Let me begin be offering a very warm welcome to Mr. Boutros Boutros-Ghali, the Secretary-General of the United Nations. We are very glad to see you here. I would also like to welcome the Members and their delegations, and extend special greetings to the new Members from Saudi Arabia and France, to the Chairman of the Group of Twenty-Four, and the Observers of the Committee.

It gives me special pleasure to welcome Mr. James Wolfensohn, President of the World Bank, to his first meeting with the Committee. He has already made a great impact on our work, and I am enjoying the opportunity to work closely with him and with Mr. Camdessus.

The provisional agenda for the meeting has already been circulated. I assume that we can consider it adopted.

The agenda is adopted.

Let me summarize briefly the arrangements for our meeting today. As you know, we have a new format. We will have two sessions this morning and a working luncheon. The first, our plenary session, will be short. In a moment, I will invite Mr. Boutros-Ghali to address the Committee. We shall then hear from Mr. Wolfensohn, Mr. Camdessus and Mr. Niamien, Chairman of the Group of Twenty-Four. After that, I will report some of the main points from the Members' prepared statements which have already been circulated to your delegations. The rest of the morning, from about 10:15 a.m. until 12:30 p.m., will be devoted to our second session, which will be held in the IMF Board Room. This session will be restricted to the Members, their two associates, and World Bank Executive Directors.

At the start of the restricted session, I will, if it appears to be needed, set aside 15 minutes for Members who may wish to make brief concluding remarks on the Implications of the Social Summit for the Bretton Woods institutions. We shall then consider the rest of our agenda before moving to the Members' only luncheon to be held from 12:30 p.m. to 2:30 p.m. There will be no afternoon session. The Press Conference will be convened at 3:45 p.m.

It is a great honor to welcome to the Development Committee, for the first time, the Secretary-General of the United Nations. In a few days the Secretary-General will preside over the fiftieth
anniversary celebration at the United Nations. I am sure I speak for all of us in wishing Mr. Boutros Boutros-Ghali and to all his colleagues in the rest of the United Nations family our warmest congratulations. We are extremely pleased to have you here today.

Statement by the Secretary-General, the United Nations

Mr. Boutros-Ghali, the Secretary-General, made the following statement:

This is the first time that the Secretary-General of the United Nations has addressed the Ministers in a meeting of the Development Committee of the World Bank and IMF. Your invitation to me is a symbol of solidarity within the United Nations' family. I very much welcome this opportunity.

This is because I attach the utmost importance to the relationship between the United Nations and the Bretton Woods institutions. Indeed, it is worth recalling that the Bretton Woods Conference was officially called "The United Nations Monetary and Financial Conference."

In recent months, I have held a series of meetings with the President of the World Bank and the Managing Director of the IMF to deepen and strengthen this relationship. I will continue to do so.

Our three institutions -- the United Nations, the World Bank, and the IMF -- are critical to international progress. Each has an essential role to play. We are all engaged in peace-building. Our work is a continuum. Our strong conviction is that without real peace there can be no sustainable development. What we need today is a return to the spirit and vision that prevailed at the end of the second world war.

I also welcome this opportunity because I would like to share with you some of my thoughts and concerns on this fiftieth anniversary of the United Nations. I particularly welcome the fact that you have chosen, as your main theme for discussion, the implications of the World Summit for Social Development. The follow-up to the Summit provides us a unique opportunity for a renewed concerted attack on poverty. An essential condition for progress in this direction will be a truly joint effort between the United Nations and the Bretton Woods institutions, together with the other agencies of the UN system.

In 1989, the Berlin Wall came down, and the Cold War effectively ended. New prospects for international cooperation for peace, security and development, based on the original promise of the Charter, opened up.

Many new tasks were given to the United Nations. In countries such as Angola, Cambodia, El Salvador, Mozambique and Namibia, the United Nations mounted major, comprehensive peace missions. They were unprecedented. They involved rebuilding divided and war-torn nations. Institutions had to be reconstructed. Factions had to be disarmed. Elections had to be organized. Those missions often had to make peace and keep peace at the same time. They were dangerous, complex and expensive. They were also successful.

If one lesson has been learned from these five years of experience, it is that work for peace and development cannot be separated. They are part of a continuum. Today's conflicts -- as in Bosnia and Rwanda -- call for a response to the challenges of peace and development.
And we face other new challenges. There is a world refugee crisis. Massive population movements are caused by both man-made and natural disasters.

Other threats come from transnational crime, terrorism, narcotics, money-laundering, illicit arms trade, and the spread of new forms of diseases. There is the threat of nuclear proliferation, and of Chernobyl-like disasters.

There is concern about environmental damage, population growth, human rights, the status of women, unemployment, and social despair and decay.

We are having to rethink many of our old ideas. The series of landmark conferences, of which the Copenhagen Summit has been an essential part, has been redefining the new global issues. Through these conferences, and the ongoing debate on an agenda for development, the United Nations is contributing to a fundamental reexamination of development strategies. Together, the organizations of the UN system are engaged in a process aimed at nothing less than restoring to development issues the urgency they deserve. The Development Committee has a crucial role to play in this process.

By development we now understand not only economic growth, but also the protection of the environment, the search for social justice, the promotion of human rights and democracy, and the reconstruction of war-torn countries. Each of these dimensions is important. Each responds to the wishes of the world’s peoples. Each represents a different facet of development. All these challenges require effective international cooperation for peace and development. They all require strong, effective cooperation between the United Nations and the Bretton Woods institutions.

But today the question must be asked -- will the United Nations be able to play its role? Can it continue to be a partner in global development?

I have come here at a moment of grave crisis for the United Nations. This crisis has arisen not because our spending has gone over budget, but because contributions to finance mandated activities, with budgets scrutinized in detail and approved by member states, have not been paid. We are not allowed to borrow against such unpaid contributions or charge interest for delayed payment.

Today, the United Nations is owed a total of US$3,242 million. Some 70 countries have not paid their regular budget assessments.

For almost four years, I have been trying to convince the governments of member states to pay their assessments on time.

In 1992, in my report to the Security Council, An Agenda for Peace, I reported a long list of proposals for financial reform made by my predecessor and gave them my support. I put forward recommendations for financing operations for peace.

In 1993, under the auspices of the Ford Foundation, the Volcker-Ogata Report put forward serious proposals for financial reform.

In meeting after meeting with Foreign Ministers and Heads of State, I have stressed the deteriorating financial situation.
In June this year, I sent a letter to the Heads of State of the G-7 prior to their Summit in Halifax, suggesting, inter alia, that the United Nations be authorized to issue bonds as a means of preventing financial collapse. Such bonds have been issued twice before.

I am now addressing myself directly to you. I urge you, Ministers of Finance, to ensure that your countries' financial obligations to the United Nations are met in time and in full measure.

At the United Nations, we have not been idle in the face of this crisis. We have cut expenses. We have streamlined operations. We are working hard to reduce waste, duplication and overlap where they still exist. We are managing by trimming approved budgets and postponing payments to troop contributors and suppliers. This makes it difficult to fulfill our mandates adequately.

Because we cannot honor our financial obligations, the countries contributing troops and material to our peace-keeping forces are having to shoulder the bulk of the costs of these operations themselves. Today, we owe troop contributors US$900 million.

These countries include a number of developing nations, which can ill afford to bear such a heavy burden.

I have been forced -- in order to reduce peace-keeping expenses -- to reassess peace-keeping operations from a financial perspective. For example, the United Nations' presence in the former Yugoslavia costs close to US$5 million a day. We simply do not have the money to meet the expenses for this operation.

There can be no sustained development without peace. Peace is a prerequisite for development. There is no peace in Afghanistan, Burundi, Liberia, Rwanda, Somalia, Sudan, Tajikistan, the former Yugoslavia and in many other places.

It is not these countries alone that must concern us. Conflict is a disease. It spreads from one country to another. The conflict that started in Liberia has spread to Sierra Leone. The conflict that started in Afghanistan has spread to Tajikistan. The conflict that started in one part of the former Yugoslavia has spread to others. War must be stopped before it spreads.

The financial crisis of the United Nations is being felt on the frontlines. Emergency measures to restore financial health are needed. If action is not taken quickly, human suffering will increase. People will die. The financial crisis of the United Nations is now affecting the very foundations of this world organization. We can no longer pretend otherwise. The structural ability of the United Nations to continue its work is under threat.

As Ministers of Finance, you understand my problem and my message. If anyone can make a difference, you can. I ask you to help ensure that Governments pay their arrears and future contributions on time and in full.

The challenges which the world presents to us today require cooperative action. All levels of the international system, as well as regional, national and local action must be involved. All the mechanisms at our disposal for international cooperation must be strengthened and wisely employed.

The United Nations is one of the most important mechanisms, but it is facing the worst financial crisis of its 50 years history.
That is why I appeal to you today.

Statement by the President of the World Bank Group

Mr. Wolfensohn made the following statement:

I am delighted to welcome the Secretary-General and to meet with the Development Committee for the first time.

As you know from my recent letters, the success of the Development Committee is extremely important to me. There have been many complaints in the past -- and not without reason, I gather -- but Mr. Kabbaj, Mr. Camdessus, and I are committed that we must do better. We anticipate that the changes in the format for our discussions will help us to do better.

This group, representing the entire membership of the Bank and Fund, has a great opportunity to influence the policies and directions of these institutions -- and of development itself. By confronting current issues of ministerial significance, we can make a real difference.

The challenges facing us are enormous. My travels since June to nearly all the regions represented here have made clear to me just what a tough and exciting assignment this is. I need your guidance and support -- today and in the future.

That is why I have placed so much emphasis on increasing the efficiency and effectiveness of the Committee. And so I look forward eagerly to our conversations later this morning and at lunch.

As I think about the future of the Bank Group, one conclusion is already very clear: we must work closely with others in real partnerships -- most of all, of course, in close alliance with our member governments and their peoples, but also with our other partners in the development business.

That is why I am so pleased that, at my initial meeting with this Committee, we have with us, for the first time, my good friend, the Secretary-General of the United Nations. His presence, as we join in marking the fiftieth anniversary of the United Nations, symbolizes to me the importance of the Bank Group and other members of the United Nations family working ever more closely together to promote sustainable development and peace -- which, in my view, are mutually reinforcing.

This is also a good opportunity to welcome to this Committee the World Trade Organization and its distinguished leader Mr. Renato Ruggiero. The Bank and the World Trade Organization expect in a few weeks to have completed a formal agreement on collaboration. But we are not waiting for that piece of paper to ensure this partnership works for the benefit of all our members.

In fact, the Secretary-General, Mr. Ruggiero, Mr. Camdessus and I have already begun to meet regularly every three months to ensure close coordination between our very closely linked institutions.

I consider it especially opportune that the issues on today's agenda are at the heart of the Bank's agenda -- poverty reduction and the great need for adequate concessional resources for the poorest countries. These issues were central to the Copenhagen Social Summit and they featured prominently in the work of the G-7 summit in Halifax, the Beijing Conference, and the G-24's discussions here just two days ago.
Let me repeat what I told Bank staff on my first day here: that I believed that they were here for the same reason I now work here, and for the same reason we are all here today -- because we care about people, poverty, social justice and a better world for our children and grandchildren. These dreams and objectives must be our guiding lights.

As part of the Bank Group's effort to fight poverty, we are increasing our emphasis on helping our members to make even more efficient use of scarce development resources. And we will do all we can to develop objective indicators and improved analytical tools to help governments and investors make choices based on how resources can be used most effectively to improve the quality of people's lives.

I know that some of you were concerned that we could not take up all the important Social Summit-related issues today. But I want to assure you we will review with great care your prepared statements on the Social Summit Implications issues paper.

In this context, let me reiterate two points about the social impact of the Bank's work -- points that I stressed in Beijing last month. First, speaking of structural adjustment, I said that we wanted no unfeeling nor automatic conditions, and that we will ensure that economic considerations are matched with social considerations in the programs we support.

Second, building on a theme that my late predecessor, Mr. Lew Preston, emphasized, I challenge all of us to establish more ambitious goals for educating children, and especially girls -- which all the evidence indicates would have a revolutionary effect on the lives and incomes of hundreds of millions of people.

These points would be high on my agenda for action by the Bank.

Reaching the Social Summit goals in the poorest countries depends on how effectively resources are used. But it depends also on the availability of adequate amounts of concessional financing. And yet, we know that official development assistance, rather than increasing, is declining.

Of greatest concern is the current uncertainty about the future of IDA. In fact, IDA faces the most serious funding crisis in its history. U.S. Congressional budget cutting has led to delays and likely large reductions in the size of the U.S. contribution. And because of burden-sharing among donors, for every dollar cut by the United States, IDA could lose $5.00. This means that overall donor contributions to IDA could be cut by over 50 percent.

This would threaten not only IDA's own projects and its contribution to the efficient use of resources, but also the long-term viability of multilateral financing for development. The drop in official flows since 1991 has not been compensated by private flows, more than 80 percent of which have gone to only 12 countries. Consequently, IDA has become a much more critical component of external financing for poor countries. Net flows from IDA have increased from US$4.4 billion in 1991 -- or 8 percent of official flows -- to US$5.6 billion in 1994 -- or 12 percent of official flows.

It is worth reminding ourselves of IDA's mandate and constituency:

- the 78 IDA-eligible countries are home to 3.2 billion people -- 65 percent of the population of the developing world;
IDA is both an important financier and advisor -- for example, on policy reforms, two thirds of IDA lending goes to the 29 countries with the strongest implementation of their own policy reform programs;

IDA is crucial to investing in people -- and is now the largest external provider of resources in the poorest countries for education, health, nutrition and AIDS prevention;

and IDA is crucial to poverty reduction.

Moreover, the need for IDA in many countries is increasing:

- more and more countries are deepening their economic reforms and require IDA's continued support;
- new countries have become eligible for IDA financing -- seven countries since IDA-10 and two more, Cambodia and Vietnam, have started borrowing again;
- and many urgent projects are already in the pipeline for IDA support-- schools, health services, water supply, agricultural extension, and more.

All this is at risk.

At this time, therefore, we ask every donor to exercise the utmost flexibility to ensure adequate funding for IDA in spite of expected shortfalls in the U.S. contribution. We also need, collectively, to make every effort to convince the United States to return to its traditional position of leadership in IDA.

Today, we must demonstrate to the world the solidarity that exists in this forum: to protect and strengthen IDA as the centerpiece of the multilateral effort to help the poorest countries.

This must be our number one priority.

For the poorest, most heavily indebted countries, adequate IDA financing -- used for productive investment -- will also be part of the solution to their debt problems. And let me just add a word on that subject.

Despite what you may read in the newspapers, we are still at an early stage in developing specific proposals to address the issue of multilateral debt. We have done further analytical work since the Committee's last session, and we have discussed this work with the Executive Boards -- as reflected in the progress report on our agenda today.

Mr. Camdessus and I agree on the need to continue this effort and, of course, we will keep you informed as it advances.

I am confident that today we can strengthen and renew the international partnership that this Committee represents. Working together, I believe we can make it more effective than in the past -- and that it will be a vital resource as we move ahead to fight poverty and improve the quality of life for people everywhere.
Mr. Camdessus made the following statement:

Let me first join in welcoming Mr. Boutros Boutros-Ghali to this meeting, and underscore the value I attach to our close personal working relationship and to the harmonious collaboration between the Fund and the United Nations. Then I would like to congratulate Mr. Wolfensohn on his appointment as President of the World Bank, and say how much I am enjoying working with him. Let me reaffirm my determination to maintain -- and indeed strengthen -- the close collaboration that has existed between our institutions. I would also like to mention the importance I attach to the close working relations established with the World Trade Organization.

I welcome the changes in the format of our meeting; these should help enhance the Committee's effectiveness. I join those who hope that the Committee will provide a forum for Ministers to discuss openly the wide range of development issues. The Fund stands ready to contribute to the Committee's work. The mandate of the Committee -- the transfer of resources to developing countries -- remains of central importance to the work of the Fund. Indeed, through its policy advice and financing, the Fund has paramount responsibility for catalyzing financial resources for developing countries implementing sound policies. Let me stress in this context that for the poorest half of the Fund's members, the ESAF is an indispensable instrument for this purpose. I am gratified by the consensus which exists now for the continuation of ESAF-type operations after the currently available resources are fully committed. The continuation of ESAF operations is also the centerpiece of any Fund strategy for resolving the problem of countries that are heavily indebted, including to multilateral institutions. I am encouraged by our preliminary examination of the options for financing a continuation of ESAF; we now need to look for a consensus that involves a contribution by the Fund and by individual members in a spirit of evenhandedness and fair burden sharing. We know that it is a difficult challenge that we must meet.

Countries' adjustment efforts under the ESAF must be seen in the context of prospective aid flows, and changes in the aid environment. Unfortunately, aid flows are expected to continue to decline in real terms, especially for balance of payments support. At the same time, donors are applying greater selectivity -- and rightly so -- concentrating aid among the stronger performing, poorest countries. These changes in the aid environment have important implications for donors and recipients alike. I have sketched my thoughts in my written statement (DC/95-19), and have pointed to the critical importance of donors maintaining adequate concessional support for the poorest countries implementing strong reform policies. In this context, I want to reiterate the critical importance the Fund attaches to a successful replenishment of IDA. This is crucial not only to enable the World Bank Group to carry out its mission, but also to secure the viability of the international network of concessional assistance, of which IDA is the linchpin. I would also underscore the responsibilities of recipients of aid to ensure that these scarce resources are used efficiently.

Let me mention briefly that the Executive Board has recently examined the scope for strengthening the Fund's role in countries emerging from periods of conflict. We have heard a moving account from the Secretary-General of the United Nations' work in post-conflict situations, and he has appealed for financial resources for the UN to continue this work on the scale required in so many troubled areas of the world. Money spent to ensure peace is surely more productive than money spent to rebuild from repeated conflicts. There is a great payoff to the work that assures that countries can move from initial, halting steps toward peace to the security brought about by genuine development. The Fund attaches great importance to close cooperation and coordination between the Bretton Woods
institutions, regional development banks, the United Nations, and bilateral donors, in supporting countries emerging from conflict. Our review of experience underscored the importance of one party - whether a country or multilateral agency -- taking a strong lead in coordinating the international effort in these cases. Let me note our appreciation for the work by the UN currently under way on Angola. For its part, the Fund will continue to provide technical assistance and policy advice in its areas of expertise at the earliest possible moment in post-conflict cases. I am pleased to be able to report the Interim Committee's endorsement of the Executive Board's decision to expand the scope of the Fund's Emergency Assistance policy, which will help make possible the early provision of Fund resources in certain post-conflict situations.

Let me turn briefly to the first agenda topic of this morning's meeting -- the Implications of the Social Summit for the Bank and the Fund. It is no exaggeration to say that public expenditure policies have a special place within the broad framework of policies for sustainable growth and alleviation of poverty -- one of the main goals of the Summit. Experience has shown that macroeconomic stabilization is necessary -- but not sufficient -- for high quality growth. Countries should reorient fiscal policies to allow an increase in both the level and efficiency of social sector spending. I would note in particular the very high rates of economic return to primary education and basic health care, particularly for women. Moreover, carefully targeted safety nets can make an important contribution to mitigating the social costs of adjustment. In many cases, increases in social sector spending require the elimination of unproductive spending -- including excessive military spending. In other cases, there is a need for efforts to enhance governments' revenue mobilization. And we must not lose sight of the critical needs in many of our members to strengthen institutional capacities; to design expenditure programs carefully to ensure that services are delivered efficiently; to implement labor market policies that create employment opportunities; and to strengthen governance. In this context, let me stress the increased emphasis placed on social sector issues under the ESAF; this approach will continue.

The Fund has already begun to strengthen its role -- in collaboration with the Bank and donors -- in helping countries to analyze public expenditure, and to elaborate and implement efficient expenditure programs that fit with both development priorities and medium-term macroeconomic frameworks. But, to be sure, more needs to be done here. In this connection, I am very pleased to note that Mr. Wolfensohn and I have issued guidelines to our staffs intended to enhance Bank-Fund collaboration on public expenditures issues, in part so that our advice could take better account of basic social purposes. We are also strengthening our work in the area of social safety nets.

In conclusion, I look forward to reading Ministers' statements on how they believe we should help countries achieve the objectives of the Social Summit, and how donors and recipients alike can contribute to these objectives.

Report on Group of Twenty-Four Meeting

Mr. Niamien, Chairman of the Group of Twenty-Four, summarized the main deliberations of the Group of Twenty-Four in the following statement:

On behalf of the G-24, I would like to pay tribute to the efforts of the Chairman of the Development Committee for the last six months.
I would also like to express my deep gratitude to Mr. James Wolfensohn who, after taking up his duties, selected Africa as the first stop on his fact-finding trip to learn about the realities of the problems facing the developing countries.

Since our last meeting in April 1995, the new data now confirm that despite a slowdown in growth in the industrial countries, the international economy has without question entered an encouraging phase, notwithstanding a context of moderate inflation.

The developing countries have made an important contribution to that expansion of the world economy thanks to the continuing liberalization of their economies.

I am delighted that the report prepared by the World Bank staff on the transfers of real resources shows a marked increase of such transfers to the developing countries as a group for the period from 1991-93. However, that increase was not evenly distributed for all the member countries of the group. In fact, long-term net flows to Sub-Saharan Africa and Southeast Asia, where most of these poor countries are located, have declined. I consequently urge the international community to mobilize additional resources for those regions.

Unfortunately, World Bank Group net transfers to a growing number of developing countries are negative. I strongly urge the World Bank to reverse this trend by reviewing its lending conditions since it has been shown that the decline is due to its restrictive and unnecessary conditionalities and lending procedures.

If the developing countries are committed to continuing their macroeconomic and structural adjustment efforts, the international community must support those efforts by making sufficient concessional resources available.

In this connection, it is deplorable that several international mechanisms that support development, in particular IDA, are running into serious financing obstacles in certain large industrial countries. The funds pledged under IDA-10 have not in all cases been fully mobilized and the prospects for a major reduction in resources under IDA-11 are increasingly real. I would like to take this opportunity to appeal to the donors in general, and the United States in particular, to demonstrate a firmer resolve by considering the amount of their contributions to IDA-10 in order to maintain their initial commitments, and increasing their contributions to IDA-11.

On the subject of debt, I applaud the recent initiatives taken by the Paris Club with regard to bilateral debt relief for the low-income countries, in particular the implementation of the Naples terms.

As for multilateral debt, although its share of the overall outstanding debt of the developing countries is on the rise but still reasonable, debt service levels today are untenable -- about 40 percent. I note the establishment of a World Bank task force to study the possibility of a global settlement of multilateral debt. Since the external viability prospects of the developing countries remain handcuffed in the absence of a satisfactory solution to this problem, I strongly urge the Bank and the IMF to continue discussions aimed at finding mechanisms that will significantly ease the burden of multilateral debt.

For its part, commercial debt continues to be a source of concern in terms of debt stock and service for a number of countries. For the low-income countries, I am pleased with the maintenance
and strengthening by the World Bank of the IDA Debt Reduction Facility. However, the amount allocated to each country is in some cases inadequate given the volume of debt to be restructured.

To conclude, in accordance with the action plan for the Social Summit, the developing countries are aware of the need for their governments to allocate a major share of domestic resources to poverty reduction. I invite the multilateral financial institutions to support -- without imposing conditionalities -- the social development programs formulated by the developing countries.

Chairman's Summary of Points Made in Ministers' Circulated Statements

As you know, we are experimenting with new approaches to the work of the Committee. One major change has been to eliminate oral delivery of plenary speeches by Ministers to allow time for discussion in a restricted session. We are most grateful for your cooperation. We especially appreciate that statements were made available well in advance.

Permit me now to highlight 12 major points, concerning the Implications of the Social Summit, that emerge from these thoughtful statements. As I cannot, of course, do justice to them all, I urge you to review your colleagues' full statements. They contribute greatly to our understanding of the various perspectives represented at this table.

1. The Social Summit Declaration sets forth many objectives of direct relevance to the Bretton Woods institutions and all their members. Our focus is on the fundamental goal of poverty reduction. The Bank, and, as appropriate the Fund, were encouraged to take up in the normal course of business aspects of the Summit declaration not covered by today's discussion.

2. Ministers agreed that policy dialogue with governments could be strengthened by Bank/Fund attention to the level, composition and efficiency of public expenditures. Governments will make their own decisions, but the Bank and Fund should strengthen their joint work to provide the best possible advice to their members.

