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

Chairman: Tarrin Nimmanahaeminda, Thailand

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

The Joint Ministerial Committee of the Boards of Governors of the World Bank and the Fund on the Transfer of Real Resources to Developing Countries – the Development Committee – held its fifty-ninth meeting on April 28, 1999, 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 9:05 a.m.

Introductory Remarks by the Chairman

The Chairman made the following introductory statements:

Distinguished members of the Committee, Mr. Ruggiero, Mr. Wolfensohn, Mr. Camdessus, ladies and gentlemen, it is my privilege to call to order the 59th meeting of the Development Committee. I would like to welcome the members and their delegations and extend special greetings to our new members, to the new Chairman of the G-24 and to the observers of the Committee.

We have a very full schedule today. So I think we should get right down to business.

First is the adoption of the agenda. Ladies and gentlemen, the provisional agenda for the meeting has already been circulated, and I assume that we can take that agenda as adopted.

So the agenda is adopted.

The second business is arrangements for the meeting. Please allow me to summarize briefly the arrangements for our meeting today. In a moment, I will ask Mr. Ruggiero to address us. We shall then hear from Mr. Wolfensohn, Mr. Camdessus and Minister Peiris, the Chairman of the Group of Twenty-Four. After that I will report on the main points from the members' prepared statements, which have already been circulated to your delegations.

The restricted session will then follow from about 10:00 a.m. to 12:30 p.m. in the Fund Board Room on the twelfth floor. Then, we shall focus on agenda items 1.A, the Heavily Indebted Poor Countries' Debt Initiative and 1.B, Principles and Good Practice in Social Policy.

At the end of that session, just before we break for lunch, we shall hear a brief report on the special Bank-Fund meeting on the Kosovo situation, held yesterday evening.

The luncheon for members will be held on the second floor in Room 2-530 from about 12:45 p.m. to 2:30 p.m. Then Mr. Wolfensohn, Mr. Camdessus and I will have a press conference in Room B-702 at 3:45 p.m. Of course, as usual, interested members of delegations are welcome to attend.

In just two days, the Director-General of the World Trade Organization, Mr. Renato Ruggiero will complete his term. He has been a tireless advocate for a strengthened international trading system and for the importance of trade expansion to sustain economic growth and development. Thus, I am particularly pleased that we have this opportunity to benefit once again from Mr. Ruggiero's experience, wisdom and advice.

Statement by Mr. Renato Ruggiero, Director-General of the World Trade Organization.

The world economy is vastly more open, integrated, and competitive today than it was fifty years ago when the Bretton Woods institutions and the GATT were created. Twenty-five percent of global output is now traded internationally, and national economies are increasingly tied together not only through trade but through foreign direct investment and international capital markets as well.

As globalization advances, the task of managing the international economic system successfully becomes more essential, but it also becomes more complex. It necessitates much closer cooperation in designing and implementing mutually supportive trade, financial and development policies than was the case in the past. The IMF, the World Bank and the WTO have special responsibilities to meet this challenge, and increase the coherence of global economic policy-making.

The financial crisis and its aftermath have dominated the international economic agenda for the past two years. If it had erupted onto a systemically weak trading system, the consequences would have been unimaginably worse. The WTO has been a pillar of strength and stability for the global economy as the depth and extent of the financial crisis has unfolded. It is functioning well and effectively, and has given governments and the private sector confidence that the situation, while deeply worrying, can nonetheless be managed. Steady integration of the world economy has seen stronger and more sustainable growth taking hold throughout the developing countries, leaving their economies generally in much better shape to confront the current economic difficulties.

The crisis has led to a huge and complex process of economic re-adjustment taking place, not only in the crisis-hit countries but globally. Many basic and traditional relationships have been disturbed. One example is the emergence of large global trade imbalances, with consequent risks of destabilizing exchange rate movements and protectionist pressures. Until stability is restored, the private sector will be faced with significant new uncertainties, notably in international trade.

Much of the international community's attention is being focused quite properly for the time being, on restoring order to financial markets and on undertaking necessary adjustment measures in the crisis-hit economies themselves. While it is vital that these efforts continue, they need to be complemented by policies to assist long-term recovery of economic growth and development in the world economy.

Concrete steps to further liberalize international trade and strengthen the trading system have a central role to play.

For the crisis-hit countries, increased exports and imports are an absolute necessity as they take steps to rebuild their foreign exchange reserves, re-establish their creditworthiness on world financial markets, and restore growth in their economies. Without such a prospect, their acceptance of the current situation cannot last long, nor can a crisis-management strategy alone succeed. Re-invigorating trade-led growth is important for ensuring that the next few years produce a balanced and sustained recovery in the global economy.

In November, WTO Members will hold their Third Ministerial Conference and formally launch new trade negotiations. The Conference will provide a unique opportunity to take new initiatives under the WTO's mandate from a broader perspective than has typically occurred in the past – the perspective of comprehensive global economic governance. We can no longer be satisfied with pursuing the trade, finance and development agendas in an artificially separate way. Clearly, specific responsibilities, mandates and decision-making processes must continue to be respected scrupulously, but the manifold complementarities and synergies that exist must be seized and acted upon. The links between resolving international debt and balance-of-payments problems, increasing market access, enhancing supply responses and capacity-building in developing countries – in short restoring sustainable, broad-based economic growth in the world – need to be explicitly recognized. Progress needs to be made on all fronts in a concerted, coordinated way.

Ideally, we would wish for a world economy that is growing broadly and strongly and is in sound macro-economic and financial health as the best background for the Ministerial Conference and for launching new trade negotiations. In fact, the global economic situation this year will present many serious distractions from the agenda of further liberalization. Trade ministers, in close cooperation with Finance and Development Ministers, must ensure that the negotiations are not thrown off course. Problems in one area cannot be solved independently of the others.