3. There was, however, a wide array of additional views. Most stressed that public expenditure reviews were a useful tool -- especially if further refined -- in assessing a government's program and its commitment to sustainable economic growth and poverty reduction. But to avoid simplistic judgments, greater attention should also be paid to participatory poverty assessments, country assistance strategies, and other instruments to ensure a broader perspective. This would include, for instance, the increasingly important role played by the private sector.

4. There was also a strong consensus that governments and their peoples need to take ownership of budgets and programs. The Bank, Fund, and donors need to be more sensitive to this issue. Each country has special needs and concerns, and the institutions should be prepared to adapt their advice in recognition of this diversity -- including the special characteristics of countries in transition. Concern was expressed by a number of members that reviews of public expenditures not simply become a new form of Bank/Fund conditionality.

5. There was widespread agreement on the need in most countries for increased budget allocations to the social sectors. For some donors the trends in these allocations to people-oriented programs were an important -- but not the only -- indicator of government commitment to poverty reduction objectives. Many donors stressed their own aid programs were concentrating more on these sectors, and most also
urged the World Bank to further expand its support for human resource development through lending, technical assistance, policy advice and design of improved indicators of effectiveness.

6. Many members, particularly donors, placed great emphasis on governments' reducing their expenditures on non-productive activities -- and urged sources of external finance to do the same. More effective use of scarce resources was a high priority -- whether for social sectors, basic infrastructure, or other productive development areas. Aid donors considered this especially important in generating broader public support in their countries for concessional flows.

7. A number of Ministers urged the Bank and Fund to avoid treading on delicate political issues by making, for example, judgments on the appropriateness of military expenditure levels; others thought more should still be done by the institutions to help interested governments address this area, consistent with existing mandates.

8. Resource mobilization was emphasized by most members, given the critical importance of adequate resource availability to achieving poverty reduction goals. Some members consider the most important challenge before this Committee is to reverse the current overall decline in concessional flows. Many members also encouraged the Bank and Fund to help governments increase domestic revenues and savings to help meet priority needs.

9. Ministers also looked beyond budgets and studies to emphasize implementation of poverty reduction programs on the ground. While this is governments' primary responsibility, of course, donors and especially the World Bank have special obligations as well. Mr. Wolfensohn's efforts to improve the efficiency and effectiveness of the Bank's implementation work were widely endorsed.

10. A number of donors indicated their aid programs would further concentrate support on those recipient governments committed to strong poverty reduction programs. Some were also prepared to assist these governments by focussing less on projects and more on sector support and other administratively less burdensome approaches.

11. A number of Ministers stressed the need for improved international coordination to achieve poverty reduction objectives -- including closer collaboration of the multilateral development banks, better use of Bank-led consultative groups, improved coordination with the United Nations and its agencies, new mechanisms such as the Consultative Group to Assist the Poorest, and so forth.

12. More generally, a number of Members discussed the ambitious objectives of the Social Summit. They stressed both the importance and the difficulty of reaching Summit goals for social cohesion and stability. While complimenting the Bank for its pioneering poverty reduction work, they also urged the Bank to expand its attention to labor-intensive patterns of growth, participation, gender issues, problems of the family, and other approaches designed to reduce inequalities and increase the sustainability of poverty reduction programs by member governments.

This completes my summary on the Social Summit topic. As we will take up other matters in your statements more fully in our next session, it is enough to say that nearly all Ministers emphasized the importance of IDA to achievement of poverty reduction goals. They urged satisfactory and speedy resolution of the current funding problems. A significant number also expressed support for the work now under way in the Bank and Fund on multilateral debt issues. Many also expressed full support for the changes in format, approach and style we are now implementing in the Committee's work.
The plenary session was then adjourned at 10:10 a.m.

Prepared Statements by Members, Circulated in Advance, on the Implications of the Social Summit and Other Agenda Items

Statement by Mr. Ibrahim Abdul Karim (Bahrain)

Despite the expansion of the world economy during past decades, the incidence of poverty affecting huge numbers of people remains a serious problem. In recent years, the heightened awareness of the poverty issue by the development community generated global consensus for the need to focus attention in development efforts on poverty reduction and equity. Almost all Country Assistance Strategies agreed upon between the World Bank and borrower countries include poverty reduction as a central theme and a key objective in action programs. While poverty reduction is now recognized as an integral part of a comprehensive development strategy, approaches and interventions that can be most effective in addressing poverty concerns are still needed to achieve concrete results on the ground.

The effectiveness of an antipoverty strategy requires an unwavering commitment by governments to pursue the goal of poverty reduction and equitable growth that benefits all, particularly the poor. Such commitment should also reflect countries’ ownership of policies and programs aimed at attacking poverty. In this context, the World Bank and IMF have a critical role to play by assisting countries not only in providing resources to finance activities to alleviate poverty, but more importantly by cooperating closely with recipients on all issues and in all areas involving poverty reduction.

The challenging and daunting nature of poverty eradication calls for attacking the problem on different fronts. One of them concerns the provision of basic social services including health care, education, safe drinking water and sewerage facilities, and nutrition. The size of expenditure allocations in government budgets on these services signals the level of priority authorities give to addressing basic social needs.

The paper prepared jointly by the Bank and IMF addresses "The Role of Public Expenditures in Poverty Reduction." The paper raises some sensitive issues. Nevertheless, I welcome this opportunity to focus Development Committee attention on public expenditures. One issue that raises concern and leads to controversy is whether public expenditure reviews are set to evolve as policy conditions for Bank lending operations. Our main concern is that involvement of donor institutions in this scheme should not draw them into value judgements on sensitive and complex issues for which they have neither the mandate nor the competence to make judgements. In exercising their advisory role and cooperative efforts, the Bank, the IMF, and other donors can certainly point out expenditure policies that are most conducive to poverty reduction objectives. While valuing this advisory role, policy makers are expected to undertake antipoverty programs, based on their commitment to such programs. Within this context, difficult tradeoffs involving political and security considerations, as well as the balance between such considerations and short- and long-term growth and development objectives and targeted poverty alleviation interventions, have to be made.

With this in mind, it cannot be envisaged that public expenditure reviews and poverty assessment undertaken by the Bank would lead to entirely realistic recommendations that would ensure
genuine agreement by borrower governments, donors, the Bank and the Fund. It is difficult to expect complete reliance on expenditure reviews in assessing government performance. It is the entire picture of the country situation and development efforts, including poverty alleviation, that matters in this regard.

The paper also raises the issue of the balance between developmental and non-developmental expenditures, including the sensitive issue of military spending. While one can see the relevance of such balance in development efforts, an involvement by the Bank, the IMF and other donors in this process raises very serious concerns about their mandate and competence for making judgements on the level of military expenditure and other politically and security sensitive expenditures.

With that proviso, I would like to emphasize that growing concern by the development community about the incidence of poverty intensifies the need for closer cooperation between borrower countries, international financial institutions, donor countries, non-governmental organizations, and United Nations Organizations. The World Bank and the IMF can be instrumental in supporting the borrower countries' efforts to reduce poverty by providing resources, technical assistance and advice.

It is, therefore, extremely important to successfully conclude negotiations on the eleventh replenishment of IDA with adequate level of resources to enable IDA to continue its efforts in supporting low-income countries and, in particular, intensify its work in the area of poverty reduction.

Statement by Mr. Hamad Al-Sayari (Saudi Arabia)

The initiative taken by the Chairman of the Development Committee to make the preparatory work and the proceedings of the Committee more focused and issues-oriented is welcome. More than two decades after the Committee was established, it is time to adjust its modus operandi to suit new realities. After its improved effectiveness, the Committee should become the forum where members discuss issues related to the Bank in particular. It should reduce reliance on other forms of consultations that do not involve all the membership. I also welcome the new President of the World Bank Group to this Committee, and wish him well on his efforts to continue to make the Group more responsive to client needs and changing circumstances.

The report "Global Economic Prospects and the Developing Countries: Short-Term Update," presented to this Committee, shows a faster-than-expected rebound in private flows to developing countries after the volatility experienced earlier this year. It is important to acknowledge the corrective measures taken by these countries to restore stability to their financial markets, regain confidence, and allow private flows to resume. The Bank Group, through its ongoing work on private sector development, should take additional initiatives to help more countries benefit from these flows, and to induce a larger share of less-volatile foreign direct investment to these countries.

In view of the shortage of official development assistance to developing countries, the debt burden in a small group of highly indebted low income countries, and the slower-than-expected growth in industrial countries, it is increasingly important for developing countries to persevere with their adjustment policies. To help these countries to better realize their growth potential, more efforts are required to allow developing countries' exports a wider access to international markets, and to help integrate developing countries into the global economy.
Concerning the implications of the Social Summit for the World Bank and the IMF, I concur with the narrowing of the focus of the discussion to the link between poverty reduction and public expenditures. Central to this issue is the ownership of the review of public expenditures by the respective countries' authorities. Consequently, the development of the appropriate local institutional, administrative, and technical capacity to undertake those reviews becomes critical.

Addressing poverty through the review of public expenditures requires the allocation of adequate resources to finance the provision of basic infrastructure services, both social and physical. Equally important is allocating sufficient resources to finance the operations and maintenance of existing infrastructure. This would help improve the standard of living for the poor, and would help alleviate poverty in an effective and sustainable manner, more so if job creation is emphasized in providing such services. The composition of public expenditure, however, mainly reflects the circumstances of the countries concerned and should, therefore, be placed in the proper and specific context.

Key aspects of the relationship between poverty reduction and infrastructure have been well covered in the 1994 World Development Report. The Bank Group has indeed provided significant assistance to its members in this regard.

Looking ahead, developing countries would greatly benefit from Bank Group assistance in project preparation, and from the various available financial instruments to enhance private sector participation in the provision of infrastructure services. The Bank Group could also assist in establishing the appropriate vehicles to make domestic savings available for infrastructure finance. Here, increasingly scarce official development assistance, including IDA resources, should be specifically allocated to projects focusing on direct and proven methods of assistance to the poor.

Moreover, graduating and non-borrowing members of the Bank Group also stand to benefit from its wide experience and technical assistance. Non-lending services by the Bank Group constitute an integral component of its assistance to its members. More efforts are thus warranted to enhance cooperation between the Bank Group and its general membership.

Statement by Mr. Anthony A. Ani (Nigeria)

For a long time, our group of countries has called for reform of the Development Committee in order to enable it to play a more proactive role in facilitating the transfer of resources to developing countries. We very much welcome the new format for the meetings of the Committee which, in our view, will facilitate meaningful dialogue, constructive exchange of views and, more importantly, participation of all members in the discussion. We also believe limiting the agenda items to a few issue-focused topics will help in enhancing the effectiveness of the Committee.

It is now the general consensus that poverty alleviation is the overriding objective of sustainable development. Commitment to this consensus has been given strong impetus by the Social Summit Declaration and Program of Action. Attaining this goal entails concerted efforts from the developing countries themselves, the World Bank, the Fund, and the international donor community at large.

While we are cognizant of the complexity of poverty issues and of the fact that public expenditure management is only one instrument among many that are needed to address this problem,
we also find it appropriate to focus our analysis and assessments on one instrument at a time, as through such an approach a clear division of labor among the different players can be defined.

Public expenditure, or rather the budget, is the main linchpin for all instruments related to poverty reduction; hence we welcome this opportunity to exchange views on the linkages between public expenditure and poverty within the context of the broader issue of the implications of the Social Summit for the World Bank and the IMF. While it is our strong conviction that a well-structured public expenditure program plays a crucial role in poverty reduction and thus constitutes an important building block for restructuring the whole budget, we, as Ministers of Finance, expected to see a paper that deals not only with the role of the Bretton Woods institutions in the area of expenditure restructuring during stabilization and structural adjustment periods, but one that takes the issue in a broader context and covers the instrumentality of financing programs designed to benefit the poor. For a forum such as the Development Committee, which has been set up mainly to address the issue of resource transfers, we believe that discussing the finance issue and the role of the different players in this regard would have been more relevant on this occasion and would have provided us the opportunity of defining the level of commitment of each player to the poverty alleviation objective. We are hopeful that the topic before us now is just a prelude to further dialogue on the issue of funding activities related to poverty alleviation.

The role of the World Bank and the Fund in helping developing countries to restructure their public expenditure in line with the available resources and in streamlining the budget systems through their regular reviews and surveillance is of crucial importance, particularly in those countries with weak institutional and human capacities. However, it should also be realized that the expenditure review process is not only complex, but it also involves many sensitive, and closely intertwined political, economic, social and security matters that have a direct bearing on the issue of sovereignty. It is therefore necessary to clearly define the limits for each player to avoid thrusting both Bretton Woods institutions toward making judgments on matters where they lack comparative advantage and which might fall outside their legal mandates. The role of these institutions should first be of an advisory nature, particularly on streamlining the overall budget process without distorting the priorities and objectives set by the government.

This leads me to the extremely sensitive question of non-economic expenditure. We broadly concur with the views regarding the shifting of resources from lower priority activities in both the recurrent and development budgets toward programs that benefit the poor, particularly social services, infrastructure and labor-intensive activities. It is our view, however, that the Bank, the Fund and donors should support programs that are consistent with the concerned developing countries' political priorities and development objectives, closely coordinate their roles to avoid any duplication in their efforts, and identify the contribution of each in the process.

The issue of military expenditure, in our view, clearly lies outside the mandate of the Bretton Woods institutions. Considerations other than the economic ones come to play here. In particular, it is our view that the Bank and the Fund do not have the capacities that are required to assess the security situation in any country, nor do they have the expertise to lessen any tensions that might suddenly arise. This should not be construed to mean that we condone heavy and excessive defense budgets that absorb resources needed for supporting the poor. The real issue in question is whether it is advisable to press the Bretton Woods institutions to transcend the boundaries drawn by their Articles. Our view is that it will be counterproductive to ask these institutions to play a role other than the one they have played remarkably well thus far, and hence risk their effectiveness in developing countries.
Another widely debated issue relating to military expenditure is the need for restraint on the part of countries producing arms and military equipment in exporting excessive quantities to developing countries. We fully endorse putting an end to all such military transactions and hope the source countries' governments will take serious actions to limit the expansion of arms sales.

As is widely accepted now, reforms although inevitable, are painful, generate massive social cost, and result in a large number of people adversely affected, particularly during the transition period. It is evident from the political and social tension generated by the reforms that policy-makers confront enormous difficulties in soliciting popular support and enhancing ownership of the programs, which is very crucial for their success.

Notwithstanding the efforts of our governments to alleviate the pressure on the poor by setting up safety nets and social funds, we have to recognize that these instruments face severe problems associated with underfunding. We therefore urge both institutions and other donors to intensively examine the issue of how best to protect the poor from the negative consequences of reform programs, and to ensure that adequate resources are mobilized for this purpose.

Public expenditure reviews are not likely to be effective instruments for tackling the poverty problem if adequate data on poverty is not available. Hence, Bank assistance is of crucial importance in this area and we urge management to help countries which have not yet completed their poverty assessment exercises.

All in all, while we appreciate the role of the Bank and the Fund in supporting developing countries' endeavors to restructure their public expenditure with a view to freeing up resources for development and poverty reduction purposes within the context of an overall budget reform, we believe that their involvement should be within the limits drawn in their respective Articles and that their role should be advisory and should be focused on the broader categories of expenditure, leaving the details to the policy-makers. While we also welcome their assistance in mobilizing the requisite domestic resources in those areas that most benefit the poor, we believe that they should be more flexible in the use of their own resources and should fully utilize their catalytic role in mobilizing more external resources.

On behalf of the countries I represent, I would like to add my voice to those who have expressed their profound disappointment with the funding difficulties facing IDA, especially the drastic reduction of contributions to an already negotiated IDA-10 and the likelihood that IDA-11 would be less in real terms than IDA-10. It is quite disheartening to us to see that IDA's very existence is in great jeopardy. For our countries, which are becoming increasingly dependent on IDA resources due to the drastic cuts in resource flows form other sources, this would not only thwart our reform efforts, but would also place the lives of more than the one billion poor in developing countries at risk. Moreover, inability to meet the demands of the poor might compound the challenges our countries face in enhancing the democratization process which is clearly evident in most of these countries. We were comforted by the call at the Halifax Summit last June for all donors to fulfill promptly their commitments to IDA-10 and to support a significant replenishment through IDA-11, and by the ensuing strong message by IDA Deputies at their last meeting in South Africa, where they expressed their deep concern, frustration and anger over the current funding situation, particularly the commitment shortfalls by the United States, and their feeling that it would be unacceptable for the United States to break an international commitment. Regrettably, however, the current events suggest that the situation on IDA funding is getting worse. We therefore urge the U.S. Congress in particular, and the legislative bodies in other countries that intend to follow suit, to reconsider their positions regarding IDA replenishments.
to enable IDA to play its expected role in poverty reduction, the overarching objective of economic
development, which it cannot do under prevailing circumstances. We would, however, like to express
our deep appreciation and gratitude to those donors that have demonstrated their strong commitment
to the strengthening of IDA. We trust that they will forge ahead with working out options that will
protect IDA from any ensuing adverse consequences of the U.S. position.

We very much welcome the ongoing joint effort by the Bank and the Fund in working out
appropriate mechanisms for tackling the multilateral debt burden of the highly indebted poorest
countries (HIPCs). We also note the great strides that have been made with respect to the commercial
and Paris Club debt owed by this group of countries through the IDA-Only Debt Reduction Facility
and the Naples terms. These arrangements provide important building blocks to the long-awaited
comprehensive approach required to resolve the debt crisis currently facing the HIPCs. Given the
preferred status of multilateral debt over other categories of debt, and the fact that the flow of resources
from all sources, including the multilateral institutions themselves is in most cases contingent on
meeting the debt obligations to multilaterals, it becomes extremely difficult to bring the HIPCs debt
service to sustainable levels in the absence of workable arrangements for alleviating the IFIs’ debt
burden. It is also imperative that the HIPCs, on their part, put their houses in order by adopting and
implementing sound macro-economic stabilization and structural adjustment reforms.

It is clearly evident from the experience of the past few years that the existing instruments in
both the Bank and the Fund are not sufficient for resolving the problem of multilateral debt in an
effective manner. Diverting resources, which should be directed to developmental purposes, to the
settlement of debt, in our view, complicates rather than resolves the problem of poverty in these
countries. Hence, debt settlement should not be at the expense of development. Additionality of
resources is pivotal for any workable solution. We therefore strongly urge that the work currently
being undertaken on this issue should be guided by this fundamental fact and that the IDA-11
replenishment, in particular, should not, in the absence of such additionality, contain the setting up of
a new mechanism for resolving the problem of multilateral debt. We look forward to a concerted effort
by the donor community, including the multilateral institutions, to expeditiously put in place a
mechanism that will alleviate the burden of multilateral debt on the HIPCs.

Statement by Mr. Dato’ Seri Anwar Ibrahim (Malaysia)

On behalf of the South East Asia Voting Group, I wish to congratulate the Bank in seeking to
bring the Development Committee into greater focus on issues of policy importance for the Bank and
matters of broad development significance. This would enable the Committee to concentrate on a few
Bank related issues. It would therefore make our meeting here a more effective forum for discussing
development problems and needs.

The Bank’s overarching objective is poverty reduction. It emphasizes a multi-pronged strategy
for poverty reduction based on broad-based growth and investment in education, health and social
services. We, therefore, welcome this year’s discussion by the Development Committee of the
implications of the Social Summit on the World Bank and the IMF, with the emphasis on poverty
reduction. We feel that it is, indeed, timely for international community to follow up on the important
issue of poverty reduction, lest it suffers the ill fate of many other issues of global interest.

The Social Summit held in Copenhagen was an international effort to discuss the lot of the
common people and their social development. It reaffirmed the conviction of the international
community that economic development must go hand in hand with social development. The Summit Declaration and Program of Action have defined effectively issues related to poverty, employment and social integration.

Despite the current longer term optimistic global economic outlook which provides better opportunities for the international community to intensify efforts on social development in general, and poverty eradication in particular, the Summit, for all its good intentions, was not able to break new grounds on international assistance. In particular, the much required new and additional resources essential to assist the over one billion people caught in a spiral of abject poverty did not materialize. The Program of Action, although very comprehensive, will remain a mere document of good intention and share the fate of the Rio Summit Declaration in the absence of strong political will, commitment and leadership to implement and effect its recommendations. The international community must make available sufficient means of implementation to give meaning to its pronouncements of good intentions. The growing sentiment in many donor countries against development assistance, so vital to social development, is therefore particularly worrisome. Its reduction, if any, would have severe repercussions on humankind at large.

Over the past five decades, progress in poverty reduction has been slow and uneven. Poverty remains acute in many developing countries and has even worsened in some regions. Poverty is a multi-faceted issue that requires long-term solutions that are both flexible and multi-pronged. In this respect, it is heartening for us to note that the Bank advocates development through a multi-pronged strategy encompassing broad-based growth and investment in people, supplemented by other policies such as targeting intervention, safety nets and environmental sustainability.

The Summit had highlighted the concept of 20:20 which requires recipient countries to allocate 20 percent of their national budgets to social programs in order to receive 20 percent from ODA. We acknowledge that public expenditure plays a key role in poverty eradication. However, we note that even in its negotiated bilateral form, the concept of 20:20 will not necessarily lead to additional funds for social development and could, in fact, lead to the application of more conditionalities.

We agree that public expenditure plays a significant role in poverty eradication. In the case of Malaysia, the Government's allocation for specific poverty eradication programs has increased more than six-fold over a period of 20 years. In percentage terms, it accounts for more than 16 percent of Malaysia's consolidated development expenditure between the period 1971-1993. However, the allocation of expenditure and the actual level of expenditure spent on social services varies in each country, depending on the extent of financial resources available, the adequacy of the delivery mechanism and capacity. Indeed, many poverty reduction efforts could not be sustained due to the lack of capacity rather than commitment.

Given the inability of many developing countries to raise the required internal resources to match their intentions to reduce poverty, we feel it is illogical to link development assistance to the provision of government allocation. This will do more harm to the poor, as the poorer the countries, the less they are able to devote more resources for poverty reduction. In fact, the developing world is already confronted with many linkages imposed by the North, which serve only to stifle growth. The donor community should share the responsibility of developing countries' governments to sustain efforts to fight poverty. In this regard, we are most disappointed by the outcome of the IDA-11 negotiations and urge donors to make greater efforts in the IDA-11 Replenishment, as well as to fulfill their commitment to IDA-10.
The issue of debt and structural adjustment had featured strongly during the Summit. We support the view that structural adjustments have contributed to higher standards of living in many developing countries that had persevered with these adjustments. Nonetheless, we do not subscribe to the view that "one size fits all." Structural adjustment should not be seen as the only model to be applied to all countries, irrespective of their different economic and political conditions.

Many countries are being pushed deeper into the pit of poverty by the burden of debt servicing. Paradoxically, this comes at a time when they need a clear exit to break the very cycle of debt that has deterred growth. We, in the South East Asia Group, therefore support the call for greater flexibility in the structural adjustment programs laid down by the Bretton Woods Institutions. These Institutions should refrain from introducing and implementing policies which, while seemingly noble and well-meaning, actually undermine the efforts of the developing countries toward economic development.

As for the Bank, we note that its mission to reduce global poverty has been reemphasized. It also has ample instruments and knowledge to tackle the problem. We believe that Poverty Assessment is a valuable instrument and should be used more effectively. Its broad scope should allow the Bank to assess more accurately a country's overall strategy of poverty reduction and its effectiveness. The Public Expenditure Review might be used as a supplementary tool. The Country Assistance Strategy must play a central role in poverty reduction efforts and serve as a joint approach of the Bank Group, the Fund, as well as regional banks. The effort to make effective use of these instruments is crucial and must be intensified. We concur with the view that policy dialogue with greater emphasis on poverty reduction needs to be strengthened. Representative offices in the field should play a more active role in sustaining governments' efforts and focus on poverty reduction.

Greater emphasis should also be given to human resource development and capacity building, including the administrative capacity of governments, which needs to be geared to the efficient and effective delivery of social services.

The Bank should also consider an appropriate facility for financing social projects, such as primary health care in non-IDA countries. The Bank's lending strategy for the social sector should be consistent with the means to achieve it. We therefore urge the Bank and other development institutions to establish a soft-loan facility for social projects in non-IDA countries.

As for the role of the Fund, we endorse the move for closer collaboration between the Bank and the Fund on public expenditure work. Both institutions should draw on each other's expertise wherever possible to ensure that programs and advice provided by the two institutions are consistent and complementary. The focus on public expenditures should form a part of the agenda in order to protect social spending to the extent possible. However, in the surveillance exercise, we feel that such discussion could be repetitive.

In conclusion, we note that the Social Summit goals are very consistent with the mission of the Bretton Woods Institutions. Poverty reduction should be the goal of the global community. All of us have the shared responsibility to sustain governments' poverty reduction efforts. We believe both the World Bank and the IMF have a crucial role to play in providing intellectual leadership, policy advice and financial support to member countries in their poverty reduction efforts. The developing world needs to be given its rightful place, just as the North. Mankind's hope for survival and better life points toward the globalism of all economic and social issues in general, and poverty reduction in particular.
Statement by Mr. Jean Arthuis (France)

The signatories of the Copenhagen Declaration on Social Development (March 1995) officially recognized "the significance of social development and human well-being for all." France holds this principle dear because of its moral value -- the insistence on social integration and justice -- and its economic effectiveness, as social integration and justice promote growth. France has set itself the task of striving consistently to implement this principle through international development assistance, particularly the World Bank.

To this end, the World Bank must focus on three fundamental areas:

First, efforts must be taken to ensure greater efficiency. This implies focusing the Bank's activities, apart from traditional infrastructure projects, on priority sectors such as health, education, sanitation, and water supply.

Second, the Bank must take care to fully involve the recipient countries in these decisions. This implies that the Bank must be willing to decentralize more of its decision-making. The involvement by the Bank's partners should be active. It is the Bank's responsibility to play a supervisory role: it must ensure that its actions are accompanied by the reforms necessary for success. As the Bank must engage in dialogue and take into account the realities of each case, so must its partners show the courage and willingness to take decisions.

Finally, economic growth in the poorest countries must be tangible and real for the inhabitants of these countries, and have an immediate impact on their daily lives. This means that special consideration must be given to the demographic dimension of economic growth. Without population control, official development assistance will not be able to play its role in reducing poverty and unemployment.

The pursuit of greater efficiency in multilateral financing must also be accompanied by continued efforts on the part of donors and lenders. They must continue to provide financial support for governments that implement the policies necessary for their development.

I am gratified that some developing countries are increasingly able to access private financial flows. However, it must be acknowledged that these inputs do not meet all their development needs and have to be supplemented with funding from the international community. Mindful of that fact, I wish to make a sincere appeal that official financing should be concentrated on the poorest countries. If efficiency is the imperative, resources must be concentrated on the countries that are performing, and have only minimal access to private investment. I am thinking in particular of Africa, where many governments have undertaken courageous structural reforms since early 1994. I hope that the international community will support them in this unavoidably long and difficult process.

I am particularly concerned about the difficulties being encountered in IDA replenishment. As I see it, IDA is the cornerstone of our action targeting the poorest countries. It sustains the structural reforms to which we are all committed -- giving priority to the social sectors, including primary education, public health, agriculture, and to private sector development. No other organization has done as much analysis of the conditions necessary for the economic takeoff of the poorest countries; and, this is based on 35 years of concrete experience. I am not suggesting that no mistakes were ever made. France has, at times, expressed its dissatisfaction with some cases. But, the record of the past
35 years shows numerous success stories in cases where the governments fully adopted the proposed recommendations.

If we wish to maximize the likelihood that the reforms recommended by IDA will be adopted by governments, IDA must have adequate financial resources. If we cannot finance the transitional costs of certain reforms, if we can no longer offer financial incentives to governments that decide to implement measures which at times are arduous, the impact of the recommendations made by IDA, and through it the entire World Bank Group, will be largely undermined. There is a level of resources below which IDA can no longer work. Beyond IDA, the ability of the entire international community to act in the poorest countries will be compromised. If IDA can no longer provide sufficient concessional funds to deserving countries, compliance with programs concluded with the IMF will not be possible.

Today our long-term financing in the poorest countries rests on three pillars: the Naples terms of the Paris Club, the enhanced structural adjustment facility of the IMF, and IDA. If one of these pillars is weakened, our entire strategy for the poorest countries might crumble, for these three elements are interdependent.

In order for the Eleventh Replenishment of IDA to be successful, a fundamental principle of an equitable burden sharing in proportion to the wealth of the donors must be respected. The countries of the European Union are already contributing more than their fair share -- 41.5 percent under IDA-10. The United States seems to be shirking its obligations under IDA-10 and now does not appear to be willing to support IDA-11 to a degree commensurate with its capability. There is a limit -- and I think it has already been crossed -- beyond which the process of international cooperation cannot function.

France's number-one priority is a significant replenishment of IDA. If innovations can be introduced, for example in the matter of indebtedness, to IDA mechanisms or after IDA's full replenishment, so much the better. But, we must not lose sight of our main objective, namely long-term financing for the neediest countries. We have spent many years developing our current arrangements for helping the poorest countries. Our priority must be to safeguard them before we think about new facilities.

This brings me to the issue of multilateral debt. In bilateral terms, France in recent years has forgiven US$11 billion debt of the poorest countries; this example could be emulated by other creditors. Likewise, the development banks, each in accordance with its own procedures, could earmark a portion of their own funds to relieve the pressure of debts owed by these countries. It is in this spirit that France is willing to help in the quest for solutions which, in tandem with the existing facilities, ensure that the outstanding debt to the international development institutions does not sap the financial viability of the borrower countries. However, the tenets underpinning the multilateral development aid system must not be neglected:

- We must safeguard at all costs the financial soundness of these institutions.
- We must ensure complete equity of any new initiatives, among donors and beneficiary countries alike.
- We must not lose sight of the most important objective -- financing the development needs of the poorest countries.
Consequently, it is only when IDA has been successfully replenished that we can contemplate financing new initiatives within its scope, strengthened if necessary by the mobilization of the net income of the World Bank, to reduce the debt burden of the poorest countries.

Mr. Chairman and dear colleagues, we must be creative in finding rapid solutions that are viable and conducive to the sustainable development of the poorest countries.

I would be happy to entertain any constructive proposals, and I congratulate Mr. Wolfensohn for the dynamism and enthusiasm that he has brought to his efforts thus far.

**Statement by Mr. Orlando Bareiro Aguilera (Paraguay)**

On behalf of the countries I represent, I should like to thank the Chairman of the Development Committee and the new President of the World Bank for their continuing efforts to make this Committee an effective vehicle for discussions on development issues, in particular the transfer of resources to the developing countries and, no less importantly, their relations with the World Bank and the International Monetary Fund.

In that connection, my comments today will address the implications of the Social Summit, held in Denmark from March 6 to March 12, 1995. The main themes of the Summit were poverty reduction, employment generation, and social integration. One of the most relevant issues for the multilateral institutions is the need to increase financial and technical assistance resources for social development. Equally important is a continuing emphasis on social policy in the adjustment and economic reform plans our countries have undertaken.

The function of governments will continue to be that of maintaining and implementing stable sectoral economic policies that strengthen the private sector in a context of sustainable economic development, that generate productive jobs, and that seek to eradicate poverty. The government budget is recognized as an instrument that can be used to make sizeable transfers to the most disadvantaged segments of a population and to put into effect a social policy consistent with the needs and resources of the country concerned.

However, it is important to understand that, although the budget includes social expenditure, it cannot replace a national social policy. It has been proven, especially in a number of Latin American countries, that even in crisis situations countries with social policies are still able to assist their most disadvantaged population groups. For this to occur, however, there has to be a clear commitment to the alleviation of poverty as defined in the particular country's social policy. World Bank studies demonstrate that in many instances social projects are included in a government's budget as a result of the availability of external resources and not as an integral part of national social policy. Generally speaking, this occurs because of inadequate coordination of measures in the social sector, where a not infrequent consequence is duplication in the delivery of basic social services while other groups are left totally unprotected.

It is no less important to recognize that there are resource-poor countries which, for all their effort, find that their funds earmarked for social policies are insufficient to support effective anti-poverty measures and the generation of productive employment.
In considering the national budget as an instrument of poverty alleviation, we come up against a multitude of problems that tend to undermine the effectiveness of public expenditure.

One of the major problems is to ensure that resource allocation is optimal. Intrasectoral reallocation has generally been regarded as essential in funding programs in the social sector, frequently without any question as to what real returns are being obtained from the social standpoint. For example, elimination of resource transfers to state enterprises with no social function and their reallocation to education and health is accepted in and of itself as a major strike against poverty. However, optimal resource use can equally well be assured by transfers within the same sector.

Public expenditure reviews are therefore of great importance, but only when accompanied by poverty studies and comparative analyses of social sector spending. This is one of the chief areas where the World Bank should continue coordinating its efforts with member countries in order to ensure that this work is as thorough as necessary and readily accessible for use as an instrument of development.

Another major reason why resource allocation is less effective than it could be is the lack of efficient government management of social development matters. A further complication can arise when there is inadequate coordination between government social agencies and the Ministry of Finance, which allocates resources to the social sector on a program basis and not on a basis of a well-targeted response to changing needs.

In other instances, however, institutional weakness can be ascribed to a scarcity of qualified personnel or to bureaucratic red tape. In either case, the resulting problems tend to undermine the efforts of governments to attend to the social needs of their populations.

Despite these shortcomings, governments should continue using budgets as one of the instruments for reducing poverty, through projects with high social and economic rates of return. But they need to do so scientifically and systematically. With that in mind, I should like to propose that the following reforms be introduced, some internationally and others nationally.

At the international level, one of the key conclusions of the Social Summit concerns the need to make adequate funds for social sector programs available to the poorest countries. This is regarded as the most important mission of multilateral organizations like the World Bank.

The multilateral institutions should engage in an ongoing dialogue with governments on national budget appropriations for social sector spending. If this dialogue is supplemented with poverty studies, governments will be in a better position to target groups that need assistance. In cases where governments decide to create social safety nets, the Bank has sufficient experience to provide them with substantive support in their efforts.

At the national level, first, while the problem of financing social expenditure is fundamental, much depends also on the studies and similar initiatives that are the province of Finance Ministries and government departments and agencies with responsibilities in the social sector. A major goal of this investigatory work should be the development of objective indicators through which to evaluate the effectiveness of the various types of social program.

Second, on the premise that governments have a legitimate stake in reducing poverty, reallocation of resources to the social sector can be effected through a comprehensive budget. Where
there is a possibility of cuts in funding for the social sector, the appropriate course may be to isolate the sector from the rest of the budget.

Third, in order to ensure greater cost-effectiveness, there should be a concerted effort to eliminate all unnecessary duplication of functions. Budget resources should also be channeled in such a way as to encourage the decentralization of social programs. At the same time, steps should be taken to foster community participation and grass-roots involvement, which can generate resources additional to those from government sources and the external sector.

Lastly, I should like to suggest that mechanisms be set up to ensure that resources are transferred with the greatest possible transparency and that social expenditure is effectively targeted. In the final analysis, it is the evaluation systems in place that will gauge the impact of the social spending that governments have budgeted for as part of their poverty reduction efforts.

In closing, I should like to refer briefly to international financial assistance and the problem of debt. In keeping with the spirit of recommendations emerging from the Social Summit, the April meeting of the Development Committee and the G-7 Summit in Halifax, we believe it is vitally important that everything possible be done to see that the level of official development assistance is adequate, and in the case of IDA-11 that the level of replenishment is consistent with the needs of the countries that utilize these resources. In this same vein, we support the related measures focused on the quest for an integral solution to the external debt problem of the highly indebted low-income countries, which through simultaneous structural reforms and policy innovations are in the process of restoring their balance of payments viability. This search for solutions should also be based on the criterion of conserving the World Bank's financial soundness and its high bond ratings in the international markets.

Statement by Mr. Franz Blankart (Switzerland)

First of all, I would like to congratulate and thank the President of the World Bank for the dynamism he has shown since he assumed his office just four months ago. We very much appreciate the refreshing wind which appears to be blowing through the Bank and which is also felt in the Development Committee. In this respect, let me thank both Mr. Wolfensohn and the Chairman for the personal commitment they have shown toward reviewing the Development Committee procedures. I am sure that the new format proposed for the meetings of the Committee will strengthen the Development Committee and allow it to fully play its policy shaping role.

I fully endorse the agenda of this meeting, especially the selection of the topics for the restricted session. In fact, I have the impression that while the views of the members of the Development Committee on the principal subject, i.e., the implications of the Social Summit for the World Bank and the International Monetary Fund, will be rather similar, the discussion on the other topics will certainly require a more in-depth exchange of thoughts among us.

I would like to thank the Joint Secretariat for having clearly defined the actions the Bank should take in order to achieve the goal of the Summit, i.e., poverty reduction. Although some members of the Committee might find that the focus of this paper is too narrow, as it only refers to the role of public expenditures, I think that the choice of this aspect as the cornerstone of the document is appropriate. In fact, this issue is crucial and of direct relevance to the Bank's activities.
The Social Summit was the occasion to examine the results of more than 30 years of development efforts by developing countries, with the assistance of multilateral and bilateral cooperation agencies, to improve the living conditions of their populations. Despite the substantial progress achieved, the delegates at the Social Summit concluded that global results were not satisfactory. In some countries the situation of the poorest clearly has deteriorated. This lack of success is certainly not due to a lack of good intentions. Nevertheless, I think that we must find new ways to reach this goal.

One way to achieve a better result would be to ensure strict monitoring of the social aspects of development and to include a monitoring mechanism in every public program supported by the World Bank and other agencies, in order to assess its impact on the poorest fifth of the population.

There is also a consensus that investments in human development have been neglected in many countries, very often with a negative effect on long-term development. A special effort is to be made in favor of women, who represent the majority of the poor and the uneducated, and whose access to education and professional training is crucial for development and social justice. The Cairo Conference on population and development has recognized that access to education and to basic health services for the whole population was the most important factor for achieving a reduction in birth rates. For this reason, I endorse the proposal to enlarge the resource envelope of the Bank for the social sectors. However, it should be made clear that what we are contemplating as a matter of priority for the Bank is to increase resources for social services rather than for social infrastructure. The purpose should be to improve the quality of the delivery of social services.

In this respect, the countries in transition have to cope with particular difficulties. The transition to a market-based economy imposes considerable strains on the social fabric. While income distribution undergoes rapid changes, former systems of social security are unable to respond to the challenge of structural and temporary poverty. Social services traditionally provided by state enterprises are discontinued. Moreover, functioning organizations and infrastructure are sometimes in danger for lack of support and insufficient maintenance mainly due to the fiscal crisis and to the weakening of the central government. There are no simple answers to these challenges. However, the experience of the last few years indicates the way to proceed: broad-based economic growth, decentralization of public responsibilities, adequate budget allocations, as well as a better allocation of tasks between the public and the private sectors, are necessary conditions for progress in social areas to resume. To support these major tasks, I encourage the Bank to continue its poverty assessment activities, and to make them available to decision makers and the public at large.

Public expenditure reviews and poverty assessments are key elements for the allocation of public resources and for the policy dialogue with governments. In this context, the Bank should be able to convince governments that the financing of social expenditures should not be provided through residual resources or through inflation. Moreover, the Bank should foster a new understanding of social expenditures, i.e., that the financing of the social sectors is principally an economic task. Furthermore, increased attention has to be given to the composition of public expenditures as a measure of commitment and performance in the struggle against poverty, taking duly into account the different national situations. The Bank and the Fund should therefore be encouraged to continue to play an active and strong role in the analysis of public expenditures for social and economic development as against nonproductive expenditures, especially military expenditure. In this respect, I welcome the guidance which was recently given to the Bank and Fund staff for their collaboration on public expenditure work. The Bank's strong commitment toward promoting government ownership and participation of community representatives in this process has our support. In fact, the Social Summit
has also illustrated the importance of people's participation and empowerment in order to correct the growing inequality in many countries. The poorest segment of the population, and especially women, must have better access to productive resources such as land, water and credit.

Finally, it can be said that the Social Summit has been a useful reminder of some of the deficiencies of development in the last three decades, and should give a new impetus to the World Bank, the IMF and other multilateral as well as bilateral agencies aimed at ensuring a fair distribution of the benefits of development.

More attention should be given to the special situation of the least developed countries. The problems faced by these countries are mainly structural: a political environment hostile to the necessary economic reforms, but also difficult transport and communications, sometimes limited size or hostile climatic conditions, as well as external debt. In order to assist these countries to alleviate poverty in a sustainable way, it is of paramount importance that all IDA members contribute equitably in the eleventh replenishment, as IDA is the instrument par excellence of the Bank to implement its poverty reduction strategy. In this context, I urge all donors to live up to their obligations to ensure appropriate financing for countries committed to reform. An equitable burden sharing is essential to obtain political support in our countries. I recognize that most countries are experiencing dramatic budgetary constraints. The awareness that we should strengthen our support to the poorest countries has to be measured against the need to restructure public expenditures, including ODA. We have to restore confidence in the success of development cooperation, especially multilateral aid. For this reason, I think that we have to find a transitory solution to IDA which would allow to maximize each donor's financial support while giving some reluctant donors time to define their role in multilateral aid. In the medium term, however, voting power among donor countries in the Bank will also have to reflect the level of commitment to IDA.

External debt is a major obstacle to development in a significant number of very poor countries. Multilateral debt, which is mainly concessional, constitutes only a fraction of the total burden. However, there is now a consensus that for a limited number of highly indebted low-income countries even the level of multilateral indebtedness is likely to become unsustainable. The important analytical work produced by the IMF and the Bank during the last year has allowed us to recognize better the dimension of this specific problem and to tentatively design processes and mechanisms to face it. This collective reflection must continue and bring soon concrete results, hopefully not later than at the Committee’s next spring meeting. My chair is willing to join this effort in a constructive way.

An effective strategy to deal with the multilateral debt problem of the highly indebted low-income countries must comprise three well-balanced ingredients: sound structural reforms in the indebted countries; financing of new programs and projects; and adequate reduction of the debt stock. In relation to the latter, the solution to aim at must be comprehensive, i.e., reduction of the debt burden linked to all components of the external debt. All multilateral creditors and in particular the various development banks must share fairly the costs of the debt burden alleviation. We are convinced that in some cases donor resources spent on reducing the stock of multilateral concessional debt are more effective than any funding of new programs and projects. In such circumstances, debt alleviation should be the highest priority, even for the multilateral development institutions.
Statement by Mr. Anatoli B. Chubais (Russian Federation)

The meeting of Heads of State in Copenhagen and the Declaration adopted there reflect a profound understanding of the goals of human development, just as they reflect the new political realities of the modern world. The world community at the end of the 20th century has formulated an all-encompassing set of goals for social development.

As is often the case throughout history, the understanding and widespread recognition of new tasks are coming precisely at a time when, on the one hand, problems are becoming acute, and on the other hand, when the objective conditions for their resolution are emerging. Several decades ago the goal was economic growth, and only relatively recently mankind recognized the urgent need for ecologically sustainable growth. What is more, after the end of the Cold War the deideologization of social problems made it possible to raise the question of socially sustainable development and to focus attention on the long-term problems of human survival. The striving for democracy and social progress among peoples of the world is creating a need for further coordinated efforts on the part of the world community to resolve the most urgent problems, such as poverty, employment and social integration. The Russian Government confirms its commitment to the principles and goals of the Copenhagen Declaration and its intent to pursue them in the course of the historic reforms to transform Russia's economic system.

We are proceeding from the certainty that social development and economic development are organically intertwined. It is virtually impossible to achieve social progress without providing for adequate economic growth and an increase in the volume of resources allocated for social purposes. Improving the efficiency of their economic systems, and more effective use of resources from donor countries and international financial organizations, remain the principal instruments for resolving the social tasks facing developing countries and countries with economies in transition. In this regard, those provisions of the Declaration which refer to creating the conditions for the development of a market economy and its legal and institutional base are of utmost importance. Dynamic development of the private sector, long-term investments, and the formation of financial markets should lead to an expanded resource base with which to tackle social tasks without placing an excessive burden on national budgets.

We agree that there is a need for more effective use of external resources, and for increasing the responsibility of recipient countries to target the use of these resources for development and poverty reduction. At the same time, this does not eliminate problems associated with increasing the overall volume of resources being mobilized, which is a responsibility assigned to this Committee under its mandate. As expected, the economic upswing and growth in real interest rates in 1994-95 in the industrially developed countries brought to a halt the growth of inflow of private capital into developing countries. Portfolio investments are shrinking in the aftermath of the Mexican crisis. On the whole, the decline in flows of private resources in 1995, accompanied by stagnation in official development assistance will, evidently, lead to an overall decline of approximately 5-10 percent in the flow of funds to developing countries in 1995. This trend might turn out to be fairly persistent; thus, it should be taken into account when assessing the real opportunities the borrowing countries will have to resolve their social and economic problems in the coming years.

We understand the complexity of the task of maintaining the volume of aid. I would like to stress that it is not only the level, but also the predictability of inflows, and in particular aid from official sources, that plays and will continue to play an important role in socially oriented development. In many countries, government policy and the level of development of the private sector still do not
provide an attractive investment climate, the creation of which assumes the existence of a whole set of preconditions and requires a considerable amount of time. The efforts of countries that receive aid to create the necessary conditions for development must be accompanied by targeted support from the international community and international financial organizations. It is in this context that we are considering the problems of replenishing IDA funds and easing the debt burden of the poorest countries. We believe that the activities of IDA are an important element in the functioning of the entire system of international financial organizations.

The Copenhagen document demonstrates convincingly the urgency of social problems in the contemporary world, and the timeliness of raising the question of social stability, viewed not just as a goal, but also as a necessary condition of development. As Russian Federation Prime Minister Victor Chernomyrdin stressed in Copenhagen, "...just and stable social development is an essential condition for and the foundation of economic prosperity." In the course of macroeconomic stabilization and profound economic reforms, investments in human capital and social protection are of exceptional importance both in developing countries, and in countries with economies in transition.

The social cost of reforms is quite high. It is important that it not become an obstacle on the path toward creating an effective market economy and a democratic society. The revival of economic growth in a number of countries with economies in transition and the improvement in the macroeconomic situation in Russia offer reason for optimism. The first half of the 1990s, however, was a period of serious social crisis. Financing for the social infrastructure was reduced particularly sharply, and expenditures on education and health care declined. We believe that one of the characteristic features of transition economies is the need to implement a comprehensive social strategy, aimed not only at protecting vulnerable groups of the population, but also at preserving the human capital that has been created.

The rise in open unemployment is becoming a serious problem as industry undergoes more and more restructuring. Structural unemployment is placing new demands on government industrial and financial policy. It is important to revive economic growth, balance government finances, and strengthen financial markets as quickly as possible. This would make it possible to avoid the threat of turning "transitory" poverty into "chronic" poverty. In the future, the economies in transition can and should maintain their status as middle-income countries, create a middle class, and ultimately avoid sliding into the group of countries that require constant financial infusions from the outside to prevent mass impoverishment. Accordingly, the conclusions from World Bank poverty assessments should be taken into full consideration by the Bank and the Fund in developing recommendations for the economies in transition at this critical stage of their transformation.

We believe that there is no reason to doubt the commitment of governments of developing countries to the goals of development and the war on poverty. Internal socioeconomic and political limitations might influence the actual course of events in this area, however. Of course, the Fund and the Bank could help governments gain an objective assessment of their budgets. It is very important to include national specialists in this process and to ensure that the government at whose request a budget review is performed has a complete ownership of the analysis and the recommendations. We would simply like to avoid spreading unrealistic expectations about the immediate impact of this sort of approach. As we mentioned earlier, shifting public expenditures to social needs would depend objectively on the dynamics of economic growth and the availability of outside resources. Therefore, it would be better to start with improvements in appropriation of incremental resources for development, both those generated domestically and those received from the outside.
There is hardly anyone who would be opposed in principle to the idea of reducing military expenditures with a view to freeing up resources for poverty reduction and other social development goals. The report to the Committee rightly notes that the level of these expenditures is determined by a country’s notions of its security. Strengthening international peace and security, mutual tolerance, respect for cultural and religious diversity, and securing the rights of national minorities, create an objective basis for a global reduction in military expenditures. We should point out that in the world today there is evidently no strict, linear dependence between the levels of social and military expenditures. For example, an analysis performed by the UN in 1995 in its World Economic and Social Survey showed that in the second half of the 1980s, in the majority of countries in the world the change in military and civilian expenditures as a proportion of GDP moved in the same direction. Similarly, albeit on a larger scale, in the 1990s both military and social expenditures declined simultaneously in the majority of countries with economies in transition.