The Annual Meetings of the IMF and the World Bank will be held in Washington just eight weeks before the WTO Conference in Seattle. Finance and development ministers should take that opportunity to throw their weight behind the launching of an ambitious agenda of WTO negotiations. The WTO deserves their support. It has proved its worth in the past two years by preventing any reversal towards trade restriction during the Asian financial crisis. New WTO negotiations, aimed not only at further trade liberalization but also at strengthening the international economic system, can complement the IMF and World Bank's own efforts to restore sustained growth and development and tackle the systemic challenges of globalization.

Statement by Mr. James D. Wolfensohn, President of the World Bank Group

Mr. Chairman, let me thank you for the work you have done in preparing for this meeting and in getting us organized. And let me add my own personal thanks to Renato Ruggiero for not only his period as head of WTO but his friendship and his devotion to international causes over very many years.

We in the Bank and I, personally, think the whole world has benefited enormously from Mr. Ruggiero's advocacy on the issue of trade which, of course, plays tremendously to the issue of development. Renato, I wish you great success and great happiness.

This meeting today is one which comes, as you know, at a time when, as the Managing Director has pointed out, we appear to be through the worst of the economic crisis. But there is a downside: we in the Development Committee and in the Bank are deeply concerned, continue to be deeply concerned, about the issues of poverty and the issues of development.

The impact of the crisis on developing countries, as you know, has been disproportionate both in economic terms and in terms of poverty. As we have seen in the Indonesia, Russia, and Latin America, it is the poor who are the most marginalized and the most dangerously affected at time of economic crises. At this moment we need to stand back and ask what it is that we can do; what is our assessment of the situation at this time?

Taking a general look, all of us are somewhat concerned not just that we are unlikely to achieve the DAC targets – for which gains will probably be reversed in all but South Asia and China – but that the absolute poverty numbers are growing. The number with which we work now for those people living under $1 a day is 1.3 billion. Later this year when the new poverty statistics come out for 1996, there is a pretty good chance of it moving up again to a billion and a half people.

And so the concern I think we share as we approach the new millennium is to look at the issue of these growing absolute numbers. And to consider that in the next twenty-five years, another 2 billion souls will be added to our planet, with all the pressure on resources on the environment that will imply. Consider, too, that the issue of equity has not been properly dealt with in recent years. This will be a real challenge for us in the future as we see the difference between rich and poor countries becoming greater, and the difference between rich and poor within countries becoming greater as well.

These are not just philosophical, moral or social issues. These are really practical issues which affect our achievement of the DAC goals and which will affect stability as we look forward and as we look forward to increasing the levels of investment and general economic growth.

So for us, this is a central focus, and in this context a number of the items on the agenda today are relevant. The first one is the HIPC Initiative, an initiative in which we welcome the leadership of many who are trying to increase debt relief. The Bank welcomes this effort, subject, of course, to it being done well and in a sensible way so that it is focused and appropriately financed. We will have an opportunity later in the day to address that issue.

We will also be dealing with the issues of good social policy. I have distributed a paper which reflects the Bank's own experience and which will be the basis for some debate as we try to address the question of social equity and as we go forward on the basis of a country-by-country analysis.

What is troubling, in addition to those two issues is, of course, the environment in which we are operating now, focused, as we saw last night, by the issue of the conflict in Kosovo. I need hardly remind this group that it is not just Kosovo. We have conflicts and genocide and ethnic cleansing throughout Africa. We have conflicts in other parts of the world which are deeply pressing and deeply disturbing and no less dramatic in human impact.

And so the whole question of post-conflict reconstruction – and support during the conflict – for those souls who are affected, is becoming a great item for us. We have raised these questions and our international community needs to come up with new processes and new resources to allow us to deal effectively with the dramas of conflict while they are occurring. We need to examine the impact on adjacent states while conflict is occurring, which is true in Africa, as it is true in Kosovo. We need to deal with the particular problems immediately following the cessation of conflict and before reconstruction begins and then, of course, with the issue of reconstruction itself.

I was delighted last night at the outpouring of support for an initiative in which the Bank will play a role, along with our colleagues in the Fund and with the European Commission, to look at the questions in Kosovo particularly. But let me add again: not just Kosovo, but the whole question of post-conflict around the world.

In this context, I would like also to comment on the approach which we have launched, which seeks to focus our attention on some of the particular activities of the Bank and our sister organizations in the regional development banks, which I am happy to see them represented here. This approach goes beyond lending for projects to deal also with the structural and social components of the development process.

We are looking at something which is not new, this so-called Comprehensive Development Framework, but it is a call which appears to be resonating. It is a call which is saying simply that, as we approach this new millennium, as we look back on our achievements in a project and programmatic approach, let's take a very careful look to make sure that we have the whole picture. As we think about finance, sound macro policies, sound growth policies, the side which is so eminently conducted by the Fund, let's also ensure that the structure and the social programs that underpin that are in place. Because without structure, without governance, without an attack on corruption, without banking systems, without judicial systems, without legal systems, you can have great macroeconomic policies weakened significantly, depending on the structure on which they are built.

And we propose to be talking about that later today, but much less here than we will over the next twelve to eighteen months as we examine and explore, with the cooperation of our partners, the issues of development in a comprehensive way.

And here, I want to express my thanks to other agencies, to the UN system generally, to the regional banks and to the non-governmental organizations which are joining us in this review of the way in which we approach development.

Let me say that this approach builds on work that we are already doing with the Fund. This linkage with the Fund is, I believe, strong and secure and I am delighted that we have the support of Mr. Camdessus and his colleagues.

Finally, in the course of today we will be looking at the strengthening of the international fora and the capital adequacy of the Bank Group. These are issues which have been debated and discussed.

For my part, I simply want to say that I believe that the cooperation which exists within the present framework between the Bank and the Fund is indeed very strong. And I am looking forward to a strengthening of the relationship in terms of whatever architecture emerges. I want to assure this Development Committee that over a very difficult time our two organizations have come through in an effective manner, and that our relationships, I am happy to say, with our colleagues in the regional banks are strengthening and improving. In every way, I believe the community has been created, and I look forward, in terms of the Comprehensive Development Framework, to an extension in a more focused manner to include the private sector and civil society. It is very clear as we approach the millennium, that it is not just the Development Committee or the Bank or the Fund that are going to make the difference on poverty. It is all of us, together, within the international system, the WTO, the UN. It is only standing together that will allow us to face the challenge of poverty in the years ahead.

Statement by Mr. Michel Camdessus, Managing Director of the International Monetary Fund

Mr. Chairman, thank you very much, and thank you for all your work in helping arranging for these meetings. I really would like to repeat the strong and thoughtful remarks of Jim, particularly on our very strong cooperation. This is exactly the way in which I see things.

From time to time, I am surprised that, in spite of all these efforts, Jim, apparently there are people who doubt that to the point that I am asking myself if there are not people around trying for a job in coordinating us or in reconciling us. But, okay, creating jobs is a good thing in the present world.

Let me begin by welcoming the remarks of Mr. Ruggiero. His insightful remarks underscore the importance of opening markets for the prosperity of individual countries in the world economy and the need to move ahead with further liberalization, including soon on a new Multilateral Trade Round that can be particularly beneficial for developing countries. And I am particularly grateful to him for what he has done during his tenure at WTO, namely his particular insistence on LDCs. Of course, here we talk more about HIPC countries, but the two groups are almost synonyms and his actions certainly give the extra dimension needed to our own efforts in giving a new dimension to the debt relief operations.

I also wish to thank him for his contributions over the years. I had the privilege to be his colleague, of course a very, very junior colleague, when he was serving his own country, Italy, and Europe, before he moved to serving the world in his last position. And, of course, I think I can say that I know his secret.

Now today I can reveal this because you are retiring. His secret is that he has always been a man with a dream. Of course, there are many people with a dream, but Renato's dream is first about the common good; second, Renato is a man who in all his positions has realized his dreams. And this is due to his formidable talents and even more, if possible, formidable energy.

He leaves us with an extraordinary example of public service, and indeed I must tell him that I have frequently observed him in complicated situations, and he has been a source of envy at times for his success, and always a source of inspiration.

Mr. Chairman, since our last meeting, I think we can say that progress has been made in resolving the financial crises. However, while some emerging markets are showing signs of recovery, others remain fragile. Also, the growth prospects of many developing countries have been affected by continued weakness in commodity prices and reduced access to external financing.

The economic and social costs of the crisis have been severe and have set back the successful efforts of these countries to improve their living conditions. Therefore, we must redouble our efforts to speed recovery, reduce the risks of future crises, and mitigate their social and economic costs when they occur. We have learned a lot. We have a lot to do, and let me touch on only a few main tasks this morning.

The strengthening of the architecture of the international financial systems aims at placing countries in a better position to tap the opportunities for higher growth and poverty reduction offered by globalization, and indeed reduce the risks of disruptive swings in capital flows. This requires strengthening international and domestic institutions, and promoting transparency and good governance in the public and private sectors to help markets, and especially financial institutions and corporate structures, to function better.

Much has been done or I have the impression that much has been done because we have been working very hard. But we are still in the midst of construction, and many plans need to be completed for the new house.

Within the Fund, we are encouraging our members to align practices with the fiscal transparency code. Our work with the BIS and others on a Code of Good Practices of Transparency in Monetary and Financial Policies is at an advanced stage, and we have strengthened the Fund's special data dissemination standards. Other agencies have developed or are working on standards in other areas. Also while trying to maintain a careful balance between transparency and confidentiality in our dialogue with countries, we continue to make efforts to observe the golden rule of transparency in our policy advice, our operations and our views on the policies of members.

We are also considering ways to strengthen the Interim Committee to ensure a comprehensive and inclusive approach to the problems all of us face. The changes are all not very visible indeed yet, but at least you see this new table, and I am told that it has helped to make more lively, more congenial and more effective, perhaps, the work of the Committee. This is good architecture.

We are examining--most seriously I must say--how to involve the private sector more fully in forestalling and resolving crises while encouraging investment in emerging markets and developing countries. Yesterday, the Interim Committee endorsed, on top of that, something that is a very, very substantial change in the life and instruments available in the Fund, namely the establishment of a Contingent Credit Line that would be available to members pursuing sound policies and encouraging the constructive involvement of the private sector.

There is a lot of potential for change through the very existence of this instrument. This will not mean that it is an instrument with no access limit. This will not mean that we will spend a lot of money, but the instrument has been designed for producing something much better than money spent, namely better behavior, more aggressive action by all countries in reducing their own vulnerabilities, and then being able to generate more and higher-quality growth.

Of course, much remains to be built, and we must press forward, especially in implementing those reforms on which consensus has been reached. This will require, among other things, helping countries to develop the capacity to implement and sustain the agreed reforms. It will require enhanced collaboration between the Fund, the Bank, the international community and the private sector. We are working to this end, as exemplified by our enhanced collaboration with the Bank on financial sector issues.

These efforts will need to be supplemented by actions by individual countries. Industrial countries must respond to the particular needs of developing countries, and especially of low-income countries, by sustaining global growth, opening their markets, and reversing the declining trend in official development assistance. I keep repeating, ladies and gentlemen, that we are possibly winning the battle of debt alleviation, but for sure we are losing the war of bringing the official development assistance where it should be.

Now, the promotion of human development and the protection of the neediest must be a central element of all these efforts. Since the outset of these discussions, these debates on architecture, I have been repeating that an architecture without a social pillar would be a construction nonsense. You know that the social dimension has been much present in the Fund's dialogue with members in recent years. We will continue to work hard in collaboration with the World Bank and others to further integrate this dimension of development in our policy advice and Fund supported programs. And the World Bank paper before us on Principles and Good Practices in Social Policy should help guide our combined efforts in this domain.

Jim Wolfensohn's proposal for a Comprehensive Development Framework can also make an important contribution towards a more integrated development process. It could provide a broader, longer-term perspective which would most usefully complement the joint country Bank-Fund medium-term policy framework papers, which have been such a valuable operational vehicle for this integration and in identifying financing requirements. We look forward to the Bank making the CDF operational and to collaborating in this effort.