Finally, legal and administrative procedures in countries with widely varying political systems by no means always facilitate an easy resolution of the problem of optimizing the structure of public expenditures. Naturally, the Fund and the Bank need to avoid too broad an interpretation of their Charters so as not to encroach upon this politically sensitive sphere of relations. On the whole, we believe that an analysis of the structure of budget expenditures in individual countries could be an important part of a general dialogue of the Fund and the Bank with borrowing countries on issues of economic policy. As in the past, this sort of monitoring of public expenditures should be based on the interest of the governments and scrupulous compliance with the mandates of the international financial organizations.

We have no doubt that the Fund and the Bank should cooperate much more closely in designing macroeconomic programs and structural reforms, and ensuring linkage between stabilization measures and social programs, especially in the area of social protection and poverty reduction in all countries.

We believe that as far as the economies in transition are concerned, such factors as the level of education and health care that has been achieved should be taken into account, along with the status of women and the elderly, in order to determine the proper balance between the economy’s potential, the social standards that have developed, and the valid expectations of the people. It is in this context that it makes sense to speak of the adequacy of the resources allocated in the budgets of these countries for social needs. Given the differences in the mandates and specialization of the two institutions, we believe that the Bank has greater responsibility for coordinating structural reforms and analyzing the adequacy of social expenditures in the context of financial stabilization.

The report that has been presented makes the correct observation that the achievement of these goals within the framework of a balanced budget policy presents a difficult choice. One of the key issues here is the development of a reliable methodology for making comparisons between countries with regard to the structures of their budgets. Generally speaking, we support the expansion of work to analyze public expenditures, but we would like to be certain that the qualitative criteria for evaluating them will be properly studied, well-founded, and discussed within the framework of the relevant Fund and Bank procedures. It is important here not simply to focus on a redistribution of resources among budget items, but also to evaluate the composition of the revenue side of the budget as it applies to the conditions in each country. Ultimately, the decisions made by both the donors and the borrowers on ways to combat poverty and optimize public expenditures would depend not on the quantity of analytical reports, but on the consistency of the approaches taken, and on how well and how thoroughly the extremely complicated problems mentioned earlier are studied.
In conclusion, we would like to express our support for the efforts to assign the Committee new, broader functions in dealing with the pressing issues of development. The nature of the issues on the Committee's agenda, and the innovative discussion format once again convince us of the useful role that the Development Committee should play. The members of the Committee have in common the most important matter -- agreement about strengthening the multilateral system of aid for sustainable development. The Committee could initiate bold approaches to resolving these problems.

Statement by Mr. Kenneth Clarke (United Kingdom)

I welcome the new World Bank President, Mr. James Wolfensohn, to his first meeting of the Development Committee. And I welcome the opportunity we will have in the Development Committee to discuss with him his ideas on how the Bank can better achieve its purpose of reducing poverty.

In my opinion, the Bank should follow two key principles in its advice to members.

First is sound macroeconomic management and structural reform. As the World Bank's recent evaluation study shows, countries which have tackled economic imbalances and structural rigidities have the best chance of success in reducing poverty.

Second is a pattern of public finance which supports health and education and minimizes wasteful and corrupt spending, including excessive military spending, and raises revenue honestly.

These basic principles underlie the United Kingdom's aid program. The central goal is to improve the quality of life and reduce poverty and suffering in poor countries. Three broad aims guide the allocation of our aid: a) to encourage sound development policies, efficient markets and good government; b) to help people, particularly women, achieve better education, health and opportunity; and c) to enhance productive capacity and to conserve the environment.

We share these aims with the World Bank and many other multilateral agencies in which we participate. For the international institutions themselves, we have a further important aim: to work to enhance their effectiveness, coherence and consistency in the promotion of sustainable development.

We want the Bank to continue to play a full role in the poorest countries, as well as the middle-income countries. But it can only do so if it is able to provide affordable finance. So we urge all donor countries to make every effort to achieve a significant replenishment of IDA. In the face of budgetary constraints in donor countries, this is not easy for any of us. But we must each shoulder a fair share of the burden. I hope the United States and the other major countries will recognize the need to show leadership and responsibility as they have in the past, so that IDA can continue to play its crucial role in supporting poverty reduction.

For a number of the poorest countries, new finance is not enough. These countries have a large external debt overhang, which overshadows their best efforts at economic reform and poverty reduction. In general, we, rightly, expect governments to honor their debts. But there is a limited group of very poor countries with debts that they cannot realistically ever be expected to repay in full. For those committed to reform, with a good track record, we must find a way of ensuring that their debt burdens are manageable and do not impede development. We have made significant progress with bilateral, official and commercial debt. Agreement to Naples Terms last year was a very positive development. We need now to ensure implementation in the full and constructive manner called for...
at Halifax so as to offer eligible countries an exit strategy. I particularly support the call in the last Fund paper on official flows for so-called exit debt restructurings, which would reduce their debt burden to sustainable levels and allow a cushion against possible future adverse shocks. I hope our fellow Paris Club creditors will share that view.

Last year, I called on the multilateral institutions to play their part too in addressing the burden imposed by the debt resulting from their past lending programs. As we concluded at the G7 Halifax summit, they should look creatively at ways to alleviate those burdens from their own resources, while maintaining their financial integrity. I am very encouraged by the seriousness with which the Bank and the Fund have addressed this issue over the past year. And I also welcome the growing recognition within the international community that this is a problem which demands an early solution. This was clearly agreed last week in Jamaica, where I discussed this issue with finance ministers from developed and developing countries in the Commonwealth. A solution will need to go beyond the existing policy framework.

The multilateral debt burden of individual countries must be tackled in a comprehensive way. All creditors must play their part in resolving debt problems. For the countries with the heaviest burdens of debt, we must recognize that we cannot rely on highly uncertain projections over long periods to conclude that these countries will grow out of problems over time. We need to address the problem of their debt overhangs, now.

The development of a comprehensive approach needs a thorough and joint examination by the multilateral institutions of ways to contribute to reducing the burden of their debt. Yesterday, in the Interim Committee, I urged the IMF to continue to consider how it can best contribute to such a comprehensive approach. A continuation of the IMF’s ESAF instrument will certainly be important. Recognizing the constraints on donor budgets, I have urged that the IMF should make modest sales and reinvestment of its gold to this end. That would allow the IMF to offer the certainty of continuing concessional flows. But I still see a case for going further and agreeing to offer longer maturities on ESAF loans for the poorest and most indebted.

I welcome the further work mentioned in the President’s note on this issue. Let me stress that the United Kingdom attaches a high priority to this work. We want the Bank and Fund to take a proactive role in exploring options, using their own resources, for accelerating a resolution of these countries’ overall debt problems. And that means firm proposals on the table for decision at the Spring Meetings. I was encouraged by the wide support given to these proposals by Commonwealth finance ministers in Jamaica last week.

Let me set out three principles which we would expect those proposals to meet. First, the approach should take account of all of a country’s debts and its own particular circumstances. We favor a comprehensive and at the same time a case-by-case approach. These are complementary. It must provide an exit for countries with unsustainable debts. Second, it needs clear and transparent criteria which provide extra relief only for those countries with a good track record and a real need. And third, it must maintain the financial integrity of the Bretton Woods institutions and other financial institutions.

We should judge all proposals against these criteria. We need early solutions to improve the development prospects of countries with currently unsustainable debt burdens. We also need to ensure that institutions like the Bank are able to make future lending decisions more effectively, based on the strength of new proposals rather than on the need to refinance old debts.
A central theme of the Halifax Summit was making our institutions more effective. We set out several ideas designed to strengthen the international financial institutions. This program is, I believe, well under way. I am encouraged by the strong leadership that Mr. James Wolfensohn has already begun to bring to the Bank. I look to him to build on the solid foundation laid by Mr. Lew Preston, to create a more cost-effective Bank which is more responsive to the rapidly changing needs of its clients.

In particular, there must be greater decentralization to the field, accompanied by genuine delegation and clear accountability. The very positive discussion in the Board recently is a welcome signal of a sea-change towards a policy which the United Kingdom has long advocated. We are convinced that the effectiveness of British aid is greatly enhanced by our network of regional Development Divisions and aid management offices. These all operate with substantial delegation of functions, responsibility and accountability.

Moreover, I also want to see a much more coherent and integrated approach to private sector development in the Bank, IFC and MIGA. Little has been achieved in this direction in recent years, despite the priority accorded the issue by shareholders.

We look forward to the conclusions of the MDB Task Force on how the MDBs can cooperate more effectively. They must also cooperate with the UN agencies, especially on the ground. The UN has served the international community well in many areas in its first 50 years. But, in common with other international organizations, it faces new challenges and demands. In Halifax we put forward a number of ideas for improving the way in which the UN works. We are keen to discuss those ideas with all UN members because reform is of concern to us all. A UN which does not adapt to new challenges and fails to deliver the best possible service to its members is in nobody's interest, developed or developing. Our Foreign Minister colleagues have responsibility for UN matters. But as Finance Ministers we should be concerned to ensure that UN resources are used as effectively and efficiently as possible. This is especially appropriate in the case of UN economic, social and development institutions.

We should argue for a clear role for all UN bodies and agencies. We must encourage them to focus on tasks to which their comparative advantage can make a real contribution. There should be a reduction in duplication and waste. This means looking carefully at the areas of overlap. It also means critical evaluation of work programs and meetings to ensure that they are all truly productive. But to revitalize the UN system, we all need to work together to forge a consensus on the priority areas for reform.

Statement by Mr. Mohamed Seqat (Morocco)

First, I would like to pay tribute to the late Mr. Lewis Preston for his remarkable accomplishments during his presidency of the World Bank and to welcome Mr. James Wolfensohn, President of the World Bank Group, to the Development Committee.

We are meeting today at a time when the Development Committee is preparing itself for major changes in its operations which, I trust, will enable it to work more efficiently and to study in depth the key issue of the transfer of real resources to the developing countries and, in particular, the World Bank operations.
The issues before us today are of the utmost importance because they directly underscore both the social and economic dimensions of development.

The social dimension comes up under the first item on the implications of the Copenhagen Summit. In my view, poverty reduction, job creation and all other initiatives that target stability and social integration work together to enhance human well-being and are the foundations of lasting and balanced growth.

Relative to the economic dimension is the fact that efforts to eradicate poverty and improve social well-being require the establishment of infrastructure consistent with development -- schools, hospitals, housing, roads, electrification, potable water, and the environment. This calls for the mobilization of financial resources often in excess of the domestic capacity of our countries for two main reasons: first, low levels of domestic savings, and second, the magnitude of external debt service.

With regard to the first, I would like to stress that our countries have undertaken intense structural adjustment and financial rehabilitation measures for greater outward orientation and better resource mobilization and allocation.

Admittedly, these efforts must be continued with a view to generating more domestic resources and giving priority in their allocation to the basic social sectors and poverty reduction initiatives.

The fact of the matter is, these fundamental efforts notwithstanding, that the external debt problem is a heavy burden on our countries that limits financing possibilities and compromises our development efforts.

It is therefore incumbent upon the international financial community, now more than ever, to establish an appropriate response.

Efforts of the World Bank and the IMF to explore ways of easing the multilateral debt burden on the heavily indebted poorest countries are an encouraging initiative.

We hope that these efforts quickly yield concrete and convincing results that would provide these countries with significant and lasting relief.

We also hope that these efforts can be extended to other heavily indebted middle-income developing countries, to enable them to consolidate the achievements of their adjustment and restructuring efforts and effectively combat poverty, one of the most daunting challenges facing the heavily indebted developing countries.

Lastly, we hope that the other multilateral financial institutions can be brought into the process of exploring ways to reduce multilateral debt, so that the effort will be global and viable.

I also wish to urge the main contributors to IDA to do their best to complete the IDA-10 replenishment as soon as possible, so that discussions on IDA-11 can be started. This would ensure the mobilization of concessional resources so that eligible countries could meet such basic needs as education, health, and environment.

My statement would not be complete without a reference to the Troika's efforts to improve and strengthen the functioning of the Development Committee.
I believe that implementation of the Troika's recommendations to strengthen this important forum would allow the Development Committee to fully discharge its original mandate to transfer real resources to the developing countries and to engage in frank and open dialogue on operational issues.

Statement by Mr. Liu Zhongli (China)

In today's world, various contradictions and problems continue to persist despite the ending of the Cold War. Mankind must come up with a common response to such challenges as poverty, environmental pollution, high population growth, and ethnic and regional conflicts. The UN Social Summit, successfully convened in Copenhagen this spring, reflects the trends of our times and the aspirations of people all over the world. We welcome that this Committee has taken up the implications of the Summit as a major subject. On this occasion, I would like to offer some of my observations.

Economic development is the precondition for and the foundation of social development, and social development is the aim and the result of economic development. Only after an economy reaches and maintains a certain level of development can social development take place. In this connection, all countries, especially those in the developing world, must put economic growth unswervingly at the core of their national development strategies, and gradually alleviate and eradicate poverty by expanding productive employment and raising people's income levels. At the same time, it should be noted that economic development will not automatically bring about social development and solve all social problems. While sufficient emphasis should be put on economic growth, proactive policy measures must be adopted to promote comprehensive social progress. The measures include, among others, reasonably controlling population growth, increasing investment in education and health, enhancing human resource development, protecting environment, and improving efficiency of resource utilization. All these have positive impacts on economic and social development of a country, and necessitate strong government sponsorship and leadership.

It should also be noted that poverty reduction, as one major theme of the Social Summit, remains an unfinished task in the vast majority of developing countries. Today, over one billion people, about one third of the population in the developing world, are still desperately poor, and hundreds of millions more live in constant risk of sinking again into poverty. Unfortunately, the income gap between the rich and the poor countries has, over the years, widened instead of narrowed. The situation, if not corrected for a prolonged period of time, would inevitably endanger the realization of social development, the common goal of the entire human race. This calls for the serious attention from the international community.

Developing countries need, of course, to rely on the strenuous efforts of their own governments and people to solve various social problems. But historically speaking, the development of many rich countries was often achieved at the price of poverty in poor countries. The protracted poverty has always played a part in causing social turbulence and even regional conflicts. It should not be forgotten that the consequences of many social problems often go beyond boundaries and that solutions would not be possible without regional and global cooperation. We call on the international community, and developed countries in particular, to shoulder their due responsibilities of helping to eliminate poverty from this earth in the common interests of human progress. Of particular importance is that it should help to establish and strictly observe equitable rules of international economy and trade with a view to creating a favorable external environment for developing countries; address in a proper way the debt issues of developing countries, particularly the heavily indebted low-income ones; and accelerate
technology transfer to developing countries to ensure that more people can share and enjoy the fruits borne by science and technology. Most importantly, developed countries should make functional efforts to reverse the worrisome trend of the decline in official development finance urgently needed by developing countries.

IDA resources represent the most important instrument at the disposal of the World Bank Group in assisting its poor members. Ever since its founding, IDA has made tremendous and irreplaceable contributions to the cause of poverty reduction and social development in developing countries. In this connection, we want to express our deep concern about the funding crisis currently confronting IDA. We call upon major donors to fully honor their commitments to IDA-10, and urge all donors to demonstrate their political will to bring the IDA-11 negotiations to a timely and satisfactory conclusion.

Over the past five decades, the World Bank and the IMF, as the world's two largest multilateral financial institutions, have provided considerable financial and technical assistance to developing countries in their efforts toward economic and social development and structural adjustment. We would like to express our appreciation and hope that the two institutions will continue to work with their respective member countries and bilateral and other multilateral agencies to make new contributions to the global cause of social development.

Social programs are a public good and undoubtedly need adequate financial inputs from governments. We agree that improving public expenditure policies can play a positive role in reducing poverty and promoting social development. We have noted that the World Bank and the IMF will further strengthen their work in the field of public expenditures as a follow-up to the Social Summit. It should be pointed out, however, that whether or not the financing needs of social development can be met will in the final analysis depend on the pace and the potential of economic development in a given country. Public expenditure review is a useful instrument, but provides no fundamental solution to poverty and other social problems. It should also be emphasized that poverty reduction and social development are arduous and complicated tasks and that steady efforts on many fronts are needed before any real results become tangible. Using the composition of public expenditures as a major, if not the only, measure of poverty reduction and social development performance is at least less than scientific and comprehensive. Moreover, formulating public expenditure plans in light of its real circumstances is a right of any developing country, and deserves full respect from all parties, including the Bank and the Fund. It is our view that reviewing the so-called nonproductive expenditures should not become a pretext for any interference in the internal affairs of a country, nor should it be used by developed countries as an excuse to cut aid.

Statement by Mr. Paul Martin (Canada)

Let me first take the opportunity to underline our appreciation for the legacy of good work left by Mr. Lewis Preston. Mr. Preston was instrumental in initiating key changes in the Bank that have set the stage for our current efforts at institutional reform. I am sure that the solid accomplishments of the World Bank under Mr. Preston's leadership will help President Wolfensohn in his efforts to chart a strong course for the Bank in the future.

At last spring's Development Committee meeting, I spoke about preparations for the G-7 Summit and our plans to review the role of the international financial institutions. I am encouraged to report that over the past few months we have had a very constructive sharing of ideas with our partners on institutional review.
It is important to underline the widespread support shown at Halifax for the work of the Bretton Woods institutions. The institutions have already begun to introduce changes that are starting to have an impact. Improvements in the transparency and accountability of the institutions, a more integrated approach to providing development assistance and efforts to work more closely together on key issues, are some of the critical steps that are being taken.

At the same time, we would all agree that there is still considerable room for improvement. The world today is substantially different than it was 50 years ago when the Bretton Woods institutions were created. The institutions must be better equipped to respond more flexibly to the changing global economy and to the diversity of their clients' needs.

The paper provided as background for today's meeting on the implications of the Social Summit for the Bretton Woods' institutions captures well many of the key concerns expressed at Halifax. While I will discuss this issue in more detail below, let me just stress up front that the persistence of extreme poverty is unacceptable to us all and that improvement of the plight of the world's poor must be an overriding priority. Poverty reduction must be at the core of the operations of the multilateral institutions, whether they are providing support for the private sector, the environment, or economic reforms.

It should be emphasized first that the ongoing review of the multilateral development banks is of keen interest to Canada and the countries in the constituency that Canada represents. There is a recognition that the continuing efficient and effective operations of these institutions is critical in an increasingly interrelated global economy. We have traditionally been strong supporters of multilateralism and believe that a fair and equitable multilateral system benefits us all.

Yesterday, in the Interim Committee I addressed some of the key areas for institutional reform in the IMF -- the need to strengthen surveillance, improve responsiveness to financial crises, and ensure sufficient liquidity to respond to emergency situations. I was also pleased to note the consensus which exists to expand the scope of the Fund's emergency assistance for countries in post-conflict situations.

Let me turn now to key issues of importance to Canada for the World Bank and the regional development banks.

Canadians have come to realize that in fiscally tight times we must all learn to do more with less. When resources are constrained, the government must place priority only on what it can do best. The rest should be left for those who can do better, whether the private sector or non-governmental organizations (NGOs).

Canada has taken a number of decisive actions to promote fiscal consolidation over the past year, and to put our public finances on a more sustainable footing. A number of developing countries that have acted similarly have recorded a strong growth performance. The multilateral institutions must also learn to operate better under current fiscal constraints if they are to respond more effectively to the needs of their clients. It is clear that funds from shareholders are not unlimited and steps must be taken to use scarce resources more efficiently. There are four key areas where I believe room for improvement exists.

- First, the multilateral banks must take further steps to consolidate their budgets and to streamline their operations. In this respect, I would like to commend the World Bank for the recent measures introduced to significantly reduce its administrative budget this year and next. Where
warranted, I believe that this should be used as a model for similar streamlining in the regional
development banks.

- Second, the growing diversity of the recipient countries requires an increasingly differentiated
response from the multilateral banks. For those countries with growing access to private capital flows,
greater attention should be paid to providing support in the areas of policy advice and technical
assistance. Wherever possible, the market should be the dominant source of funding, especially for
infrastructure projects. Scarce concessional resources should be targeted to the poorest countries,
particularly those in Sub-Saharan Africa.

- Third, resource allocation must be more efficient. The inefficient allocation of funds
undermines the ability of donors and recipients alike to make progress in poverty reduction. We can
no longer afford to waste resources on expenditures that are unproductive when the needs of the poor
are so great. Effective financing of development is incompatible with excessive military expenditures
that displace social sector spending. Multilateral institutions must directly tie their lending programs
to recipient countries' commitment to reduce unproductive expenditures.

- Fourth, overlap and duplication among the multilateral development banks must be reduced.
This was underlined at Halifax and is a key area of concern for the Multilateral Development Bank
Task Force. In this respect, I look forward to the findings of the final report of the task force in April
1996. Savings could be realized through better cooperation in such areas as data collection and analysis
as well through greater coherence in policy advice. The result will also have a positive impact on
sustainable development.

Let me underline again that poverty reduction remains one of our greatest challenges and is a
key area of concern for Canada and my constituency. Despite progress in reducing poverty over the
past three decades, extreme poverty remains a persistent and unacceptable global problem. The focus
on poverty reduction for this Development Committee meeting underlines that donors and recipients
alike must work better together to create greater opportunities for the poor in the future.

I noted earlier several ways that improving the efficiency and effectiveness of the multilateral
banks could help improve their efforts at poverty reduction. Multilateral banks would increasingly be
accountable for the impact of their programs on the poor. They would be required to listen better to
the concerns of those affected by their projects, particularly the poorest members of society who too
often remain marginalized in the consultation process. Lending is not sustainable in the longer term
unless beneficiaries have a clear sense of ownership in their projects. The broad experience of NGOs
in working with the civil society should be better utilized in undertaking consultations with those
affected.

Private sector development and poverty reduction should not be seen as separate issues. Events
over the past few years have shown that developed and developing countries alike are embracing market
principles with renewed enthusiasm. There is growing acceptance of the important role the private
sector can play in contributing to longer term sustainable development and poverty reduction. More
innovative ways must be found to address the private sector needs of both the more developed as well
as the least developed countries.

Turning to the question of multilateral debt, Canada and the countries in the constituency
Canada represents recognize the difficulties some developing countries face in managing their
multilateral debt. We support a comprehensive and coordinated approach to finding ways to reduce
this burden. Resources must clearly be targeted to those countries with the greatest needs and those that have shown a willingness to adopt the appropriate economic reforms.

Yesterday, in my notes to the Interim Committee, I noted that in terms of the role of the IMF, the continued financing for ESAF will be one important step in addressing the problem of multilateral debt. On the Bank side, the recent replenishment of the IDA-only Debt Reduction Facility is a positive development. But clearly more needs to be done, and the Bretton Woods Institutions must work better together and with the regional development banks in a more cooperative and coordinated manner. I fully support the current proposal to have a more substantive discussion of multilateral debt at the Committee’s next meeting in April and look forward to a timely resolution of this issue.

I believe that we all agree that IDA plays an indispensable role in helping to reduce poverty and in integrating the poorest countries into the global economy. IDA’s multilateral approach to international assistance has benefits for donors and recipients alike, through the sharing of ideas and building consensus on addressing key development problems. This was endorsed by the G-7 at Halifax.

To ensure the continuing access of resources for the poorest countries, all countries should meet their current IDA obligations in a timely fashion. Every effort should be made to ensure that the negotiations of IDA eleventh replenishment come to a timely and productive resolution to ensure that those in greatest need have sufficient access to continued funding. I would also like to stress the importance I attach to ensuring the continued access of small island economies to IDA resources, particularly for those small island economies experiencing extraordinary depletion of their sources of income and frequent disruption of their development due to natural disasters. Of course, attention to the quality of IDA lending should be front and center in these negotiations to ensure that the poor receive the best possible assistance.

I wish to emphasize how impressed I have been with the commitment and leadership of our new President in his early days at the Bank. In a rapidly evolving global economy, his task in guiding the World Bank into the future will not be an easy one. I have full confidence that Mr. Wolfensohn is the right person to help bring the Bank into the twenty-first century and I pledge the full support of Canada and the countries in the constituency that Canada represents as he moves forward with his work.

I also commend the President and the Chairman of the Development Committee on the new measures introduced to improve the focus and relevance of the Development Committee. These changes should allow for a more frank and open dialogue among Ministers. I also appreciate the opportunity to discuss with the new President his early impressions of the Bank and to have an open exchange of views on the future direction of the Bank at a critical stage in its work.

Now, more than ever, effective international institutions are vital to our common objective of raising the living standards of the poor and promoting longer term sustainable development. Recent efforts at reform by the IMF and the multilateral development banks show a real commitment to improving the quality of their assistance. We must continue to build on the momentum of this work to ensure that this commitment is turned into positive action.
Statement by Mr. Philippe Maystadt (Belgium)

I welcome the new format of the Development Committee meeting which will help us to concentrate on policy issues relevant for the World Bank's activities. In line with this innovation, I will limit my comments on today's agenda to issues related to World Bank policies.