We are also working together to support the poorest developing countries in debt relief. You know perfectly well that we have examined a wide range of proposals for greater debt relief. I am now confident that we will be able to enhance this initiative, including by developing a stronger linkage -- and I think this would be by itself a very important progress -- between debt relief and poverty reduction and other social policies. But this will require additional financing and we need your active support to fully fund the new requirements of the ESAF and HIPC Initiatives. Full funding is, of course, coded language as far as the IMF is concerned; we are talking about an optimization of the use of IMF reserves. This in more plain language means sales of gold.

I was delighted yesterday to see that this last session of the Interim Committee was the occasion when the consensus on this issue appeared to be universal. And you can be sure that we will expeditiously build in this consensus -- expeditiously, but also with the appropriate prudence. We don't want to scare the market. We will not be unwise and allow these sales to depress the price of gold because it would be shooting ourselves in our own feet. We will not do that.

Current events in the Balkans are a stark reminder of the human misery resulting from conflict. On Kosovo and any other place in the world where countries are overwhelmed with refugees and by all the consequences of conflict from war, the Bank and the Fund are exactly of the same mind. I don't need then to repeat to you how satisfied I was with Jim yesterday to see this first official launching of a major broad operation for facing the consequences of war there. But as the delegate from Zambia reminded us yesterday, there are many, many places in the world where such a situation is silently developing its dramatic unacceptable consequences and we must be very alert to that and multiply our efforts to alleviate this suffering.

Well, Mr. Chairman, I have talked enough, but let me add one word on post-conflict. You know the changes we have introduced in our systems in order to be more efficient, including the countries with very high overdues to the IMF. I would like to tell you nevertheless that in doing that, in going here also beyond what a reasonable conservative approach would recommend, we have the strong feeling that for our enhanced efforts to be fully effective, they will need to go forward in a framework of intensified efforts of the entire international community to ensure the preservation of peace and the transition from conflict to high quality growth. There is no more frustrating experience than to see so-called post-conflict countries assisted by us go back to war.

Statement by Minister G.L. Peiris, Chairman of the Group of Twenty-Four

I am privileged to have this opportunity of addressing you on behalf of the Group of Twenty-Four. Ministers are of the view that the external environment for developing countries remains more difficult and uncertain. Implications of recent financial crises are likely to be deeper and more prolonged than in earlier assessments. The world economic outlook is still bleak. Current projections indicate a continuation of weak economic growth, a sharp slowdown in international trade, depressed commodity prices and declining capital inflows to developing countries.

We are concerned about the increasing frequency and severity of financial crises and their contagion impact on developing countries, including those who have followed sound economic policies. In this context, we welcome the World Bank's efforts in enhancing assistance to developing countries, particularly in addressing structural problems and social issues and promoting capital flows to developing countries.

We welcome the growing consensus on the need to restructure the HIPC Initiative, as such changes would help in securing more robust debt sustainability and enhance the poverty-reducing impact of debt relief. We support the recent proposals for improving the intensity and coverage of debt relief under the Initiative, consisting of suggestions for relaxing the eligibility criteria, increasing the magnitude of debt relief, shortening the period required to benefit under the scheme and providing additional resources during the interim period. While noting the slow progress in mobilizing required resources, we emphasize the need for appropriate burden sharing and finding adequate alternative sources of financing. We welcome the recent expression of intent by bilateral creditors to support the idea of restructuring the HIPC Initiative and their willingness to forgive part of poor countries' debt. The World Bank's efforts in finding an effective solution for the HIPC countries with protracted arrears is encouraging, and we urge the Bank to develop a mechanism in collaboration with other creditors.

We appreciate the successful conclusion of the IDA-12 replenishment but express serious concern about the persistently declining ODA flows, which now stand at 0.20 percent compared with the UN agreed target of 0.70 percent of OECD GNP. We urge the donor countries to complement their contributions to the HIPC Initiative and take steps to reverse the declining trend in ODA.

While welcoming the efforts of the Bank in assisting the post-conflict countries, we wish to stress that the coverage of such facilities has to be expanded to include surrounding countries that are affected by conflict situations or at risk of conflict.

We welcome the comprehensive development framework (CDF) under discussion which emphasizes the need to maintain a balance between macroeconomic and social concerns. However, we are concerned about the planning capacity of member countries and external partners and potential cost implications for borrowers. As the CDF is still evolving, we emphasize the need for closely monitoring the Pilot Programs with a view to further refining the approach with experience gained. We appreciate the emphasis on partnership and coordination with other institutions, civil society and the private sector in pursuit of poverty reduction, which is its primary objective.

We endorse the basic principles of promoting social development stipulated by the "Copenhagen Declaration" and support coordination by UN agencies on implementing these principles. International financial institutions and regional development banks should participate according to their respective mandates and comparative advantages. In this context we welcome the World Bank's efforts in developing Principles of Good Social Policies. However, we stress that it is important to pay attention to country-specific characteristics in formulating principles and good practices of social policies, as differences exist among countries in policies and stages of economic development.

Finally, I would like to express my gratitude to the President and the staff of the World Bank on behalf of Group of Twenty-Four and I assure you of our fullest cooperation in assisting economic development in developing countries and alleviating poverty.

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Chairman's Summary of Main Points Made in Ministers' Prepared Statements

HIPC

This subject will be covered in depth in our discussion, but the following key points provide a good indication of ministerial concerns:

There was a warm welcome for the burst of new interest in strengthening the Initiative, for the additional principles set forth by the Bank and Fund to guide next steps, and for the broader HIPC review now underway.

Ministers also stressed the importance of a continued strong policy link in any modified Initiative, including an increased focus on poverty reduction—and the suggestion that the Bank develop a list of best practices on how to establish this link.

There were many calls for making the Initiative faster, deeper and broader—with a variety of specific detailed suggestions on how to accomplish this.

The suggestion was also made, however, that the list of countries might better be reduced in order to achieve durable results in a few countries.

Many ministers focused on the financing issues, including the warning that expectations not be raised unrealistically given the increased costs involved in the current initiative, let alone in the more ambitious new proposals.

Ministers reiterated the importance of protecting the financial integrity of the IFIs, although many also asked that the IFIs see what more they could do to help cover their costs.

There were strong pleas for more equitable burden-sharing, both bilaterally and multilaterally.

Many donors/creditors indicated steps they had taken or were taking to reduce ODA and other bilateral debt, and many stressed as well the importance of <u>not</u> substituting debt relief for ODA.

We were also reminded of the important role played in HIPC by the non-Paris Club creditors.

Principles and Good Practice In Social Policy

This subject will also be a topic for discussion in the restricted session, many very helpful comments were set forth in the prepared statements. The following key points were made by a number of ministers:

Most endorsed the two-track approach set forth in the Bank's paper, including the focus on further developing the principles in the United Nations framework.

The Bank should focus particularly on helping interested countries including those recovering from financial crises implement social policies.

Many ministers noted that these principles and their implementation must be part of the much broader overall effort by the Bank to help countries reduce poverty and promote pro-poor strategies.

Ministers agreed on the importance of such social policies and goals, as the impact of the Asian crisis had brought vividly to the surface.

At the same time, a number of ministers cautioned that these principles should not be applied blindly, no matter the country circumstances—that is, "one size does not fit all"—and that they should not be used to promote a protectionist agenda.

Resource constraints were highlighted, and the Bank was urged to help countries mobilize needed resources.

Especially given this constraint, a number of ministers stressed that there were many tough trade-off issues which should be faced—for example, how to design effective social safety nets with limited budgets.

Many ministers noted the importance of integrating these principles into the CDF, country assistance strategies and other key documents and practices. They also urged the close involvement of the IMF, the regional banks and other partners—including the private sector—in this effort.

Bank Group Capital Adequacy

There was widespread appreciation that the Bank Group was in strong financial condition, and that the first priority for all was to preserve the Bank's financial integrity.

At the same time, ministers recognized that it was important, given the current and potential demands on the Bank, that management work closely with the Board of Executive Directors in assessing how the Bank and IFC could continue to meet the expectations of its shareholders.

Ministers asked the management and Board to return in September with a set of balanced options on how to achieve this objective based on a review of IBRD and IFC priorities and related financial issues.

Many ministers stressed that maintaining the financial strength of the Bank was the responsibility of all shareholders; the financial options should reflect this, including the possibility of a general capital increase.

Many ministers stressed that Bank lending should continue to stress long-term development goals and poverty reduction, with less emphasis on fast-disbursing emergency loans—although others thought it important to be able to continue to provide such support when needed by members.

Ministers also suggested that limits be placed on net income allocations and that further approaches be found to reduce administrative costs. Many ministers also discouraged further increases in loan charges.

Review of the Interim Committee—Development Committee

Ministerial comments varied on this subject, but nearly all made clear that they thought there was need to rationalize the roles of the Interim and Development Committees to address the broad range of demands presented by debates on the new international architecture.

To help eliminate duplication and overlap between the committees, ministers indicated they could support a number of different proposals which introduced greater parity and division of labor between the two committees, but there was no consensus on any one option. Various additional ideas were also put forward.

Ministers urged that recommendations by the Boards be made by the next meeting of the Committee.

Comprehensive Development Framework

Ministers welcomed Mr. Wolfensohn's CDF initiative. It was seen by some as a broad vision which should change the mindset of thinking about development; others saw it as a process or a vehicle for achieving major improvements in development cooperation; still others saw it as an experiment in development. All stressed the importance of its core features—country-ownership and partnership. At the same time, they recognized translating the CDF into reality would not be easy; many ministers offered their governments' help in the effort.

Ministers also had many suggestions for the Bank and other partners: donors needed to set aside their traditional national priorities to help meet the country's priorities; partners needed to become much more selective in their focus, building on comparative advantage in the interest of strengthened aid effectiveness; they should give special help to those countries which need support in taking over the driver's seat; and the community of partners needed to be broad, including the IMF.

There were valuable cautionary words expressed as well:

The Bank was encouraged to gain wide acceptance and country-ownership before moving too far down the CDF track—although others suggested infusing World Bank behavior immediately with many of the attitudes reflected in the CDF.

The Bank should focus on pilot countries where results are likely to be most significant, based on clear criteria; moreover, the pilots should be carefully evaluated and monitored with the involvement of the Board of Executive Directors.

The Bank should be careful about the potential in the CDF for increased costs to borrowers.

The implementation of plans with a 15-20 year time horizon is not easy for most governments—or for the Bank, so some time should be spent thinking about how to address this problem.

One minister said the Bank should be seize opportunities that arise while trying to develop this more holistic, coherent approach.

Assistance to Post-Conflict Countries

Ministers were generally satisfied with the progress achieved by the Fund and Bank since the last meeting, although there was some concern that as yet there were no firm conclusions concerning a joint Bank/Fund strategy. Ministers had a good many individual suggestions, among which were:

Establish a link to the HIPC program, but not as a substitute for a post-conflict strategy;

The Bank should focus on non-lending services, greater development of its capacity to understand the political, social and cultural issues, and not over-stretch its budget.

There was no consensus on a special overall trust fund, which some thought premature in any case, although there was some support for country-specific funds as needed;

Resource Flows

A number of ministers remarked on the decline in certain types of resource transfers, and particularly the sharp reduction in ODA flows which are so important for poverty reduction.

In this context the successful conclusion of the IDA 12 replenishment was especially welcome.

IFC/MIGA were encouraged to develop plans to promote increased private sector flows.

Bank Cooperation with Regional Development Banks

Progress in strengthening relations with the regional banks was welcomed, as was the candor of the President's report. These links were seen as especially important in light of the CDF partnership approach.

While ministers emphasized the value of protecting the unique strengths of each MDB, it was noted that current arrangements seemed too ad hoc and unstructured, especially with the opportunities now offered by increased delegation of operational authority to Bank field offices.