The issues paper submitted for our consideration focusses on the role of public expenditures in poverty reduction. I support the increased attention given to the composition of public expenditures in the context of the Bank's dialogue with member countries on their poverty reduction policies. The efficient allocation of scarce resources is a policy priority for industrial and developing countries alike and we have from the outset given the mandate to the Bretton Woods institutions to assist members on this point within the context of their respective responsibilities for balance-of-payments adjustment and development.

Public expenditure reviews have an important role to play in this connection, but let me add at once that I see these reviews as a tool for organizing the policy dialogue on future options rather than as the single most important measure of performance and reward of countries' poverty reduction policies. These reviews will produce lasting results only if they recognize the primary responsibility of national governments, accountable to their parliaments and electorates, for the composition of public spending. They should encourage not only the national governments but also the World Bank to adapt policies with a view to release resources for productive and social objectives. The Bank's authority in this domain will be stronger if it itself stands ready to assist member countries with the elimination of inefficiencies. In this connection, several countries in transition which I represent would like to see the Bank play a more forthcoming role in assisting them with the restructuring of large state-owned enterprises absorbing sizeable budgetary resources which could be allocated more efficiently.

Poverty reduction does not depend only on a better allocation of public expenditures. The Copenhagen Summit has correctly concluded that it must be incorporated in a general policy effort toward higher social integration and security. Governments should thus be in a position to raise sufficient and stable public revenues enabling them to establish their social systems under conditions of financial viability and solidarity. I encourage the Bank to give closer attention to this requirement in its dialogue with member countries, since many of them still suffer from underdeveloped and unstable taxation systems. Progress on this point would improve the durability of its poverty reduction programs.

Finally, I would like to insist on the need for broad-based policies aimed at the reduction of income inequalities. Experience shows that growth will have the strongest impact on poverty reduction if it succeeds in reducing income inequalities. The World Bank documents have only recently started to refer explicitly to issues of income distribution. On this point also, I encourage Management to be sufficiently straightforward in the discussions with member governments on their future development strategies. The Bank can and should provide active support to members' efforts in this domain by assisting them with specific investment programs associating the poor from the outset with the process of productive labor and income creation.

Finally, the implications of the Social Summit for the World Bank are far-reaching and commit us to review policies and enhance our dialogue on the development agenda in important, sensitive areas. This Committee is ideally suited for deliberating these issues in a cooperative spirit. We must also bear in mind that it would be of little help to agree on the most comprehensive, most ambitious reforms unless they take sufficient account of the countries' limited institutional capacity to absorb them. This
calls for modesty, appropriate sequencing, local ownership, and increased attention to the implementation of poverty reduction programs in the field. I fully support Mr. Wolfensohn's intention to readjust the Bank's priorities in this direction.

The foregoing considerations on the Bank's poverty reduction agenda all point to the conclusion that continued financial support of sufficient size would be needed to assist countries with the successful implementation of their development strategies. It would be highly counterproductive to curtail the access of the low-income countries to concessional assistance from the multilateral institutions at a time when most of them have come to accept the validity of these institutions' policy recommendations. The negotiations should thus continue with the aim to achieve a substantial IDA replenishment.

The multilateral character of IDA needs to be preserved. Fair burden sharing principles should remain the rule. As donor countries, we all face difficult budgetary choices. The countries which I represent have always tried to maintain a high level of contributions to multilateral cooperation. IDA fulfills in this connection an essential role because it helps to create a policy environment in which bilateral aid projects can be implemented more effectively. Moreover, it ensures that low-income countries that might not be of the same geopolitical interest as others would have access to external support. The cooperative nature of our Institutions would be at stake if these principles were not preserved at the occasion of the next replenishment. Any deviation from a fair burden sharing should thus be highly exceptional and temporary and incentives should be envisaged aimed at correcting the imbalance as soon as possible.

On multilateral debt, today's meeting should reconfirm the central role of the Bretton Woods Institutions in elaborating solutions which take into account the debtor countries' reimbursement capacity. Reliance on their judgement is the best safeguard against moral hazard risks. We are confident that this will remain the case. I invite the Fund and the Bank to complete their work on the list of heavily indebted poor countries to be considered for a special effort, on the magnitude and nature of their reimbursement problems, and on the solutions to be envisaged before our Spring 1996 meeting. Let me just submit two considerations which should be kept in mind in this connection.

First, it would give a wrong signal to divert sizeable resources to debt reduction operations which should normally be available for development support. This trade-off applies to bilateral donors that must honor their commitments to IDA and ESAF; it also applies to the Bretton Woods Institutions which must remain equipped to provide continued financial assistance at favorable terms in support of sound policies.

Second, we should probably not underestimate the debt relief which can be obtained from a more forceful and concerted application of the various instruments at our disposal. An Enhanced Debt Strategy could include redoubling efforts to reduce debts owed to commercial banks; debt cancellation higher than 67 percent in the Paris Club in selected cases; continued access to ESAF resources; and additional subsidization of interest obligations to the IBRD or additional IDA allocations according to the nature of the countries' debt profile. The Fund and the Bank would be expected to take strong leadership with respect to the implementation of this concerted approach: they would coordinate the actions of the different players involved and would ensure that each country receives the mix of prescriptions which is most beneficial to the restoration of a sustainable debt position. Although this approach might appear to be modest, its consistent implementation would make substantial progress toward achieving a sustainable debt profile in most heavily indebted poor countries. However, we cannot exclude that for a very limited number of countries, it would not ensure the restoration of debt sustainability; thus, in these few cases an exceptional treatment might be needed.
Statement by Mr. N'Goran Niamien (Côte d'Ivoire)

On behalf of the countries in my group, I would like to thank the Chairman for the major effort undertaken to improve the functioning of the Committee and make it more effective. I would also like to thank Mr. James Wolfensohn, the new President of the World Bank Group, for contributing his own innovative ideas to our reorganization effort and to welcome him as he joins us in our work for the first time.

As I pointed out in my reply to the letter of June 22, 1995 from President Kabbaj on the subject of reforming the procedures and arrangements for the Committee’s work, I am in favor of the new format we are using today and pledge to do my part to ensure that it works to make the Committee an effective tool of development.

I must thank both Mr. Wolfensohn and the Managing Director of the International Monetary Fund, Mr. Michel Camdessus, for the quality of the working documents their staffs have provided for us.

In fact, one of the documents made available to us, which is not on today’s agenda, describes the recent trends in resource transfers to the developing countries. When I read this document, I could not help but notice that official flows to the developing countries are on the decline. These flows fell from US$58.6 billion in 1993 to US$55.5 billion in 1994, whereas private flows stabilized in 1994. As I indicated in our meeting last April, for the Sub-Saharan African countries, which rely mainly on official flows for financing development, this represented a decline of some US$2 billion in 1994. Similarly, the level of official development assistance, which amounted to US$45.7 billion in 1994, is lower in real terms than the level for 1990 and 1991, and even for 1993. The target set by the United Nations during the 1970s, whereby the industrial countries undertook to effect official transfers to the developing countries, equivalent to 0.7 percent of their GDP, is far from being met. According to Bank estimates, flows from the OECD countries fell to 0.32 percent of GDP in 1994, their lowest level in 10 years. This disturbing situation should be of concern to the entire international community. We therefore appeal strongly to the industrial countries to significantly increase official development assistance.

However, we are pleased that the special program of assistance for Africa has been implemented. Since 1987, it has been a vehicle for mobilizing substantial balance of payments assistance for the low-income countries in Sub-Saharan Africa implementing adjustment programs. However, we are concerned about the replenishment difficulties of other concessional funding sources, particularly IDA.

The negotiations for the IDA-11 replenishment have still not been concluded, despite efforts on all sides. The budgetary constraints of several OECD countries pose a real threat to commitments already made under IDA-10 and to future commitments under IDA-11. If some major countries reduce their contribution to IDA because of budgetary constraints, other countries might adopt the same policy. The result would be an appreciable reduction in overall contributions, leaving IDA-11 underfunded.

Despite the apparent sluggishness of progress attributable to official development assistance, such assistance is still key to the economic takeoff of several regions around the world. In this context, given the critical role played by IDA in the economic development of several Sub-Saharan African countries, our countries would consider any failure to replenish IDA’s resources as a major impediment to economic development, for as the World Bank’s President stressed in his note to the Committee,
IDA’s programs in our regions often serve as a powerful catalyst for other sources of concessional aid, in addition to providing concessional resources and effective aid.

The main topic for today’s meeting concerns the role of government spending in poverty reduction. The primary objective of the economic policy of any country, in fact, should be to improve the well-being of the neediest segments of the population and to eliminate absolute poverty. There is a direct linkage between public expenditure policies and poverty reduction, but it has important implications for the borrower countries as well as for the IMF and the World Bank.

The public expenditure reviews made at regular intervals by the World Bank and the advisory assistance provided by the IMF as part of its surveillance mandate and program discussions can be an opportunity to reexamine the effectiveness of government poverty reduction efforts. At the time of the reviews, countries should analyze their expenditure allocations and make adjustments, in light of headway made in alleviating poverty. However, such efforts are and will remain essentially the prerogative of the governments supported by the development partners.

Lastly, one of the issues we examined during the April discussions, and which still poses a challenge, is that of the multilateral debt of the heavily indebted poor countries. As the joint report prepared by the World Bank and the IMF indicates, the conventional methods for debt workout, which sought primarily to make IDA’s lending conditions and criteria for access to the fifth-dimension facility more flexible, have had some success in helping most of the countries in question to overcome the crisis.

We believe that these arrangements must be strengthened to increase concessionality, cover more countries and, with regard to the fifth dimension, expand the scope to the principal instead of being limited to interest payments and changes in the cutoff dates.

We concur fully with the joint findings of the Bank and the Fund on the need to do more for a number of countries that are facing the burden of increasing debt. For those countries, despite the debt service rescheduling under the Paris and London Clubs and the Enhanced Structural Adjustment Facility, we must be more innovative.

We consequently support the efforts of the Bank and Fund to explore new approaches that would render debt service levels more compatible with the objectives of sustainable economic growth in the countries in question. I therefore encourage both institutions to continue to seek effective solutions capable of guaranteeing that additional and concessional resources are available to our countries, including the possible creation of a debt reduction facility.

Statement by Mr. Robert E. Rubin (United States)

The developing world is changing rapidly. Many countries are experiencing high levels of economic growth and achieving significant gains in their efforts to reduce poverty. Over the next decade, economic growth in developing countries is expected to be nearly twice as rapid as growth in the industrialized world. This is due largely to a growing commitment to sound public sector management, to the development of healthy private sectors, and to liberalized trade and investment policies. Outward-oriented, market-based policies have spurred economic growth, improved living standards, and deepened democracy.
At the same time, economic and social progress has been uneven both within and among countries. Over one billion people still live in extreme poverty, presenting today's interdependent global economy with perhaps its greatest challenge. The Development Committee must be a forceful advocate of policies which lead to both sustainable growth and poverty reduction. We must also provide particular encouragement for countries trying to implement sound policies but which lag behind.

Human resources are the core of development. Investment in people -- aimed at improving education, health, and basic services -- is a prerequisite for long-run economic growth. The goal of increased basic health care and primary education should be at the forefront of development efforts. Today's dynamic economies demonstrate that with the right fundamentals, sound and well-targeted social expenditures are high-return investments in future prosperity.

The Copenhagen Summit highlighted the priority which must be given to improving the quality of, and increasing the access of the poor to basic social service investments and employment opportunities. Policies that improve the development impact of social sector investments must be vigorously pursued. And governments and donors must remain on the cutting edge of efforts to increase the impact of programs on the poor, safeguard and promote internationally recognized workers' rights, and ensure economic opportunities for women. Sound environment policies are also an important long-term investment in people.

The composition of public expenditure, including the balance between development and non-development objectives, is a key aspect of sound economic policy. It is also central to poverty reduction. All too often, countries undertake unproductive expenditures -- including those for inefficient public enterprises and the military -- which stunt growth and perpetuate poverty. In too many countries, government spending for military purposes exceeds that for health and education combined.

It is in this framework that a country's public expenditure, including that for its military, is relevant to the international financial institutions and their policy dialogue and operational strategies in member countries. Governments retain the right to determine a necessary level of military expenditure for legitimate security concerns. But institutions mandated to promote growth and reduce poverty also retain the responsibility to take account of military expenditure when it diverts scarce budgetary resources away from high priority development objectives and constitutes a serious obstacle to sustainable development.

In an era of tightening constraints on financial resources, assisting governments to improve the quality of their public spending must be an ongoing priority of the international financial institutions. Borrowing governments also have a particular responsibility to allocate adequate resources for productive development activities, and many countries are already benefitting from restructured budgets. I therefore welcome the renewed commitment by the World Bank and the International Monetary Fund to collaborate on public expenditure issues. I urge both institutions to work closely in developing accurate, transparent data on government expenditures, including that for military purposes. They should work jointly, through program design and their policy dialogue, to promote allocations of public expenditure in borrowing countries which are both equitable and efficient.

Collaborative Bank/Fund efforts are particularly important for countries undergoing economic reform. The Bretton Woods institutions should encourage reform policies which combine stabilization and market strengthening measures with human resource development and poverty alleviation. The
Bank and Fund should be pro-active players in helping to identify and eliminate inefficient spending and increasing the quality of pro-poor social expenditures. Joint preparation of public expenditure reviews for selected borrowers is one option for a more systematic approach in this important area.

The United States supports efforts to concentrate donor resources on those countries committed to the goal of poverty alleviation. The composition of public expenditure is a good measure of this commitment, as is good governance -- i.e., accountability, the rule of law, and public participation. We encourage the Bank and the Fund to use fora such as Consultative Groups for coordinating multilateral and bilateral lending policy and expanding the dialogue with member countries on establishing sound public expenditure priorities which maximize sustainable growth and poverty alleviation.

A number of the poorest countries face particularly heavy multilateral debt burdens which can act as a serious constraint on development. We have called on the World Bank and Fund to develop a comprehensive approach to address this problem. We welcome the efforts of the Bank and Fund thus far, and urge them to move forward with a specific proposal for the consideration of members at the Spring Meetings.

I recognize the vital role which the International Development Association (IDA) is playing in integrating the poorest and least creditworthy countries into the global economy. For many countries, IDA has taken the lead role in encouraging both open-market reform and human resource development.

For 35 years now, the United States has made a significant financial and policy contribution to the growth, development, and success of IDA. In this spirit, the United States has already provided $2.2 billion to IDA-10.

I want the United States to remain fully engaged in IDA, and I am committed to doing all that I can to complete our contributions to IDA-10. Of course, as everyone knows, we are in an especially difficult budget situation. Our goal is to make every effort to continue the basic, historic commitment of the United States to IDA, while taking into account, in a realistic, pragmatic manner, the domestic budgetary and political atmosphere which now exists.

At the same time, the reality of diminished concessional resources makes it imperative for the World Bank to be more selective in its financing, to concentrate IDA resources on the poorest and least creditworthy countries with good records on economic performance, to focus on social sectors where alternative funding is not available, and to redouble efforts to improve the development effectiveness of its lending.

The World Bank and other multilateral financial institutions must demonstrate that they are responding effectively and efficiently to the needs of member countries. I therefore welcome the attention President Wolfensohn is giving both to implementing reforms initiated under his predecessor and to exploring additional measures to strengthen the World Bank's ability to meet the challenges of developing and transitioning economies. The Bank's development impact will depend on its results on the ground.

The United States will continue to work with other members to improve the development effectiveness and operational efficiency of the multilateral development banks (MDBs). I welcome the deliberations of the Development Committee Task Force as part of this process, and we look forward to considering its recommendations.
I would like to express appreciation to President Wolfensohn, Managing Director Camdessus and our Chairman, Mr. Kabbaj, for their efforts to improve the operational effectiveness of the Development Committee. We believe that the Committee is uniquely positioned to address and contribute substantively to pressing development issues. The Committee’s new format also provides a good basis for Ministerial input into World Bank policies.

Statement by Mr. Manmohan Singh (India)

I extend a very warm welcome to the Chairman and also take this opportunity to welcome Mr. Wolfensohn to his first meeting of the Development Committee. I would like to thank him for his thoughtful observations on recent developments in the world economy. The Bank Group is fortunate in having a person of Mr. Wolfensohn’s vision and accomplishments to lead them during these difficult times. We look forward to working closely with him to make these important institutions even more effective in the future.

The short-term update of the global economic prospects notes certain favorable features of the international environment for the low- and middle-income countries, despite some faltering in the growth in industrial countries. Private capital flows to developing countries are set to rebound quicker than seemed likely in the immediate aftermath of the Mexico crisis, and the growth of world trade has been stronger than expected. However, there is as yet no fundamental change in the long-term projections; several Bank reports indicate that the real per capita incomes in large parts of the developing world and countries in transition are expected to be actually lower in the year 2000 than 20 years ago. This is a matter of grave concern, and I hope that this Committee and the international community will urgently devise a program of action to reverse these unacceptable projections.

The main item on our agenda for discussion is the follow-up action on the Social Summit. The Copenhagen Declaration on social development is a significant milestone in the world community’s struggle against poverty, ignorance and disease. Heads of states and governments gathered to adopt a concrete program for national and international action toward social advancement and eradication of poverty in the developing world.

As the staff paper correctly points out, national and international action is required in a large number of areas by a number of institutions. If we are to be guided by the mandate of this Committee, our discussions should focus on the role of international financial institutions, particularly the World Bank and the IMF in promoting the social agenda adopted by the Summit. In our view, the most important role that these institutions can play is to help in the mobilization of larger amounts of resources in support of people-centered development strategies and programs which seek to attack poverty and promote social development. Economic systems exist to serve human beings and, as such, the priority of social development can be hardly overemphasized. We stand committed to the pursuit of a comprehensive development strategy with primary focus on poverty alleviation and social development.

However, the task of social development is immense and must be defined broadly rather than narrowly. The agenda for social development cannot be viewed in isolation. The domestic resources needed for social development can be mobilized only if the economy is growing rapidly. It is undoubtedly important that the public expenditure allocations place adequate stress on social development. However, a holistic approach has to be adopted in assessing the balance between expenditure on economic services and the expenditure on social services. A sustainable strategy of
social development presupposes strong broad-based growth of income and employment. Thus, while I do recognize the importance of the type of public sector reviews mentioned in our agenda papers, we must not lose sight of the basic mandate of the Social Summit which urged the international financial institutions to complement adjustment lending with enhanced, targeted social development investment lending. This Committee, charged with the responsibility to facilitate increased transfer of real resources to developing countries, should pay particular attention to this part of the mandate of the Summit. The legitimate world-wide concern with social development ought not to degenerate simply to additional conditionalities imposed on developing countries from abroad.

The Summit drew attention to the importance of efforts to mobilize new and additional financial resources. Resources must be both adequate and predictable, and should be mobilized in a way that maximizes their availability. Such mobilization should cover funding from all sources, including multilateral, bilateral and private, and pay particular attention to funding available as grants and concessional loans.

These issues have not been addressed adequately in the staff paper, which is largely confined to a discussion of public expenditure reviews of developing countries by the Bank and the IMF. The developing countries must, of course, increase availability of domestic resources by reorienting public expenditures and minimizing waste. However, the central question relating to the overall limitation of available resources cannot be ignored. The average per capita income of low-income countries is US$360. At these levels of income, even with the best expenditure policies, sufficient resources cannot be mobilized to undertake all the programs outlined in the Summit Program of Action. Thus, if this Committee is serious about fulfilling the goals of the Social Summit, it must call for a substantial increase in the flow of external resources for poverty alleviation and social development. The World Bank Group ought to lead this effort, and propose a program of action for at least doubling the flow of international resources earmarked for poverty alleviation programs.

The role of International Development Association (IDA) in this effort is particularly critical. In the past, IDA made major contributions to the development of many low-income countries by providing the much needed assistance, on near-grant terms, to finance crucial programs and projects for social and economic infrastructure and human resource development, which would have been difficult to finance on commercial terms. In a world of massive income disparities among countries, where a quarter of the world's population still lives in abject poverty, the vital role of concessional multilateral development assistance, as provided through IDA, is self evident. IDA funds are critically needed for social infrastructure, human resource development and the environment, which need large injections of resources in many countries. The outcome here cannot be left to market forces. However, the scale of assistance provided by IDA is modest compared to the enormous requirements. Once again, if the international community is serious about the goal of eradicating the blight of poverty from our planet, as agreed upon at Copenhagen, there can be no better instrument than considerably expanded commitments to IDA. Without this measure, the occurrence of negative net real transfer of resources from the World Bank Group would be greatly accentuated, to the great disadvantage of some of the world's poorest countries.

With regard to the other items on our agenda, I commend the staff of the Bank and the IMF for their valuable work on the subject of multilateral debt. Fortunately, the problem is confined to a few countries. We are fully supportive of any constructive efforts to find a meaningful solution to this problem. The only viable long-term solution, in our view, is a quick and sustained expansion of both bilateral and multilateral credits on concessional terms. Unless aggregate flows increase, and increase
substantially, a mere reallocation of aid from ongoing and new social sector investments to debt relief operations would not provide genuine relief.

Let me conclude by conveying my deep appreciation to the Chairman and to Mr. Wolfensohn for their timely initiative undertaken to make this Committee more effective. I agree with the revised format of the Committee and the other suggestions that have been made in this regard. I welcome the continued association of the IMF with the work of the Committee. I particularly welcome the reaffirmation of its primary mandate -- the transfer of real resources to developing countries. I look forward to the Development Committee becoming a truly effective forum for providing credible and strong leadership on issues relating to international capital flows to developing countries.

Statement by Mr. Pedro Solbes (Spain)

I would like to begin this statement by extending my personal welcome to Mr. Wolfensohn, who is taking part in the meetings of this Committee for the first time since his appointment as President of the World Bank Group. We look forward to working with him in the task of guiding this institution, which I am certain he will lead with the same energy and enthusiasm he has shown since taking office. The organizational changes made in the Development Committee's own meetings are a firm proof of that. The close cooperation over the last few months between the Chairman, Mr. Wolfensohn and Mr. Camdessus have given a new impetus to the Committee's work.

Since our last meeting, in Spring this year, the world economy as a whole has evolved favorably. On that occasion, we discussed the opportunities for economic and social growth available to both the industrial and developing countries in an economic climate characterized by the globalization and opening up of capital markets.

Despite the positive indicators of economic activity, major distortions still persist which proscribe any complacency.

The latest projections for 1995 and 1996 indicate a somewhat slower growth rate than expected for the industrial economies, but a stronger rate than originally calculated for the developing countries. However, among the developing countries, clear distinctions need to be drawn to reflect widely differing situations. In Africa, where the effects of underdevelopment and poverty are most severe, the GDP growth rate of 3.2 percent now projected for 1995 is lower than first anticipated, while the 5.4 percent rate forecast for this region in 1996 presupposes a doubling of its economic growth last year.

Although recent key structural reforms in the developing countries are now providing these countries with a much greater output capacity, it is once again necessary to differentiate between countries: in many instances, policies have been applied very unevenly, with the result that a significant number of developing countries still need to do more to liberalize their economies and introduce structural reforms.

I would like to emphasize that the private capital flows, so fundamental for the economic development of any country, still hinge on two special factors: the soundness of the various markets comprising the particular country's economy, and its degree of macroeconomic stability. This is all the more true when financial markets are as globalized and quick-moving as they have become today.
But even so, we cannot deny that levels of poverty are still acute in too many countries, and that the unmet basic needs of many are still enormous.

Social development was the focus of the most recent UN summit in March 1995. It is also the first item on this Committee’s agenda, which calls for a consideration of the implications of the Social Summit for the Bretton Woods institutions. In fact, every item on our agenda is related to the subject matter of this Summit. The relevance of the Social Summit lies not only in the vitally important nature of its objectives, but also in the commitments taken on by all participating governments and institutions in a spirit of international solidarity.

The three main themes of the Summit, namely poverty reduction, employment generation, and social integration, affect the Bretton Woods institutions very closely. In view of the undertaking by the participating governments and these institutions to put the Summit’s conclusions into practice, these themes must be a priority.

Improving the standards of living and reducing poverty throughout the world is the responsibility of every party involved in this priority endeavor — industrial countries, developing countries, and the multilateral institutions that work with them. The practical question to consider is how the commitments stemming from the Social Summit actually affect the World Bank Group and the International Monetary Fund. Without any doubt, this is a question of fundamental concern to the Bank, whose primary goal is the eradication of poverty.