Ministers had many suggestions on areas which could be strengthened in the future. These included harmonizing approaches on policies and procedures designed to reduce burdens on borrowers; more joint operational work; more common analytical and research work; increased cooperation on regional issues; greater attention to problem identification and evaluation; and a proposed new working group on poverty reduction.

Other

Kosovo—a number of ministers highlighted the importance of the Bank and Fund working closely with other partners to address the great needs resulting from the crisis in the Balkans.

Partnership for Capacity Building in Africa—the Sub-Saharan African ministers reported on significant progress in establishing the Partnership on firm ground, and on the development of a Trust Fund.

Strategic Compact—progress in implementing the Bank's Strategic Compact was welcomed, including the vast number of internal Bank reforms; the Bank was encouraged to meet the Compact goals within the budget guidelines.

Small States Task Force—progress in the work of this group was noted, and it is expected that the report will be available by the next Committee meeting.

HIV/AIDS—special concern was given to this subject by an African minister, requesting that the Bank work on developing a broader strategy to address this problem in Africa.

Prepared Statements Circulated by Members

Statement by Mr. Abdul-Karim (Bahrain)

The Comprehensive Development Framework

Development has always been a complex, multi-faceted process shaped by political, economic, social, and cultural dimensions. In the past, the approach to development remained largely dominated by the emphasis on growth. It remained so until the experiences and the lessons learned during the 1960s and 1970s showed the need for change. Especially in the aftermath of the debt crisis in 1982, a strong case for a reorientation in the concept of and approach to development started to emerge. In 1981, the World Bank had adapted to the evolving circumstances by restructuring its lending to include financing for policy reform and structural adjustment, as a complement to its long-standing support for physical investments.

Learning by doing and through experience continues to be the cornerstone of our pursuit of a better understanding of the discipline of development.

Mr. Wolfensohn's proposal for a comprehensive development framework attempts to address development issues in a holistic framework with full recognition of the complementarity of the macroeconomic, structural, social and human dimensions. It presents a challenge to governments and other participants in the development business to work together more effectively in mutual complementarity, reducing and eliminating wasteful duplication. In this sense, it is a management aid for advancing the development agenda: all involved in development will be expected to play their roles within the agreed elements of the framework and its development objective.

The proposal rests on the premise that macroeconomic aspects are important for development, but are not more so than the structural, social, and human dimensions. This recognition calls for an all-inclusive development approach of two equally important and complementary areas of activity.

This consideration, of course, leaves no room for arguing the primacy of one side of the coin over the other. The mandates and functions of the IMF and the World Bank are equally important, and close cooperation between the two institutions to achieve consistency of policies and complementarity of operations needs to continue. Under the proposed CDF, the two institutions will need to explore further ways of strengthening cooperation and enhancing coordination to reinforce the effectiveness of their operations.

The proposal has potential to improve information flows between all participants in the development process, with the prospect of more efficient cooperation in meeting both the short and long-term objectives of developing countries. Nevertheless, the CDF's long-term horizon, inclusiveness, and prerequisites pose considerable challenges.

We are prepared to support the proposal with the understanding that the CDF is an experiment in development to be implemented on a pilot basis. We consider that it is a framework for development objectives and cooperation which can be supported by the World Bank based upon government endorsement, ownership and leadership. We will be particularly interested to see how far its potential is exploited for helping to eliminate duplication of work among different participants in promoting development.

World Bank Cooperation with Regional Development Banks

The need for closer cooperation between the World Bank and the regional development banks is becoming increasingly more pressing in view of the accelerating globalization and the challenges emanating from economic and financial crises. The constraints on limited resources strengthen the imperative for exploring opportunities for increasing the efficiency and effectiveness of development assistance. Strengthening cooperation among the MDBs, in particular by avoiding unnecessary duplication of work, is one way of achieving such goals.

The MDBs embarked on this route three years ago, and have by now achieved considerable progress, albeit in varying degrees, at the country and regional levels in the policy, operational, and institutional areas. We welcome the progress achieved thus far. But we also note that MDBs will be making further efforts to broaden, deepen, and intensify their collaboration, and will be moving forward to meet the remaining challenges facing their stronger and closer cooperation at the policy, country, and institutional levels.

Team work through working groups can be instrumental in strengthening MDBs' cooperation, as evidenced by the significantly important progress made over the last year in areas such as procurement and evaluation, among others. Nevertheless, we believe that it is appropriate to consider establishing a working group among MDBs to address the overarching objective of poverty reduction. The enormous challenges of poverty alleviation can be more effectively met through the concerted efforts of MDBs, and their intensified collaboration on all poverty issues. As a working group, the pool of expertise and experience available to MDBs can play a critical role in moving forward the poverty agenda.

However, I should emphasize that the pace of moving forward in any of the areas mentioned requires an institutional culture conducive to an atmosphere of cooperation built upon mutuality, complementarity, partnership, and understanding. MDBs staff need to re-adjust to this new culture, in order to ensure that they provide advice in a spirit of collaboration and team work. Furthermore, an increased willingness to allow one development partner to take the lead in a particular aspect of the analytical work which does not require duplicative or even joint efforts will improve the efficiency of all development partners.

Assistance to Post-Conflict Countries

A very large number of the poorest countries have unfortunately been affected by violent conflicts. It was appropriate for the Development Committee to recognize the need to provide more effective support for post-conflict countries and call for the formulation of guidelines for the work of international financial institutions. The recent events in the Balkans have given more urgency to this task. We note the work that has been done by the Bank and the Fund in this respect since our last meeting in October, as explained in the Progress Report, and we look forward to its completion by the time of our next Development Committee meeting.

We underscore, however, that the task of assisting countries affected by conflict is a complex one and requires considerable resources well beyond the capacity of international financial institutions. We, therefore, emphasize the need for more intensified efforts by the international donor community and better coordination of efforts of the many international and bilateral organizations involved.

In fairness, we should also give consideration to including in the review the need for enhanced support to those developing countries suffering from natural disasters.

Statement by Mr. Al-Assaf (Saudi Arabia)

Thanks to the efforts of the Governments of developing countries in crisis, and of the international community, a deep global recession has been averted. But, the severe adverse social effects of the financial crisis will linger on. Today, the ongoing crisis in the Balkans, albeit different, is causing a social crisis of enormous dimensions to innocent people in the region.

The collective punishment, the ethnic cleansing, the massacre and deportation of hundreds of thousands of ethnic Albanians in Kosovo, has produced a human tragedy of a proportion that has not been seen in Europe since World War II. The massive flow of displaced people puts a huge strain on the social and economic infrastructure, especially in Albania which has received the majority of the displaced Kosovars. The international humanitarian efforts are indeed welcome. In response to the crisis, Saudi Arabia immediately provided emergency assistance to refugees. Efforts are also currently underway to extend to them further assistance, including medical supplies and health services.

The challenge for the multilateral development institutions is how to bridge the gap between humanitarian aid on the one hand, and social, economic and physical reconstruction, on the other hand. In this context, the framework developed by the World Bank to assist countries in conflict should be applied in such a way as to accelerate the alleviation of human suffering and support the efforts of neighboring countries directly affected by the crisis.

Turning to Asia, the financial crisis appears to have been contained, while the social crisis deepens. It will require a long and concerted effort by affected countries to regain lost ground in human development.

The decline in the growth rate of trade due to the crisis has severely affected the prospects of the commodity exporting countries, many of whom are among the poorest countries. As the recent issue of Global Development Finance indicates, commodity prices in 1998 plunged to a historically low level, and their impact was not fully offset by similar drops in the prices of finished products. Indeed, contrary to prevailing perceptions, real oil prices have on average declined since 1974, and were in 1998 lower than in the 1920s. The decline in commodity prices has also contributed to the slowdown in global economic growth. The multilateral institutions should strengthen their efforts to help these countries recover from such a severe shock. In this context, the next Global Economic Prospects should focus mainly on addressing the problem of falling commodity prices.

I welcome the substantial progress made to date under the HIPC initiative, and note that the pace of implementation continues on track. We appreciate the many proposals that have been put forward to strengthen the initiative. I note, however, that the costs associated with these proposals, especially to the multilateral institutions, are substantial. We should, therefore, be mindful that whatever changes are made to the current framework, they should not undermine the financial integrity of the multilateral institutions. Preserving the financial integrity of the World Bank and its preferred creditor status in a global environment characterized by increased risks is crucial, and is in the interest of all member countries. It is also essential to continue to provide adequate flexibility in considering the modality of donor participation in the financing of the initiative.

I strongly endorse the view of the World Bank and the IMF management's recently distributed statement on the HIPC initiative, that trade liberalization needs to be reinvigorated so that products of HIPCs have unrestrained access to industrial country markets. I also note the concern that recent bilateral proposals to strengthen the initiative could be at the expense of new ODA flows from OECD countries.

The continued progress since 1996 in strengthening World Bank cooperation with the regional development banks is indeed welcome. There are many areas where strengthened cooperation among the MDBs can reduce transaction costs and deliver large benefits to borrowing countries. Analytical work, sharing information on best practice and lessons of experience, harmonization or convergence of policies and procedures, joint operational work and cooperation on regional issues, are good examples. The Bank is to be commended for its efforts in these areas. Of course, the Bank should be mindful of the need to further cooperate with the regional funds in the Middle East.

Needless to say, cooperation between the MDBs should be based on the utilization of the unique strengths of each while preserving and respecting each other's mandate. Cooperation between the World Bank and the regional development banks can become more difficult when the Bank, intentionally or inadvertently, steps over the border lines of activities of the other institutions. In this context, I note the statement made in the report to this Committee that cooperation between the World

Bank and each of the regional development banks “varies widely in coverage and content at the country level, and sometimes an adversarial spirit and a mutual lack of trust among staff limit cooperation”.

At the country level, the World Bank and regional banks should strive to foster a strong partnership with the government that ensures government ownership and leadership in the development and implementation of development programs, strategies, and projects. Forging a strong partnership between the World Bank and regional development banks on the one hand, and between them and the government on the other hand, based on respect for institutional identity and country ownership, forms the first important stepping stone to the Comprehensive Development Framework (CDF).

The CDF emphasizes partnership that involves a larger set of participants than the MDBs and the government. To the extent that it also encompasses other multilateral institutions, bilateral donors, and civil society, the challenge of promoting cooperative partnership while strengthening government ownership and keeping the country in the driver’s seat, becomes even more difficult. I agree, however, that the partnership approach embodied in the CDF should be based on the principle of shared responsibilities and distinct accountabilities.

Drawing from the experience of the Asian crisis, the CDF recognizes that sustainable development requires the maintenance of a careful balance between macroeconomic fundamentals and social, institutional and structural concerns. It is not clear, however, how the IMF, which is mandated to take the lead on macroeconomic issues, would fit into the framework.

The holistic approach embodied in the CDF has a far reaching scope that may arguably extend beyond the Bank’s mandate. There is no doubt that a multitude of factors has implications for development and for poverty. Each of the many international institutions has been set up to perform within its respective mandate certain activities that separately, but in a complementary way, would contribute to development and poverty alleviation. Their combined efforts would do so more effectively. The CDF should reduce duplication among partners, and promote greater selectivity. This selectivity should also mean that the Bank could lead in certain sectors, follow in others, and resist being drawn into activities that lie outside its mandate.

Given that many operational issues can only be resolved during implementation, the CDF should not be seen as a blueprint to be applied to all countries in the same manner, but rather as an evolving process. Many developing countries, however, do not possess the required capacities to manage and monitor this process. Capacity building should be a pre-requisite for the CDF. The Pilot Program should be carefully monitored and the experience be used for further refinement of the process.

If properly managed and implemented, the CDF could provide new opportunities for developing countries, especially the poorer ones, to move successfully and progressively along the development path.