The World Bank has devoted serious efforts, especially in recent years, toward achieving the goal of poverty reduction. Beginning with its poverty reduction guidelines and associated operational directives, the Bank has upgraded the design of its programs and projects in a manner that gives explicit and tangible form to the struggle against poverty in its member countries.

In the context of this policy, the Bank has worked with the developing countries to analyze their public expenditure, an essential step toward ascertaining what priorities a country is financing through its budget. By definition, the budgeting exercise provides a means of redistributing a country’s wealth and serves as a powerful vehicle of economic and social policy.

It is no easy task for any country to allocate scarce budget resources to financing what is usually a long list of social needs. Nor is it a simple matter to reconcile coverage of these needs with a policy of curbing public expenditure. The situation becomes even more difficult in the case of developing countries, where the social needs to be attended to are invariably greater, and where there is ample justification for treating every goal as a priority.

The Bank has worked intensively in this field to develop theoretical instruments such as poverty assessments and, in particular, public expenditure reviews. They have contributed significantly to the knowledge of member countries’ economic realities and problems, and to the design of better economic programs focused on making government spending more effective.

The multilateral institutions play an important advisory role and provide essential technical assistance for developing countries engaged in establishing their spending priorities. As Bank studies demonstrate, a country’s commitment to poverty reduction will be reflected in part in its budget appropriations, although this is information that has to be viewed against the background of the prevailing social context and political circumstances, which reflect the country’s broader realities. Each
country's individual situation must be analyzed before its degree of commitment to poverty reduction can be determined on the basis of its spending appropriations.

The public expenditure review is nevertheless an extremely useful instrument for achieving better coordination between official development assistance from bilateral sources and the programs of the multilateral institutions. At previous Development Committee meetings, we have urged donors to coordinate their action in the interests of more efficient and effective use of scarce concessional resources. The kind of coordination made possible by the Consultative Groups is extremely important. In these forums, the use of an instrument such as a public expenditure review is essential, since it provides all donors with a source of information on a particular developing country financing priorities and on its programs awaiting funding. The Bank's leadership role in the Consultative Groups merits our full support.

In recent years, the World Bank has emphasized funding for developing countries' projects in specific social sectors such as health, education, vocational training, etc. For the future, we urge the Bank to continue its emphasis on these areas, where private sector funding is not normally available, since in most cases the services in question are regarded as public goods.

Quite apart from its lending function, it is vital that the Bank do everything possible to ensure that the best results are obtained in these areas. In our view, it is precisely here that the Bank faces one of its greatest challenges today. There is much room for improvement in the design and implementation of projects in the social sectors.

Following the Wapenhans Report, the Bank began changing its operating practices and procedures in pursuit of its own greater efficacy as a development institution. However, much still remains to be done: the loan disbursement process needs to be streamlined, procurement under project-financed contracts needs to be improved, and project monitoring and supervision need to be strengthened very considerably. It is here that our institution must concentrate its efforts in the immediate future.

Whether or not the private sector becomes increasingly involved in social areas from which it has almost always been absent will depend to a large extent on the results accomplished and the advances achieved through the work of the World Bank.

I will not conclude this statement without referring to the eleventh replenishment of the International Development Association (IDA), negotiations for which are now in progress. It is absolutely essential that IDA be kept adequately funded. It is IDA resources that are used to finance the economic and social needs of the lowest income countries. Against a background of persisting shortages of domestic public resources, serious inadequacy of external private capital flows, and almost nonexistent development of the private sector, the role of IDA takes on even greater relevance. For that reason, we must preserve the spirit of multilateral cooperation which had inspired IDA's creation; we can do this by reaching a productive agreement before the end of this year.
Statement by Mr. Carl-Dieter Spranger (Germany)

The resolutions of the World Summit for Social Development have been an encouragement to all those institutions that, like the World Bank, make poverty reduction the focus of their efforts. I am pleased to see the Development Committee responding to the messages of Copenhagen and engaging in discussions about their implementation.

I would like to thank the World Bank and the International Monetary Fund for the proposals they have submitted as a basis for today's discussion. The paper focuses mainly on the orientation of government spending toward social aims.

That is indeed very important; nevertheless another clear conclusion of the World Social Summit must also be stressed: generating income and enabling the participation of all in that effort must go hand in hand. Only those countries that establish a framework of regulatory policy conducive to a productive, development-oriented economy will have enough funds in their state budgets to finance additional measures for social equilibrium.

It has been encouraging to note that many developing countries have pursued policies over the last few years that have resulted in considerable economic growth. But neither in these nor in many other countries do the economic gains benefit a sufficient number of people. It continues to be the task of a market-oriented and social development policy to increase popular participation in production by creating jobs and thus distribute the output to a larger group.

Helping oneself and providing for one's own future should always have priority over relying on the state or the rest of society. It is the foremost task of governments and businesses to make that possible. This is yet another message of the Copenhagen Summit.

Now, with regard to the specific proposals of the World Bank/IMF paper, a country's public expenditure is certainly an important indicator for assessing its efforts for development and thus, also for the cooperation of bilateral donors with developing countries. Public expenditure reviews are an important analytical basis for the promotion of the strategy of poverty reduction and the pursuit of social policy objectives.

It is difficult to direct public expenditure to poverty reduction, as the alleviation of poverty is a task for many policy areas. The full financial impact, therefore, cannot be measured. Moreover, attention must be given to the fact that poverty reduction does not just mean the provision of social services through increased budget expenditure. What is more important is to enable the poor, through the provision of services, to help themselves. Also, the necessary structural reforms cannot be reached simply by grouping budget expenditures in a certain way.

The assessment of public expenditure is more than just a technical exercise. It should also include an evaluation of the underlying policies. Nor does it suffice to measure the volume of expenditures in a specific social sector. Expenditure for other sectors as well, including military spending, must be examined critically and put in relation to social spending. The conclusions derived from the results of a public expenditure review should be reflected in the country strategies of the bilateral donors and the World Bank. However, the criteria according to which the poverty orientation of public spending is assessed, require further elaboration.
In Germany, for the last few years we have been using five criteria, which go beyond the examination of public expenditure, to assess the political and economic framework of a partner country. These are: respect for human rights, existence of a legal framework, political participation, a market-oriented economic system, and government's commitment to development. We use these criteria to determine the volume of commitments we make and to select the priorities in our cooperation with a given country.

Poverty assessments are an additional important tool for making cooperation poverty-oriented. The World Bank deserves credit for having already drawn up poverty assessments for a large number of countries, and for planning to conduct more such assessments. Poverty assessments could be improved if they were even more participatory.

The World Bank has other instruments at its disposal to implement the decisions of Copenhagen. Some of these are listed in the matrix presented. One important example is the structural adjustment programs. Once more, Germany would like to strongly encourage the developing countries, as well as the World Bank, to act in the spirit of the decisions taken at the Social Summit by including social objectives in these programs from the very beginning, and not just soften social hardships that arise from their implementation.

The demands of the Copenhagen Social Summit must be consistently implemented in multilateral and bilateral cooperation. This meeting gives us important new ideas in this context. The World Bank activities in the social sector are to be welcomed. However, we should also be thinking about the optimal division of tasks among the international donor community. This would be possible once the Bank has identified with greater clarity its comparative advantages and disadvantages in this important area.

While dealing with issues of social policy, we should not ignore one problem that is reaching alarming proportions both in the developing and industrialized countries: the disintegration of families and the neglect of obligations toward oneself, one's family, and the community. This affects not least the poorest sections of population. They are often overwhelmed by the quickly changing conditions in their countries. More and more often people depend on public institutions to solve the emerging problems, driving governments to the limits of their capacity to act. This is why I would like to encourage the World Bank, together with other multilateral institutions, to consider giving increased attention to the issue of family in society. If we do not succeed in strengthening the family as part of fabric of society, all social programs would, in the long run, remain unrelated fragments.

Statement by Mr. Takatoshi Kato (Japan)

I would first like to express our respect and gratitude to the Chairman of the Development Committee Mr. Mohamed Kabbaj, the President of the World Bank Mr. Wolfensohn, as well as the IMF Managing Director Mr. Camdessus, for their intensive efforts to transform this Committee into a more effective forum.

At this meeting, I think it is quite timely and essential to discuss how to alleviate poverty and, in particular, how to improve public expenditure to reduce poverty. In this regard, I would like to concentrate my comments on three areas: the importance of policy to foster sustainable economic growth in poverty reduction; the diversity of effective strategy to reduce poverty; and the role of development financial institutions in relieving poverty.
In the debate on the most appropriate way for a public policy to reduce poverty, emphasis has been placed on the public expenditure specifically targeted to vulnerable people in areas such as the provision of basic social services, including primary health care and proper sanitation. I share the view that this kind of direct assistance to the poor is important. However, for the public policies aimed at reducing poverty to be sustainable, it is essential to ensure balanced and sustainable economic growth so that the poor labor force is effectively employed. In my view, the establishment of an economic environment where the poor can effectively utilize their relatively abundant resource, labor, is crucial to the increase of their income.

In an effort to foster sustainable economic growth conducive to poverty reduction, it is important to establish sound fiscal policy which, in turn, often requires sufficient government revenue through an efficient tax system. Particular importance must be attached to appropriate sharing of tax burden among various income groups, since tax structure has a significant effect in income distribution. The East Asian experience might provide useful lessons in this area, because this region has already achieved sustainable growth with reduced income inequalities, through sound fiscal management including appropriate tax policy.

With respect to the composition of public expenditure, I would like to emphasize the importance of paying adequate attention to the development of economic infrastructure, in addition to direct support for the poor. Here again, the experience of East Asia, where economic growth with reduction in income inequalities has been achieved by way of sufficient investment both in physical and human capital, is instructive. We could learn from this experience the importance of sustainable growth and the necessity to invest in physical and human resource development in the pursuit of poverty reduction.

In order to formulate the most effective public expenditure program in terms of poverty reduction, the economic environment affecting the poor, the development stage of countries, and governments' capacity to implement a poverty alleviation policy have to be taken into consideration. Therefore, the optimal poverty reduction strategy must vary country-by-country. I do not think that it is particularly productive to seek in abstract common priorities in public expenditure objectives applicable to every country. In certain countries, direct support for the extremely poor might be the first priority for public expenditure, while in others, raising the overall economic standards by investments in infrastructure could be the most effective strategy for reducing poverty in the long run. This diversity requires differentiation among countries in the design of fiscal and economic policy, including the composition of public expenditure for poverty reduction.

Next, let me turn to the role of development finance institutions in poverty reduction. As stated above, the nature of poverty differs among countries and, accordingly, there must be a different strategy to deal with it for each country. Consequently, a standardized, unified approach to poverty reduction, imposed by development finance institutions would not be desirable. I think it is quite important for the World Bank, which has broad global support; regional development banks, which have maintained operations deep-rooted in local economies; and developing countries, particularly in East Asia, which have made substantial progress in poverty reduction, to exchange their experiences and to transfer their good practice to other developing countries. This might be facilitated through further mutual cooperation among these players.

Furthermore, due attention should be paid to the implementation capacity of recipient countries, since development aid could be effective only with the existence of sound domestic policy. From this perspective, human resource development has been one of the principal objectives of the Japanese development assistance.
Lastly, many developing countries have not yet taken off on a growth path and still suffer from extreme poverty. The need for concessional assistance from development finance institutions thus remains substantial. This means that the international community, as a whole, should continue to support the activities of development finance institutions. With regard to the ongoing negotiations for the Eleventh Replenishment of the International Development Association, all countries must make utmost efforts to reach a desirable agreement. It is also important for us to reach an early agreement on the Seventh Replenishment of the African Development Fund and, last but not least, to begin work on the Sixth Replenishment of the Asian Development Fund.

I would like to conclude my statement by expressing my earnest desire that the Development Committee Task Force on Multilateral Development Banks would soon conclude their discussions and bring forward useful recommendations to this Committee.

Statement by Mr. Iiro Viinanen (Finland)

The Nordic and Baltic countries fully concur with the Summit declaration that poverty, lack of productive employment and social disintegration represent a waste of human resources and manifest ineffectiveness in the functioning of markets and economic and social institutions and processes. In fact, they are an offence to human dignity.

We welcome that the follow-up of this important Summit has been selected as the main topic of this Development Committee meeting. This meeting in itself promotes an important Summit objective: increasing the dialogue between the governments and various multilateral organizations concerning the issues of poverty eradication and social development. Hence, we support the initiative to focus the discussion of the Development Committee meeting on one of the themes of the Summit, poverty reduction and the implications for resource allocations. But we would also like to emphasize that the other principles and commitments of the Summit declaration must be integrated into the programs and projects of all multilateral and bilateral development and financing institutions. We expect the World Bank to do so and we expect to discuss these at later stages in relevant fora in the World Bank Group.

The Nordic and Baltic countries believe strongly that countries themselves must formulate, strengthen and carry through their national poverty eradication plans addressing the structural causes of poverty. Public expenditure and investment policies must benefit people living in poverty and promote the long-term improvement of their livelihoods. In this context, the Nordic and Baltic countries believe that basic social services are of particular importance. Governments must define their policies and priorities, and the international multilateral and bilateral development and financing institutions should provide their assistance within this policy framework.

The Nordic and Baltic countries fully support the World Bank in developing various tools and documentation to assist governments in measuring commitment and performance related to poverty alleviation. We see the Public Expenditure Review (PER) as a primary tool, together with the Poverty Assessment (PA) and Participatory Poverty Assessment (PPA), to measure and review the success of the efforts made. To effect a more productive use of the PERs and PAs, the Bank must always make sure that these documents are prepared, accepted and fully owned by the governments and local authorities. The formulating process should include all stakeholders, including the beneficiaries and the donor community.
The budgetary allocations to the social sectors are an indication of the governments’ commitment to sustainable human development and poverty alleviation. It is also important that the external inputs are reflected within the national budget.

In addition to analyzing the budget allocations, revenue collection is important and should be included in the PER documents. We fully endorse the call of the Social Summit for the governments to keep under review the national and local capacity in raising revenue and allocating resources to promote local initiatives. It is important to enhance domestic savings and to ensure that the taxation system is fair and transparent. The necessary international concessional funding to those countries still in need of it and showing commitment, should complement the national efforts.

Public expenditure management issues in general require increased attention. PERs should pay more attention to poverty issues, making use of existing good working methods. They should also make use of PPAs or other qualitative research in assessing constraints on access by the poor to the benefits of public expenditure and understand who benefits from public expenditure. In the PPAs, special attention should be given to the gender aspects.

The Nordic and Baltic countries find the issue of nonproductive government spending to be a particularly important part of the Social Summit declaration. The Nordic and Baltic countries support the request for the reduction of nonproductive spending, including military expenditure, as a condition for increased financial support. Moreover, the transparency and accountability of the governments’ management of public funds should be monitored in the PERs with regard to the actual utilization of the budget allocations.

We would like to draw attention to the monitoring of program implementation. The World Bank has developed an important tool, the Annual Review of Portfolio Performance (ARPP), for measuring the achievement of objectives in the Bank-supported programs. The Nordic and Baltic countries urge the Bank to further extend the ARPP by defining development indicators to measure the quality of each program. As part of the monitoring exercise, the strengthening of data collection and statistical systems could serve the future policy formulation both at national and international levels.

Furthermore, we wish to point out that development and poverty alleviation cannot be measured only in financial terms. Improved community collaboration and the involvement of the populace, as in the recently created Consultative Group to Assist the Poorest (CGAP), together with empowering the poor, developing human resources, providing employment opportunities and creating social safety nets, form other important elements for the success of poverty alleviation programs.

Improved and more efficient coordination and division of labor between the multilateral development institutions, bilateral donors and recipient countries is a precondition for creating a coherent policy environment where the needs of the poor can be addressed.

We find the recommendations of the Social Summit to be also relevant to the IMF. The IMF, in its surveillance of the macroeconomic policies and their implementation, should give increased attention to the establishment of sufficient safety nets, but without changing the macroeconomic balances. We would also like to emphasize that in the implementation of the Structural Adjustment Programs it is the World Bank’s responsibility to analyze the implications of the adjustment measures for the poorest populations.
The national context and the situation of each developing country is the most appropriate place to start and reinforce a fruitful coordination between the multilateral and bilateral development and financing organizations. In this respect we support the World Bank's recent initiative pointing towards increased decentralization of the Bank's work.

Sector programs are an efficient approach for the governments in addressing the social sector development and public expenditure programming. The Nordic and Baltic countries will continue to emphasize sector policies and programs, taking into account the needs of the poor.

We would like to highlight the need for full respect of human rights and the need to achieve equality and equity between men and women, to recognize and enhance the participation and leadership roles of women in political, civil, economic, social and cultural life, and in development.

The Social Summit conference in Copenhagen must be seen as a part of a process, which also includes the Summits in Cairo and Beijing, where the common denominator is to improve the role and situation of women. Seen together they form a strong message of commitment to generate resource allocations by the international community and its member countries.

Statement by Mr. Ralph Willis (Australia)

Today's meeting of the Development Committee is attended for the first time by the ninth President of the World Bank, Mr. James D. Wolfensohn, whose term of office will take the institution into the next century. In the short time since his appointment, Mr. Wolfensohn has already demonstrated both energy and vision in seeking to build on his late predecessor's Mr. Lewis Preston's initiatives, aimed at enhancing the effectiveness of the Bank's contribution to development.

We welcome Mr. Wolfensohn's efforts to reinvigorate the institution with a clear appreciation of its mission -- improving the quality of life in its borrowing countries -- and a renewed commitment to excellence.

The challenge facing the Bank is to reinvent itself in a form relevant to the stakeholders needs evolving into the next century. Within this constituency, for example, there is clearly a need for the Bank to become more innovative and proactive in addressing the needs of its small island member states. We wish to assure the new President of our full support as he leads the Bank through this challenge.

Mr. Wolfensohn has also provided considerable impetus to our Chairman's initiatives to breath new life into this forum. I strongly endorse the efforts being made to reform the Development Committee and its procedures. The key to rejuvenating the Committee requires that our future agendas focus on issues of significant and practical policy relevance to the development assistance efforts of both the Bank and the Fund.

It also requires a willingness on the part of the Management of both institutions to take full advantage of the guidance that this Committee can provide.

At last year's UN Social Summit in Copenhagen, leaders of governments from around the world underscored the breadth and complexity of the poverty alleviation challenge, for both developed and developing countries. In particular, the Summit drew out the links between sustainable employment
growth, the preservation and strengthening of social integration and lasting reductions in both absolute and relative poverty.

Today we have been asked to focus on the implications for both Fund and Bank operations, with particular reference to the role of public expenditures. There is no doubt that both the level and composition of public expenditures is very important to the alleviation of poverty.

A sustainable fiscal position is a necessary precondition for macroeconomic stability and the avoidance of inflationary pressures and public debt burdens which inevitably impose a disproportionate cost on the poor. More fundamentally, appropriate restraint in terms of the aggregate level of public expenditures allows adequate resources to be made available for the development of an innovative and dynamic private sector which, as experience demonstrates, provides the essential driving force for future growth in employment, incomes and living standards.

Getting the right aggregate position depends, however, on the many individual judgements that governments and societies need to make about specific public sector programs and activities -- that is, aggregate sustainability is inexorably linked to the quality of the choices governments make about the composition and structure of public expenditures. Hard judgements are needed about the comparative advantage of the public versus the private sector in providing particular goods and services, along with concerted efforts to enhance the efficiency of government service provision in those areas where the private sector solutions are not viable. Moreover, the opportunity costs associated with these choices need to be clearly identified. Transparency in budgetary decision making is fundamental if scarce public resources are not to be subverted to benefit narrow sectional interests.

Against this framework, the composition of a country's public expenditures provides useful insight into its government's priorities and commitment to the needs of its people.

We should, of course, be wary of simplistic judgements which reflect a "one-dimensional" view of the role of government. Public expenditures of a "non-social" type might well address national aspirations such as security, cultural development and institutional strengthening without which social sector programs are unlikely to be successful or sustainable. Equally, not all "social" expenditures benefit the poor. Similarly, governments need to achieve an appropriate balance between those expenditures which directly address the immediate needs of the poor and those, such as infrastructure investments or the support of an accessible education system, with the potential to produce sustained improvements in their circumstances over time. In this regard, the experience of East Asian countries such as Korea, which has successfully transformed itself from an IDA recipient to an IBRD graduate in the space of three decades, might be particularly relevant.

Nevertheless, the extensive analytical work done by the World Bank Group and others clearly shows that there is considerable scope in many countries to redirect public expenditures in a way which produces significant gains for both allocative efficiency and poverty alleviation. Too often scarce budgetary resources are being used to prop up inefficient state enterprises and to support health and education systems which are skewed in favor of those better off.

Both the IMF and the World Bank Group have an important role to play in fostering an understanding of these issues among their members and assisting them to develop and implement necessary reforms. This requires each to recognize their respective mandates and areas of comparative advantage, and to build on existing cooperative mechanisms which maximize the complementarity of their operations and avoid duplication. Both institutions need to make efforts to integrate better the
results of the other’s work, and that of third parties, into their analysis. Neither has a monopoly on wisdom on these issues. In this context, we welcome the agreement reached on June 27 between the President of the Bank and the Managing Director of the Fund on operational guidelines to enhance collaboration between the two institutions on public expenditure work.

For the Fund, the focus of its policy surveillance and adjustment support should be on the macroeconomic sustainability of the overall fiscal position. It needs to consider the fiscal and macroeconomic implications of members’ social programs, including their consequences for the functioning of labor markets and unemployment.

For the Bank, the task is to focus on the contribution of public expenditures to the longer-term objective of improving living standards for all their citizens, while working with borrowers to ameliorate the burden of adjustment on the poor.

The individual country Public Expenditure Review studies undertaken by the Bank provide a significant input to the development of the Bank’s country assistance strategies. These studies represent an important part of the dialogue on these issues with both borrowing countries and donors. In particular, they allow members to tap the Bank’s analytical expertise in drawing out the complex policy choices involved.

Ownership of these studies’ findings by member governments and other relevant domestic stakeholders, is crucial if they are to be used successfully to strengthen domestic constituencies in favor of responsible and well-directed fiscal policies. The effectiveness of consultative processes therefore needs to be constantly reviewed and enhanced.

Equally, the Bank needs to make full use of opportunities to involve other donors in these studies at an earlier stage than is now often the case, if the findings are to influence the focus and composition of donors’ aid flows. For their part, bilateral donors should ensure that their programs are consistent with the public expenditure priorities established by the governments in partnership with the Bank. Most importantly, they should be prepared to demonstrate flexibility in supporting countries’ efforts to pursue sustainable policies with an appropriate focus on effective poverty alleviation, if necessary at the expense of those which have not demonstrated such a commitment.

Unfortunately, the consequences of not using scarce public sector resources efficiently are all too evident in a number of countries. Today we will receive a status report on the issue of the debt burden of the very poorest countries. It is very difficult to generalize about the debt situation confronting these countries and more work is needed to understand the debt sustainability issues facing individual countries, but it is clear that for a number of them the challenge of financing this debt significantly increases the risks and uncertainties clouding their future development prospects. For some, a new approach might need to be considered.

We welcome the continuing efforts of both the Bank and the Fund to explore approaches to tackling what is clearly a very difficult and complex issue. It is essential that adequate efforts be made to think through all the aspects of this issue before developing a final set of proposals for consideration.

Without wishing to prejudge the outcomes of this continuing work, we see merit in further exploring options for a comprehensive framework which facilitates a coordinated response by all players, allows sufficient flexibility to address the specific needs and circumstances of individual countries, and protects the financial integrity of the international financial institutions. In some cases,
this might involve access to additional new money on appropriately concessional terms to help ease the future debt servicing burden. In other cases, it might require some form of debt stock adjustment. In all cases, however, benefiting countries need to demonstrate a clear track record of adjustment performance and a strong commitment to continuing these efforts.

A successful conclusion of negotiations for the IDA-11 replenishment, at a meaningful level, is of course crucial to the Bank's ability to assist the task of poverty alleviation in the world's poorest countries, including the heavily indebted low-income countries, and we should not allow ourselves to be distracted from this task. In this context, we are hopeful that drawing a closer link between members' IDA contributions and IBRD shares will assist in producing a satisfactory replenishment.

The current difficulties of the largest shareholder, the United States, in mobilizing sufficient resources to fulfil its obligations under IDA-10 are very disturbing. We urge the United States and other major shareholders to demonstrate leadership in this regard -- a leadership firmly based on enlightened self-interest, as the sustained alleviation of global poverty is an essential underpinning of greater international economic stability and prosperity. At their recent Halifax Summit, the G-7 recognized this and reiterated its support for the Bretton Woods institutions.

However, the Halifax Summit also highlighted the need for reform if the existing Bretton Woods institutions are to continue to cooperate effectively in the cause of sustainable development. At this forum, there is a particular focus on the implications for the World Bank Group. It is clear that the new President is already working towards identifying an agenda for change which will allow it to respond to these demands, and he has our full support in this endeavor.

In this spirit, I urge members not to lose sight of the need to provide uncompromising support and enlightened leadership to these institutions as they adjust to meet these challenges.

Statement by Mr. Jan P. Pronk (Netherlands)

Our main agenda point today is the Social Summit. The Social Summit was about the importance of social cohesion in a world more and more characterized by globalization, free markets, private initiative, exclusion of people and a lesser role of governments. These are the realities of today, whether or not deliberately chosen. Social cohesion is a merit in itself, but it also leads to higher economic growth and a more stable society. The World Bank, with its predominant role in policy dialogue and finance, has a vital role to play in promoting social cohesion, especially now that it has sustainable poverty reduction as its overarching objective.

The policy direction of the World Bank towards poverty reduction is basically correct: labor-intensive growth and investment in people, complemented by safety nets where needed. This policy will enable the Bank to promote a central role for employment generation in economic and social policies, with special emphasis on small and medium-sized enterprises and the informal sector, one of the key elements of the Social Summit Action Plan. This is relevant for both developing and transition countries. In the past years the Bank has paid much attention to investment in people, and has increased substantially its lending for social sectors. In Copenhagen the Bank announced it would continue this trend. However, implementation of labor-intensive growth, as a dimension of growth patterns directed at the reduction of poverty, is still less evident.
The poverty strategy of the World Bank was developed in the World Development Report 1990. However, the World Development Report 1995 on labor, does not build on that. Free markets and private initiative are in the interest of all of us, but only with a level playing field with respect to access and transparency of these markets. Only then does the market theory work the way it is supposed to work. Although the World Development Report 1995 does address some issues relevant in this respect, such as the importance of organizing labor, the concept of labor-intensive growth could have been elaborated far more.

Labor-intensive growth enables the poor to make use of their abundant asset, labor. Promoting labor-intensive growth means that impediments which prevent the poor from participating in this growth are addressed, whether this concerns access to land, access to credit, access to know-how, or discriminating legislation and policies. For example, lack of infrastructure and productive resources in poor communities or of safe transportation facilities for women is an impediment. Addressing and overcoming these impediments requires research and studies. Many poverty assessments have already been done by the Bank. Their quality varies and leaves room for improvement. There is also a need for a more systematic implementation of their recommendations through country assistance strategies in changing the composition and quality of the lending portfolio. On the other hand, the instrument of social assessment could be used more in project preparation to enhance project effectiveness and quality. Both, nationwide poverty assessments and project level social assessments, can be carried out only in consultation with the poor, because they themselves know best what their problems are and their own ideas often offer a good starting point. Thus, though the Bank has made progress in the past years, more should be done. Many country assistance strategies and structural adjustment programs do not contain poverty reduction strategies. The recent OED report on the social impact of adjustment operations confirms that the Bank has focused too much on stabilization and growth and too little on social and distributional aspects. Unfortunately, in its reply Management has not responded to this finding. The Action Plan of the Social Summit only adds urgency to the further elaboration of the concept of labor-intensive growth.

One of the encouraging steps the Bank has taken in the recent past is the creation of the Consultative Group to Assist the Poorest (CGAP) and the establishment of the Bank's program to support micro-finance. Helping the millions of small entrepreneurs and farmers with good ideas but without access to credit fits into the concept of labor-intensive growth and is a direct and cost-effective way of offering aid. It will help us to show that aid really works. The program will add a new dimension to the work of the Bank and help it to get a grip on factors influencing poverty at the micro-level. A number of international organizations and donors, including the Netherlands, have joined the Consultative Group, a clearing house on best practice information for governments, financial institutions, NGOs and other stakeholders. I call upon all donors and organizations running micro-finance programs to join the CGAP and contribute to its success.

Public expenditures for basic social and economic services are an important element of a poverty reduction strategy. Donors should help. That is why we discussed at the Social Summit the 20-20 compact. Governments should spend 20 percent of their public expenditures on basic social needs and donors should spend 20 percent of their aid budgets on the same. The Netherlands has made some specific proposals to proceed with the 20-20 compact so as to make it a useful instrument in international cooperation. If we can agree on this compact, it would greatly enhance the opportunities of the poor in the longer run. The Bank, in our view, should cooperate with other interested parties to become a participant in such a compact.
Structural adjustment programs should, as is proposed in the Action Matrix for the Bank, protect social sector spending, especially on basic services. This does not mean that adjustment programs should not address the cost-effectiveness of social policies, which is sometimes badly needed. This, however, might not result in a diminishing access to social services: if parents withdraw girls from schools because they are not prepared to pay school fees, reforms of social policies have failed. Public expenditure reviews (PERs) should take a thorough look, more thorough than is now the case, into what happens with the expenditures, and how they contribute to sustainable poverty reduction, including their impact on gender. Up to now, the effectiveness of PERs has been limited. The SPA forum is formulating guidelines to strengthen the PER process. The outcome of the strengthened PER process should form an essential input into the Bank’s country assistance strategies and the allocation of IDA funds. The Netherlands already observes carefully poverty reduction commitment and performance of receiving countries when allocating bilateral funds, and is prepared to rely, among others, on the World Bank analysis in this area if the quality of the PERs improves.

My final remarks concern sectoral programs. If recipient countries have proper priorities and pursue a policy of sustainable development in which poverty reduction is integrated, donors should move away from donor-initiated projects and support sectoral programs initiated and administered by the countries themselves. This should also include quick-disbursing loans. These do not need to be limited to situations of balance of payments deficits, as long as care is taken that they do not lead to unsustainable debt burdens. The Netherlands will also move in the coming years from an overemphasis on project support to more program support, and will gladly support World Bank initiatives in this area. Some warnings are in place. First, not only governments, but also the people concerned, possibly duly represented, should participate in the design and administration of the programs. Second, the World Bank should keep an adequate watch by pursuing intensive policy dialogues, thoroughly appraising the design and closely following the implementation.

The Social Summit Action Plan states that the Economic and Social Council of the UN should coordinate the implementation of the Action Plan together with the IMF and the World Bank. I wish to call upon the IMF and the World Bank to consult with the UN on the necessary arrangements to make this coordination possible. Such coordination could also be a stimulus towards increased cooperation on the operational side between the Bretton Woods institutions and the UN and its organizations. This increased cooperation is much needed.

Prepared Statements by Observers

In addition to the foregoing statements by members, the following statements were submitted by observers:

Statement by Mr. Omar Kabbaj, President, African Development Bank

I would first like to express my appreciation for this opportunity to address the Development Committee soon after my assumption of the Presidency of the African Development Bank. In my brief statement, I would first like to review the performance of the African economy in 1994-95, and its prospects in the short- to medium-term. I would, in this context, also like to indicate broadly the role that we expect the Bank to play in promoting the economic and social development of its regional member countries. I will refer in particular to the Bank’s lending activities in the area of social
development, as this is an issue to which the Committee will pay particular attention as it takes up the implications of the 1995 Social Summit for the activities of the Bretton Woods Institutions.

Africa's economic performance improved in 1994 over that of 1993, with real growth in output estimated at 1.9 percent, higher than the 0.7 percent registered in 1993. Despite this improvement, however, the growth rate was far below the average performance of developing countries as a whole; it was also well below the population growth rate. Consequently, per capita income for the region fell for the fourth successive year. The cumulative decline in per capita GDP since 1990 is estimated to be over 5 percent, although significant differences in general economic performance, and in the growth of income, exist among the Continent's subregions and countries (African Development Bank, African Development Report, 1995).

Unlike in previous years, the region's improved economic performance in 1994 was accounted for by improvements, albeit in varying degrees, in all the factors that underpin economic growth. Thus, while growth in private and public consumption accounted for the largest share in the growth of output, the beginnings of an investment pickup, as well as significant improvements in export earnings, also contributed to the improved economic performance in 1994. The positive contributions of investment and of the trade balance to growth represent the first such turnarounds in four years, and could well signify improved economic circumstances in the coming years.

Although there were considerable intra-subregional and inter-country variations in economic performance, improved growth in output was registered in all the subregions of the continent, with the important exception of the group of countries belonging to the Economic Community of West African States (ECOWAS). For the countries belonging to the Maghreb, there was a strong rebound from a negative growth of 0.3 percent in 1993 to a positive average of 2 percent, reflecting, in part, improved agricultural conditions in the subregion. And, for the Community of Eastern and Southern African States (COMESA), the average rate of growth nearly doubled from 1.5 percent in 1993 to 2.9 percent in 1994 -- following continued recovery from the 1992-93 drought, and good performance in some of the reforming countries. For the ECOWAS countries, the average growth rate slipped from 2.0 percent in 1993 to 1.7 percent in 1994, largely explained by the lower growth rate of the Nigerian economy. And although the group of countries belonging to Economic Community of Central African States (ECCAS) have yet to show a positive growth rate in the last five years -- due in large part to political instability and civil strife in the subregion -- the rate of decline was much lower in 1994.

Underlying these considerable variations in subregional economic performance are considerable differences in the economic performance of individual countries. For example, the number of countries which had growth rates above the region's average population growth rate was 21 in 1994 -- 4 more than in 1993, while the number of countries that had negative growth rates declined from 18 in 1993 to 10 in 1994. Thus, while the overall economic performance of the region has yet to reach satisfactory levels, indicators of individual country performance point to improving economic conditions in an increasing number of countries.

The average inflation rate for the region was higher in 1994, largely explained by two factors: (i) the impact of the devaluation of the CFA franc, following the exchange rate adjustment at the start of 1994; and (ii) the failure of some of the bigger countries in the region to adhere to stabilization and adjustment policies. In the latter case, policy slippage in fiscal and monetary policies have resulted in high inflation rates in some countries, and in hyper-inflationary conditions in a few others. By contrast, the pursuit of stronger fiscal and monetary policies in a large number of smaller countries has helped
these countries to reduce their budget deficits to sustainable levels and, through firm monetary policies, to control inflationary pressures.

The balance of payments situation for the region as a whole worsened in 1994, with a widening of the current accounts deficit, in spite of significant improvements in export earnings for a number of countries. Relatedly, there was considerable variation in the balance of payments situation of different groups of countries, particularly between oil importers and oil exporters. The continued rise in the world price of primary commodities, particularly of beverages and agricultural commodities, has enabled a number of primary commodity export countries to increase substantially their earnings, although growth in the output of these commodities and in the volume of exports was modest -- owing primarily to the time lag involved in increasing production. Improvements in the external environment, together with domestic adjustment measures particularly as they relate to trade liberalization and exchange rate changes, has enabled this group of countries to register an average growth rate of close to 4 percent. By contrast, oil exporters, as a group, managed an average growth rate of only 1.2 percent, largely because of the continued weakness of the world price for oil.

Africa's total outstanding external debt continued to increase to an estimated US$270 billion in 1994. The scheduled debt service also rose to over 35 percent, although the actual debt service was much lower. A number of countries did benefit from debt service reductions under the enhanced Toronto terms, and a few also used the IDA Debt Reduction Facility to retire their commercial debt. Nonetheless, the external debt overhang remains a major barrier to the region's economic recovery and to its achieving external viability. With the adoption by the Paris Club of more favorable terms, the Naples terms, there should be greater relief. Nonetheless, the overall situation remains difficult, requiring continued imaginative action on the part of the international development community.

In the course of the last decade or so, an increasing number of countries, with the support of the Bretton Woods institutions, ADB and other agencies, have put in place fiscal, monetary and exchange rate policies to create the conditions for economic recovery and growth. It would appear that with the exception of policy slippages in some of the larger countries in the region, the domestic conditions for economic recovery are increasingly being created. For example, the average overall budget deficit (as a percentage of GDP) for African countries declined significantly from 1993 levels, reflecting the adoption of measures for fiscal discipline and the identification of new sources of revenue. Similarly, efforts continued apace to either privatize or increase the efficiency of public enterprises, and to liberalize the domestic and external trade sectors. And in the area of monetary policy, although there were notable policy slippages in some countries, many others enjoyed success in controlling inflationary pressures through strengthened monetary policies.

The upturn in commodity prices in 1994-95 -- following the end of recessionary conditions and the start of stronger growth in North America and Europe -- has had a significant impact on the economic performance of a number of countries. And with the likelihood that changed world supply and demand conditions will result in prices remaining reasonably firm, though experiencing downward pressure, the prospects for improved economic conditions for primary commodity exporting countries are not unfavorable. By contrast, the downturn in net resource flows to the region -- largely consisting of official development finance -- from about US$24 billion in 1992 to US$19 billion in 1993 has had a negative impact on the development prospects of the region. Further, the likelihood of increasing external development finance is not very bright. As the downturn in official flows has, unfortunately, not been compensated by a rise in private capital flows, and as the region continues to face a serious external debt overhang, a number of countries, particularly the very poor, may, in the coming years, face a serious external resource constraint. Yet, there is growing evidence of economic liberalization,
and related measures beginning to attract private capital in some countries and sectors. This effort should, therefore, be enhanced and extended to more countries.

In assessing the overall prospects for the region, it would seem that on balance, more countries will experience improved economic circumstances in the medium-term. The combination of the progress being made in extending markets, liberalizing economies, and promoting private enterprise, together with the expected improvements in the external environment, and along with the progress achieved in some regions in resolving longstanding conflicts, may help a number of countries in achieving positive and higher per capita income growth rates than has been the case in the past. Importantly, however, these will need to be supported by the international community, particularly with respect to increasing the availability of external resources -- both official and private -- and reducing the heavy external debt burden of African countries.

As in the past, the principal task of the African Development Bank in the coming years will be to promote the economic development of its regional member countries by mobilizing external resources -- both concessional and nonconcessional -- and making these available for sound programs and projects. In addition, the Bank will continue to support the efforts of borrowing member countries in their trade and financial reform policies for greater efficiency and accelerated growth. In this endeavor, the Bank will continue to give high priority to: (i) policies and programs that promote rapid production growth; (ii) projects that aim at reinforcing human resource development; and (iii) policies and programs that aim to strengthen the foundations for long-term sustainable development. In all these endeavors, the Bank remains keenly aware that policies and programs that aim at poverty alleviation must underpin such efforts, as economic, social, and environmental sustainability all require that inroads into poverty reduction should not only be sought in the long-term, but in the short-term as well.

In the last two years or so, the Bank has experienced institutional difficulties which have not helped its ability to discharge its mandate. I am pleased to note, however, that considerable progress is being made to resolve these difficulties, given the strong resolve shown by all to restore, as quickly as possible, the ability of the Bank to mobilize the requisite resources in support of the development efforts of its regional member countries. Towards this end, negotiations on the Fifth General Capital Increase of the Bank will be held among Governors in the course of these Annual Meetings. And discussions among State Participants of the African Development Fund will resume later this month in Lisbon, aiming at an early conclusion of the consultations relating to the replenishment of the Fund. I am confident that progress in these consultations, together with the necessary institutional improvements and reforms -- which I am personally committed to and which have already commenced in earnest -- will enable the Bank to play the major supportive role that is expected of it by its regional member countries.

The 1995 Social Summit, in which over 134 Heads of States or their representatives committed themselves to the goal of global social development and to an action program that seeks to bring it about, will undoubtedly be considered as a landmark in global efforts to promote international social and economic development. The consensus reached on the conceptual level in matters pertaining to social development issues, and the broad program of action agreed to, must necessarily guide and energize the efforts of international, regional, and national bodies in their efforts to bring about social progress. The special commitment made by all present to promote economic, social, and human resource advancement in Africa and the least developed countries is particularly welcome to the Bank.

For the African Development Bank, many of the commitments entered into by the Heads of States at the Social Summit have been important guiding principles for its lending program. This is
particularly the case for programs and projects funded under the African Development Fund which has, in the recent past, targeted up to one quarter of its total lending to the social sector. Thus, the goal of alleviating poverty, the objective of promoting the full participation of women in development, and the promotion of access for all to quality education and primary health care, have been central tenets of the Fund lending program. Nonetheless, the Bank will give added attention to other commitments entered into at the Summit, and in particular those relating to: creating an enabling environment for social development; promoting full employment; incorporating social development as integral components of adjustment and reform programs; and improving the framework for international and regional cooperation for social development. It must be stressed, however, that good performance and progress on many of these aspects are significantly a function of resource availability. For the low-income countries concessional resources are particularly called for. As the international development community addresses social development, it is necessary, therefore, to take requisite measures on the financing side -- especially by augmenting concessional resources through the African Development Fund and elsewhere.

In its lending program, the Bank Group has in recent years given added emphasis to social, legal, and other factors that indirectly impinge on economic development. In recognition of the importance of transparent, accountable, and effectively functioning legal and administrative frameworks -- matters that have come to be considered under the general rubric of good governance -- the Bank Group has started to fund, although to a limited extent, projects and programs in support of the efforts of regional member governments to strengthen such frameworks. As the Bank Group believes that improved systems of governance that take into account cultural and social specificities are also essential for bringing about social development, it will accordingly strengthen its activities in these areas with the added goal of promoting social progress.

For some time now, the Bank has also been concerned with the growing unemployment problem in many of its regional member countries and the need to devise development strategies that are not only growth enhancing but also employment generating. The Bank’s African Advisory Council, composed of distinguished persons from the region, has also brought to our attention the urgent need of addressing this issue. Similarly, the importance of incorporating social issues as integral components of adjustment programs has been much appreciated in recent years. In this regard, I would like to reiterate the readiness of the Bank to cooperate with other sister institutions -- and in particular the World Bank and the IMF -- as well as bilateral development organizations, to enhance further our cooperative efforts in the areas of co-financing, adjustment lending, and social development.

In connection with our arrangements for cooperation with the Bretton Woods institutions and the rest of the development community, I should also mention our similar intentions in the area of multilateral debt, which is, of course, partly linked to the financing of social development. From our side, this subject is currently being discussed in the context of the Seventh Replenishment of the African Development Fund, and our objective will be to ensure coherence and effectiveness in addressing the multilateral debt issue with all those that are mounting similar efforts for the benefit of the poorer African countries.

In conclusion, I would like to reiterate the importance that the Bank attaches to strengthening its cooperation with international, regional, and national development institutions in the common quest to bring about the rapid economic and social development of Africa. In this regard, I would like to underline the important role of this forum for raising and tackling pressing development issues and challenges. It is our hope that in the review of the future of the Development Committee, this
important function will be taken into account, in order to enhance further the vital role of the Committee.

Statement by Mr. Abdurrahman Nur Hersi, Advisor, Islamic Development Bank

The Development Committee should be congratulated for having selected as the main item on the agenda of its fifty-first meeting the implications of the World Summit for Social Development, convened by the United Nations in Copenhagen, Denmark, March 6-12, 1995. This Social Summit was a watershed in the international community and was the first time in which governments, United Nations organizations, intergovernmental organizations, nongovernmental organizations, professional associations, and experts met to discuss and agree on a declaration and joint program of action for alleviating poverty, expanding productive employment, and reinforcing social integration. This was an eloquent testimony to the fact that, at long last, the international community had recognized that resolving these burning social problems is at the very heart of development and central to a stable, peaceful, just, and prosperous international order.

The ambitious objectives of the Social Summit were matched by the comprehensive and far-reaching contents of the Declaration and the Program of Action it adopted. Among other items, participants committed themselves to (1) creating an environment which will enable people to achieve social development, (2) eradicating poverty, (3) promoting the goal of full employment, (4) fostering stable, safe and just societies so as to facilitate social integration, and (5) enhancing full respect for human dignity and equality and equity between men and women.

Given the enormous challenge, effort and sacrifices that will be required if the goals laid down by the Social Summit are to come even close to realization, the skepticism regarding how seriously the Social Summit should be taken can be understood readily. Indeed, this doubt was raised by the former President of France, Francois Mitterrand, who, in his speech to a plenary session of the Social Summit, asked: "Is this summit a comedy before the world, or are we really determined to put social concerns on the level of the search for peace and economics?" It is vital that by the year 2000, when the United Nations General Assembly is to hold a special session to evaluate the progress achieved in implementing the decisions adopted by the Social Summit, unequivocal testimony be available demonstrating that the participants at the Social Summit lived up to their commitments and kept faith with the poor, the unemployed, the weak, and the vulnerable.

All partners in the international development effort have important roles to play in ensuring that the outcomes of the Social Summit are fully and energetically implemented. Primary responsibility in this regard rests with the governments and people, especially those in developing countries where the problems of poverty, unemployment, social disintegration, and inequality are far more acute. In the final analysis, only through the determined efforts of the governments and people of the developing countries could these countries achieve prosperity, peace, stability, and overall economic and social development. For this, they must persist with their economic reform programs and continue to strive to use their resources more efficiently and effectively.

Assistance from the international community is vital to complement and supplement the measures that will be taken by developing countries to achieve the objectives of the Social Summit. In this regard, it is essential that the international rules and arrangements regarding trade in goods and services as well as financial flows cater to the needs of developing countries, making due allowance for the fact that they have not yet reached the stage of development of industrial countries and that,
consequently, they require special provisional concessions if they are to be able to compete with the developed countries on an equal footing in the long run. In addition, developed countries must put their own economies in order, so as to achieve noninflationary and respectable growth rates sustainable in the long run. In the past, inflation, recession, and unstable economic growth in developed countries have played havoc with the economic plans and programs of developing countries.

The Social Summit has very far reaching implications for multilateral development financing institutions, given the pivotal role that these institutions play in the economic and social development of developing countries. These institutions, especially the Bretton Woods institutions, are a major source of economic advice to developing countries. Following the Social Summit, it is now incumbent on these multilateral development financing institutions to be even more active in assisting developing countries to create the enabling environment, institute the appropriate macroeconomic policies and reforms, and develop the requisite institutional capacities that will enable them to realize the objectives of the Social Summit. In doing so, they should scrupulously respect the provision in the Declaration adopted by the Social Summit to the effect that "the formulation and implementation of strategies, policies, programs and actions for social development are the responsibility of each country and should take into account the economic, environmental and social diversity of conditions in each country, with full respect for the various religious and ethical values, cultural backgrounds and philosophical convictions of its people....."

A related responsibility of multilateral development financing institutions is to ensure that the economic strategies, policies, and programs of developed countries do not have adverse effects on the efforts of developing countries. In the past, the monitoring role of these institutions has been decidedly one-sided, and has mostly been focussed on the developing countries, to the neglect of the developed countries. This bias must be corrected, given the impact of the policies of developed countries on social and economic development in developing countries.

In addition, multilateral development financing institutions must pay close attention to the rules and regulations covering international economic relations and how these impinge on the developing countries. These institutions must play the role of honest brokers so as to ensure that developing countries are treated fairly, justly, and with due regard to their stage of development. This is a sine qua non for economic growth and social integration, equality, and development in developing countries.

The Social Summit also has implications for the level, efficiency, and effectiveness of the assistance provided by multilateral development financing institutions to developing countries.

One thing that is certain is that a substantial amount of additional resources will be required if the commitments and program of action adopted by the Social Summit are to be fully and effectively implemented. These new resources would have to be essentially concessionary in nature. It is therefore imperative that the resources available to multilateral development financing institutions be significantly increased. It was a source of disappointment to many participants and observers that the Social Summit did not come up with any concrete measures regarding the mobilization of additional resources to carry out the commitments made at the Social Summit. This omission should be quickly remedied. Otherwise, the documents approved by the Social Summit will remain no more than pious declarations.

A clear testimony of the will of the international community to support its words with deeds will be the successful conclusion of the negotiations for the eleventh replenishment of IDA at a level
at least as high as that of IDA-10 in real terms. The Islamic Development Bank hopes that in the briefing on the current status of IDA replenishment discussions to be given during the restricted session, we will be informed that our hopes are well founded.

However successful our efforts might be in mobilizing additional resources, it is still incumbent on us to ensure that the resources placed at our disposal are utilized as efficiently and effectively as possible. In particular, we must tailor our interventions so as to make sure that they have immediate, direct, and maximum impact on poverty, unemployment, inequality, and social stability. This requires careful choice and design of projects as well as good management of projects.

The selection, design, and management of projects intended to alleviate poverty, reduce unemployment, promote equality, and contribute to social stability are not easy and would require significant changes in the policies, rules, and procedures of multilateral development financing institutions. Several multilateral development financing institutions have programs in this area, and it will be extremely useful for us to exchange views and information on this topic, so as to benefit from each other's experience. This should be within the framework of greater cooperation among us, which is now more imperative than ever in light of the resource constraints we all face, and the huge challenges before us in ensuring that the hopes raised by the Social Summit are not dashed.

In deciding on the practical modalities through which multilateral development financial institutions could contribute to the implementation of the decisions taken by the Social Summit, we stand to gain from the ongoing work of the Development Committee Task Force on Multilateral Development Banks which is reviewing the mandate of several multilateral development banks. The Task Force should therefore be encouraged to complete its work as soon as possible, so that we might benefit from its findings and recommendations.

The Islamic Development Bank will continue to do its utmost to assist its member countries to live up to the commitments they made at the Social Summit. Several steps already taken by the Bank should enable it to play this role effectively. These include the decision by the special meeting of its Board of Governors, held in Jeddah in July 1992, to increase the authorized capital of the Bank from US$2.9 billion to US$8.8 billion. This, together with the efforts being exerted by the Bank to mobilize greater resources from the market place, should enable it to increase the level of its lending to its member countries. A Group of Eminent Persons has presented recommendations to the Bank on how this should be implemented, and they are under consideration in the Bank. In order to respond to the needs of its least developed member countries for additional and even more concessionary resources, the Islamic Development Bank established in 1992 the Special Account for the Least Developed Member Countries. This special account provides highly concessionary assistance to these countries for projects in agriculture and food security, infrastructure, education and health, and is one of the major instruments available to the Bank for fighting poverty, unemployment and inequality. Consideration is being given to how the resources of the special account could be further augmented through voluntary contributions from member countries.

Other measures taken recently by the Bank, which should enhance its contribution to the efforts of its member countries, include: the adoption of a Strategic Agenda For the Medium Term in which poverty alleviation is included in the list of seven developmental priorities identified for the Bank; the introduction of major changes in its organizational structure so as to increase the efficiency and effectiveness of its operations; and the establishment of a Review Committee composed of distinguished individuals to evaluate the achievements of the Islamic Development Bank during the past 20 years and advise it on what steps it should take to effectively address the challenges facing it and its member
countries in the years ahead. The Review Committee has completed its work and its report and recommendations will be examined by the forthcoming annual meeting of the Bank’s Board of Governors in November this year.

The Islamic Development Bank will continue to strive to be responsive to the growing needs and demands of its member countries. In doing so, it will, as in the past, cooperate fully with other partners in the development community to reduce waste and duplication and learn from each other’s experience. We therefore look forward to the deliberations of this fifty-first meeting of the Development Committee on how we could pull our resources together to ensure that the Social Summit is indeed a success and results in a more prosperous, stable, and just future for all concerned.

I wish to say a word or two about the data presented in the background note prepared by the World Bank on the recent trends in the transfer of resources to developing countries, given the importance of this topic for the Islamic Development Bank’s member countries.

It is disappointing to note that in 1994, official development finance declined by US$3.1 billion, and official development assistance (ODA) by nearly US$1 billion. Private flows, which surged from US$46.5 billion in 1990 to US$166.4 billion in 1993, remained stagnant in 1994. Preliminary estimates and forecast regarding resource flows to developing countries in 1995 are not reassuring. They indicate decreases in both private and official short- and long-term flows. ODA as a percentage of the Gross Domestic Product of the OECD countries was at its lowest level in 10 years in 1994, and ODA in real terms is projected to remain stagnant in the coming years.

These developments are of particular concern to the Islamic Development Bank’s member countries, as 18 of its 48 member countries are in Sub-Saharan Africa and another 19 are in the Middle East and North Africa. In this respect, it should be stressed that these countries did not benefit from the increase in the early 1990s of the private flow of resources to developing countries, the bulk of which went to Latin America and the Caribbean, East Asia and the Pacific, and Europe and Central Asia. Moreover, the low-income countries, most of which are in Sub-Saharan Africa and in the Middle East and North Africa, are increasingly dependent on ODA as a source of external financing. The prognosis with respect to trends in ODA will therefore come as a bitter disappointment to these countries. It is therefore even more vital for multilateral development financing institutions to increase the value and quality of their assistance to developing countries, especially to low-income countries, and in light of the very ambitious goals of the Social Summit.

Statement by Mr. Y. Seyyid Abdulai, Director-General of the OPEC Fund

Without doubt, the Social Summit was a milestone in the affairs of humankind. The 117 presidents and prime ministers who gathered in Copenhagen on March 13 this year formed the largest gathering of world leaders ever held. As the United Nations was gearing up to celebrate its fiftieth anniversary, the various heads of state were convening in a Northern capital, preparing to set their seals upon words upon which all could agree. At this event, a remarkable consensus emerged -- in effect, an admission, that despite the hundreds of billions of dollars expended over half a century of moil and toil, all was still not well with the world.

Widespread poverty, illiteracy, disease, cultural dispossession and social breakdown were seen to be seriously undermining the global polity, while unbridled environmental pollution was threatening
the global commons. There had been success stories, it was noted, other conventions had been signed, but overall the situation was seen to be worsening or, at best, being contained.

While few were prepared to agree on why things had gone wrong, there appeared to be little argument about the present dangers. So, following seven days of deliberation by national delegations, the World Summit for Social Development produced a 90-page Declaration, a blueprint plan for the creation of more just societies. No binding commitments were signed, but the Declaration was duly adopted. And it was clearly understood that the parties would severally undertake to address the underlying and structural causes of poverty, unemployment and social exclusion. That this should be done with some urgency was acknowledged in the closing moments of the Summit when leaders pledged commitments and recommended measures aimed at "eliminating inequalities within and among countries, as they breed resentment and unrest among people and lead to threats to the security of nations, thereby hampering economic development and impeding a lasting peace."

Chapter V in the Program of Action suggested that the United Nations Economic and Social Council (ECOSOC) should consider holding joint meetings with the Development Committee of the World Bank and the IMF, and urged the Bretton Woods institutions to further integrate social development goals into their policies, programs and operations, principally by according a higher priority to social sector lending.

The final part of the Copenhagen Declaration consists of "Ten Commitments" -- few of them controversial, but all of them worthy. To be sure, achieving social development will require the creation of a widely conducive environment; the eradication of poverty is an all-round imperative for our global society; all countries aspire to achieve full employment; no country will admit to ignoring human and community rights or to pursuing discriminatory policies; all nations subscribe to the need for human dignity and equity between men and women. Moreover, access to education and health care are always high on the priority list of developing countries and practically everybody wants to see accelerated development in the least developed countries.

But the Declaration breaks new ground when it insists that economic structural adjustment programs should include social development goals. The OPEC Fund believes that it is right to urge the richer nations to significantly boost the flow of official development assistance (ODA) available for social development programs. It is right to call for an improved and strengthened framework for all levels of social development, if only to ensure that the resources already allocated are utilized more efficiently. It is certainly useful to acknowledge that only an integrated approach to the multi-faceted problems of social development can hope to succeed in enhancing the quality of life of all people. And it does no harm to reiterate their inalienable right to development.

Another proposal which should engage our attention is the so-called "20/20" initiative, which is based on the idea of donor nations allocating 20 percent of ODA for social development projects while aid-recipient countries also earmark 20 percent of their national budgets for basic social programs. The idea is essentially sound. It might represent a useful rule of thumb to encourage a minimal level of mutual commitment to the cause, but it must not be allowed to assume the force of conditionality in either the bilateral or multilateral deployment of loans and grants.

But of paramount concern to the OPEC Fund are the follow-up mechanisms to be put in place to monitor and implement these commitments. In particular, the Fund would like to see greater policy coherence and dialogue between the United Nations and the Bretton Woods institutions regarding the ongoing design of structural adjustment programs. For it is imperative that all attempts to mitigate the
many adverse social consequences of structural adjustment should engage the fullest possible participation of the adjusting countries concerned. The valuable experience that these countries have accumulated on the long road to macroeconomic recovery must not be ignored in the rush to devise new prescriptive formulae.

The ideological arena wherein the forces are ranged which determine the success or failure of structural adjustment might indeed be a necessary proving ground for the development theories of the day. But we must also acknowledge that developing countries are not guinea pigs, whose sensitivities may easily be discounted in the name of some grand experiment. For in addition to the great hardship and social dislocation wrought by structural adjustment policies, the state itself has come under unprecedented pressure, seriously weakening its ability to respond to basic social needs. Therefore, if we wish to protect the health and good order of these fragile polities it behooves us to integrate the exigencies of social development into the broader economic goals of reconstruction. The persistent failure of both governments and the wider donor community to address the plight of the poorest, most vulnerable sections of society in the South is not only corrosive of world order, but places in acute jeopardy those gains already made in restoring economic growth and democratic institutions.

The OPEC Fund acknowledges the conceptual difficulties associated with recent demands for a greater degree of "coordination" between donors, particularly between the agencies of the UN system, the World Bank and the IMF. But there can be no doubt that an enhanced role for an appropriate choice of international organization, perhaps in the areas suggested by the Program of Action, would help the whole donor community to construct a common platform, where it could speak the same language and base its work on the same, previously agreed indicators. Such a relationship should be mutually informative (not "instructive") and would help to avoid unnecessary and costly duplication at all levels of the social development enterprise, utilizing all the formal intellectual resources available.

Adhering to the spirit of the Declaration means helping developing country borrowers to protect their social expenditures during periods of economic transition, and beyond this, to focus their social spending on the poor. That means focusing on primary education, health care and the early needs of children. The OPEC Fund is well aware of the World Bank’s intention to increase its spending by 50 percent over the next three years on health, education, and nutrition programs, thereby substantially raising its current commitment to this sector from the existing 15 percent of total lending. But the OPEC Fund believes even this sum might usefully be expanded over the next decade, if the post-Cold War "peace dividend" is to have any lasting impact on the lives of the world’s poor. And other donor agencies would do well to consider a commensurate increase in the proportion of resources they are willing to commit to social development.

The role played by external assistance will be critical in catalyzing social development in the South. Many developing countries have little leeway in terms of reallocating their already meager resources. Many of them face imminent social fracturing and urban breakdown. And if developing countries currently earmark an average of only 13 percent of their national budgets for social sector expenditure, in many instances this is because their weak infrastructures and fragile societies make numerous other, more pressing demands on the coffers of state. No program of poverty alleviation can hope for effective implementation if the integrity of the state is in danger. Many poor countries, particularly in Africa, are in precisely this kind of predicament, caught in a vicious circle of deepening socio-economic decline from which they cannot escape by using their own resources.

No country in the world is untouched by the twin scourges of poverty and social exclusion and, consequently, the problems outlined in this Declaration and the accompanying Program of Action could
usefully form the basis of a new, multi-institutional North-South dialogue, unconfined by the contending economic ideologies of the past. At the core of the panoply of mutual commitments evinced by the participating delegations at Copenhagen lies the "20/20" proposal, promoted by UNESCO, WHO, UNFPA, UNICEF and UNDP. Reassuringly, the idea underpinning this proposal is that in the absence of newly committed resources, actors should simply try to lay greater emphasis on social development and improve the quality of the aid they disburse.

No new "Social Fund" or discrete institutional apparatus is required to oversee activities aimed at realizing this initiative. But a special unit within an existing UN agency might profitably be charged under the highest UN auspices with the delicate job of monitoring national and international progress in these areas. If implemented, it is estimated that the proposal could net an additional US$8 billion from the donor nations for social development projects around the world, as against the US$4 billion presently allocated from existing aid budgets. More significantly, such a unit could ensure that monies claimed to have been diverted from other purposes actually have gone to the social sector.

It is also important that the necessarily general tone of the Declaration does not simply provide an excuse for bureaucrats to engage in a protracted and sterile exegesis of what was originally intended by the sovereign parties meeting in Copenhagen. There are established ways of measuring progress, for example, in promoting health, literacy and alleviating poverty in the world, and the international apparatus for reporting back on success and failure is already well oiled. We do not need to reinvent the wheel to accomplish this task, but we do need to work closer together; we do need to hold the same road map in common.

None of the declared objectives of the Summit conference can be hermetically sealed off from one another. Moreover, we have understood from our recent multilateral deliberations on the pressing problems of capital flows, population growth and migration, among others, that the social problems which confront the North and the South are practically indivisible. It is quite probable then that the principal demand emerging from the Copenhagen consensus will not be for more resources or a new flurry of official activity, but for a new modus operandi aimed at coordinating what we have already at our disposal, and at concentrating results-oriented assistance to a narrower band of social development projects on both sides of the North-South divide. We must step back for a moment and pause. We should be prepared in all honesty to take our eyes off the aesthetic cut of our cloth and look to see if our fine clothes actually fit the mannequin!

We inhabit one world. But that does not imply that the business of social development should set out to impose an artificial uniformity throughout the human habitat. People cannot and will not be standardized. The process of enabling and empowering the more disadvantaged societies, first to identify and then to realize their potential, could better take place against what the OPEC Fund believes should be a celebration of human cultural diversity. The glittering systems and technologies which are supposed to help us pursue this goal are rather analogous to a loaded gun; not evil in themselves, but capable of inflicting great harm as easily as they may do great good.

In the industrialized world, a new breed of self-styled "evolutionary psychologists" have recently been investigating what they see as the inevitable tension within conservative ideology between laissez-faire economics and family values. This, they argue, has given rise in the late twentieth century to widespread clinical anxiety, the decay of community and the repression of our social instincts. Economic growth, they say, has not only brought a crippling divisiveness in its wake, but also a whole array of isolating technologies which reduce natural contact with our fellows, make us dissatisfied,
untrusting and unfulfilled. This, it will be agreed, amounts to a certain extent to an indictment of the process of "modernization" which the nations of the South are presumed to wish to emulate.

The main thrust of this literature, of course, has been addressed to the "cutting edge" societies in the West and, specifically, to what many would describe as a deep malaise, now perceived to be firmly ensconced in the technology-intensive economies of most Western countries. But, I would argue, we should also recognize that such processes have their corollaries in the world’s developing regions, in societies which are, arguably, undergoing even greater, more radical transformations. Indeed, the potential for social fragmentation and disaffection among the teeming millions of the South has never been higher.

In short, the development enterprise in which we are all so earnestly engaged has never seemed so fragile. From the standpoint of the developing world, and donor agencies such as the OPEC Fund which are rooted in that world, the shortcomings of Copenhagen lay not so much in the definitional problems of detail contained in the easy promises made in the Program of Action, but in the apparent lack of any real desire for change demonstrated by the more powerful nations present. Still, in place of the "objectives" and "principles" commonly featured in previous UN conferences, the Copenhagen Declaration has now presented us with fresh "commitments," avowedly designed to secure "the basis for launching a global drive for social progress and development," in effect, to provide light at the end of the tunnel. Such are the semantics of hope among our disunited nations.

Despite the Program of Action being fully discussed during the proceedings, governments appear unlikely to release adequate resources to enable national and international agencies to follow through on its tentative suggestions for improving social development. Some nations have made commitments to reduce the debt burden of the most heavily indebted countries, while others have launched optimistic proposals for new funding mechanisms, including some form of international taxation. Attempts to reorientate policy have already begun. The OPEC Fund notes with interest the move by one well-known, industrial donor country to appoint Social Development Field Managers to handle multi-disciplinary teams working on selected bilateral aid projects. This is certainly a step in the right direction. Of course, words are important; it does matter what we call a thing, but one has to wonder if simply changing the umbrella will in itself be sufficient to bring the desired wind-change.

We have to be realistic. After all, no extra money is on the table. The impetus achieved at Copenhagen now seems in danger of getting lost in a diplomatic quagmire. Some might argue that it was over-ambitious from the outset, that its broad concerns were too all-encompassing to result in a binding, practical commitment by a political community of nation states. Nevertheless, the Summit did produce a useful measure against which all the principal actors in development might be persuaded to gauge the effectiveness of future projects and policies. And if we do not, at least, make an attempt now to realize some of the declared objectives of the conference, we shall only be storing up trouble for ourselves later. In a world of widening inequalities there can be no durable peace.

When inaugurating the final meetings of heads of state at the close of the Summit, the Secretary-General of the United Nations, Mr. Boutros Boutros-Ghali called for a sense of solidarity both within and between nations, which would not permit "those who are privileged to ignore those who are poor, vulnerable and marginalized." It remains to be seen whether his call will go unheeded.
NOTICE OF MEETING

The 51st meeting of the Development Committee will be held on Monday, October 9, 1995, commencing at 9.00 a.m. in the Meeting Hall of the International Monetary Fund, Washington, DC.

PROVISIONAL AGENDA 1/

1. Implications of the Social Summit 2/
2. Multilateral Debt 3/
3. IDA Update 4/
4. Review of the Future of the Development Committee 5/
5. Other Business 6/

1/ The President of the Bank and the Managing Director of the Fund will each provide a brief statement, in advance of the meeting, focussed on the agenda topics. A short background note on Recent Trends in the Transfer of Resources will also be made available prior to the meeting. The Chairman of the Task Force on Multilateral Development Banks will submit a progress report for Members’ information.

2/ An issues paper prepared by Bank and Fund staff and discussed by Bank and Fund Executive Directors on September 5 and 8, respectively, will serve as the basis for consideration of this topic. Members’ statements prepared for circulation before the meeting should focus primarily on this topic. Main points of those statements received at least 24 hours in advance will be highlighted in the Chairman’s opening statement to the plenary session. The plenary session on this occasion will be limited to statements by the Chairman, the IMF Managing Director, the World Bank President and the Secretary-General of the United Nations.

* * *

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3/ During the restricted session (which is expected to last from 10:15 a.m. to 12:30 p.m.), the Committee will be briefed on the current status of the Multilateral Debt topic, following the discussion at its April 1995 meeting.

4/ During the restricted session, the Committee will also be briefed on the current status of IDA replenishment discussions.

5/ During the restricted session Members will be asked to consider a note on Recommendations to Strengthen the Development Committee and formally close the Review of the Future of the Committee which was held over from last year. The Committee will also be asked to select an Executive Secretary on the basis of a proposal by Mr. Wolfensohn and Mr. Camdessus.

6/ The Chairman’s lunch for Members, the President and the Managing Director will take place from 12:30 - 2:30 p.m. Mr. Wolfensohn will present his preliminary assessment of issues facing the Bank and invite Members' views. Members will also be asked to approve the Communique at the close of the lunch; the final draft of the Communique will be completed at an informal meeting of interested officials immediately following the end of the restricted session.
COMMUNIQUE

1. The 51st Meeting of the Development Committee was held in Washington, D.C. on October 9, 1995 under the chairmanship of Mr. Mohamed Kabbaj, Minister of Finance and Foreign Investment of Morocco. Ministers welcomed World Bank President James D. Wolfensohn to his first meeting of the Committee. The Committee was pleased that, for the first time, the United Nations Secretary General, Mr. Boutros Boutros-Ghali, addressed the Committee.  

2. SUPPORT FOR POVERTY REDUCTION Ministers reviewed the implications of the United Nations' Social Summit Declaration. They focussed particularly on how World Bank and IMF efforts to reduce poverty could be strengthened through enhanced policy dialogue with governments, based in part on results of poverty assessments. Ministers agreed that multilateral development institutions should accelerate their investments in social sectors and poverty reduction programs. The Committee encouraged the Bank to strengthen its efforts to promote broad-based, labor-intensive growth through increasing access of the poor to land, credit and basic infrastructure.

3. Ministers agreed that efforts to improve the composition and efficiency of public expenditures were needed. The Committee urged the Bank and Fund to work closely with member governments to help them improve their public finances, especially by increasing attention to funding social and economic development programs and reducing non-productive spending (including excessive military expenditures) within a framework of sustainable economic growth.

1/ Mr. Michel Camdessus, Managing Director of the International Monetary Fund, and Mr. N’Goran Niamien (Côte d’Ivoire), Chairman of the Group of 24, also took part in the meeting. Observers from a number of international and regional organizations also attended.
4. In this context, Ministers agreed that donors' support should be consistent with governments' public expenditure programs. The Committee urged donor governments to continue to strengthen assistance for countries demonstrating strong commitment to social sector investments and other high priority poverty reduction programs. The Committee also urged them to take steps to reduce administrative burdens on aid recipients.

5. **INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)** Ministers recognized the importance of supporting the implementation of effective development policies and programs with adequate resource flows, especially of concessional funds, if poverty is to be reduced. The Committee recognized that funding reductions facing IDA present a very serious risk to poverty reduction and economic growth in the world's poorest countries. Ministers agreed on the importance of a significant replenishment of IDA.

6. The Committee expressed great concern that potential reductions in contributions to IDA were likely to jeopardize its future and stressed the great importance donors attach to equitable burden-sharing. The Committee urged all donors which have not done so to honor their commitments and continue the strong support which has marked IDA's 35-year life.

7. Ministers agreed that every effort should be made to meet the essential financing requirements of poor countries as reflected in IDA's lending plans, and to protect IDA's multilateral character.

8. **MULTILATERAL DEBT** Ministers resumed the discussion of multilateral debt begun at the previous meeting. Ministers agreed that current instruments should be sufficient to bring debt and debt service for the majority of heavily indebted poor countries down to manageable levels. For a small group of countries, however, this may still leave an unsustainable debt situation, a problem for which appropriate approaches need to be further explored. Ministers requested the Bank and Fund to continue their work on this issue, including detailed country-specific analysis of debt sustainability, and, after presenting their findings and recommendations to the Executive Boards, to report with proposals to the Committee at its next meeting.

9. **EXECUTIVE SECRETARY** The Committee selected Mr. Alexander Shakow as Executive Secretary.

10. **NEXT MEETING** The Committee's next meeting will be on April 23, 1996, in Washington, D.C., when its agenda will include consideration of the Report of its Task Force on the Role of Multilateral Development Banks.
### Members

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<td>Ibrahim Abdul Karim (Bank) and National Economy (Fund)</td>
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<td>Leonard Mseka (Bank) and Barnabas S. Dlamini (Fund)</td>
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<td>Orlando Bareiro Aguilera (Bank) and Paraguay</td>
<td>Julio Nogues (Bank) and Carlos Saito (Fund)</td>
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**Alternate Member:**
- **Governor:** Hamad Al-Sayari, Governor, Saudi Arabian Monetary Agency
- **Minister of Finance:** Muhammad Ai-Jasser
- **Alternate Member:** Hamad Al-Sayari, Governor, Saudi Arabian Monetary Agency
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<td>Iiro Viinanen</td>
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<td>Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden</td>
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<td>Minister of Finance Finland</td>
<td>Jarle Bergo</td>
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<td>Ralph Willis</td>
<td>Peter W.E. Nicholl</td>
<td>Australia, Cambodia, Kiribati, Republic of Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Papua New Guinea, Solomon Islands, Vanuatu, Western Samoa</td>
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<td>Treasurer Australia</td>
<td>Ewen L. Waterman</td>
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<td>Gerrit Zalm</td>
<td>Eveline Herfkens</td>
<td>Armenia, Bulgaria, Croatia, Cyprus, Georgia, Israel, former Yugoslav Republic of Macedonia, Moldova, Netherlands, Romania, Ukraine</td>
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<td>Minister of Finance Netherlands</td>
<td>J. de Beaufort Wijnholds</td>
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<td>Alternate Member:</td>
<td>J. P. Pronk</td>
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<td>Minister for Development</td>
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<td>Netherlands</td>
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Observers

African Development Bank

Omar Kabbaj
President

Delphin G. Rwegasira
Director
Development Research and Policy Department

Arab Bank for Economic Development in Africa
(Associate Observer)

Ahmed Harti El Wardi
Director-General

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Office of the Director-General

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Abdulatif Y. Al-Hamad
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Jassim Al-Mannai
Director General and Chairman of the Board

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Mitsuo Sato
President

Commission of the European Communities

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Head of Unit
Directorate General North/South Relations

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President
Abdurrahman Nur Hersi
Adviser
Suleiman Ahmed Salem
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Abdul Aziz Jalloh
Acting Director
Economic Policy and Strategic Planning Department
Richard Carey
Deputy Director
Development Cooperation Directorate
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Secretary-General
Jean-Claude Milleron
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Roger Lawrence
Director
Global Interdependence Division

International Fund for Agricultural Development

Islamic Development Bank

Organisation for Economic Cooperation and Development
Development Assistance Committee
(Associate Observer)

OPEC Fund for International Development

United Nations

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UNDP  
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