Finally, I welcome the successful conclusion of the IDA-12 Replenishment and I reaffirm the strong commitment of Saudi Arabia to the core objectives of IDA, particularly the reduction of poverty. However, care should be taken not to entangle IDA in issues that properly belong in other fora, or to divert its scarce financial resources into marginal or experimental areas that are not part of its core objectives.

Statement by Mr. Aninat (Chile)[1]

This meeting is held, again, with a background of troublesome problems. Last year, during the previous meetings, I expressed that “the crisis appears to mean that capital flows to developing countries are likely to decrease and also be more volatile. This situation is cause for great anxiety.” Unfortunately, six months later, that anxiety has proven to be well founded.

Nevertheless, these immediate anxieties should not preclude us from thinking on the long-term fundamentals. Sharp downturns of economic cycles should make us more, and not less, concerned with the sustainability of long term growth, as it is well documented by the recent crises in East Asian countries. It is in this context that we welcome the Comprehensive Development Framework and strengthened cooperation among international development institutions.

The Comprehensive Development Framework (CDF)

We receive the CDF as a very important management tool that will substantially help achieve sustainable growth. The holistic approach embodied in this framework is a refreshing idea. As a tool towards a more efficient coordination and use of scarce resources, it has some important characteristics in addressing the issues of:

Governance and the political economy of reform: To attain development effectiveness, technical and economic solutions are necessary, but not sufficient, conditions for success. As the recent experience of transition economies demonstrates, institutions matter, and they matter a lot. The CDF is right in highlighting them along with other traditional boxes.

*Ownership, partnerships and coordination***:** The lack of these characteristics has been the Achilles heel of many development efforts. The CDF tackles these problems because it is an integrated approach that exploits the synergies among different actors of the development scenario: MDB, Government, NGOs, the private sector, etc. This comprehensive inventory of players avoids duplication, waste of resources and crowding-out.

Results: Many development efforts stress the necessity for more input. The CDF stresses outputs. As a management tool, it is well-focused on results. In other words the CDF emphasizes efficiency. Furthermore, this approach creates a more solid accountability chain for all the actors including, of course, the World Bank Group.

Scope and Role of the World Bank and the IMF: Overlapping, duplication and lack of coordination should also be avoided between the WB and the IMF. The CDF attempts to improve on the division of labor between those institutions by separating the “*real*” issues from the “*financial*” matters. We do know that a black and white separation makes no sense, due to the intense interaction between both sectors. However, interaction is one thing and duplication, confusion and, sometimes direct contradiction, is another thing.

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[1] On behalf of Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay.

Time frame: Governments are elected for relatively short terms. The CDF is a management framework to help them in this effort on a longer-term perspective. The participatory nature of the CDF and its concomitant disposition to listen and empower the people and the governments of the client countries, allow for a flexible application of the CDF to different governments and different government styles.

The issue of strategic selection of goals and instruments is central for the CDF to become an efficient tool for development. Consequently, *selectivity* should play a crucial role within the CDF's holistic approach, as it is the case with the Bolivia pilot.

Programs for Assisting Countries under Special Circumstances

We very much endorse the coordinated strategy approach being advanced together by the Bank and the Fund to establish a post-conflict assistance framework. Duplication of efforts implies inefficiency in the use of resources and it should definitely be avoided. We also endorse the development assistance to post conflict countries on a *case-by-case basis* given the heterogeneity and uncertainties involved in these situations.

The Bank's involvement in countries emerging from conflict must be addressed in a middle- to long-term context. The focus and weight should be on strengthening the peace process. Hence, we must be sure that the probability of reversals, setbacks and failures is minimal, thus reducing the risk of a backslide into conflict. In all cases, early involvement of the Bank and the Fund in coordinated actions among creditors and donors has to be provided under the reassurance about the sustainability of the process. As we have mentioned last year, the Fund and the Bank have a "crucial catalytic role in mobilizing external resources that certainly helps to foster a **sustainable process** of reconstruction."

Furthermore, taking into account the *fungibility* of money, it becomes absolutely necessary at this juncture that military expenditure be halted or frozen in order to guarantee the long-term benefits of assistance.

It is imperative to set up agendas for assistance to post conflict countries under the HIPC initiative. Post-conflict countries usually exhibit potentially unsustainable debt burdens and arrears to bilateral donors and multilateral institutions. To alter the type, duration and amount of debt relief for countries emerging from conflicts constitutes a much broader framework to provide the help and support needed. A long-standing solution to the debt problem of the poorest countries will emerge in conjunction with a well-defined instrument such as the HIPC initiative, restructuring of IDA loans, and specific assistance.

Nevertheless, the enhancement of this type of assistance depends on an accurate set of precise criteria to guide exceptional assistance. A huge effort is still needed in this realm where more clear-cut and cautious definitions should be advanced on the allocation of funds for assistance. In particular this Chair encourages:

- focused assistance on non-lending services.
- Provision of support on cultural and social issues that further expands knowledge and understanding of post-conflict countries.
- Provision of support without over-stretching the Bank's budget envelope

A trust fund is one the Bank's instruments to get financing ready for post-conflict countries. To mobilize support for exceptional cases may end up, in given situations, displacing (crowding-out) normal lending operations. Therefore, in order to improve the efficient management of the assistance being provided to post-conflict countries, a *contingent trust fund* (which is not the same as a trust fund for contingent purposes) may be a good instrument. We are looking forward, by the next Annual Meetings, to the paper by the action group on "institutional and financial options for addressing the gap between relief and development."

On Bank Group Cooperation with Regional Development Banks

We welcome the enhanced consultation among the presidents of the MDBs as well as the increased country and sector collaboration. However, the Bank report on "Progress in Strengthening World Bank Cooperation with the Regional Development Banks" leaves us with the flavor that this collaboration and coordination is still ad-hoc and not well-structured.

There have been improvements in some important fields, in particular the agreement on a *Master Bidding Document* for the procurement of a large share of goods to be used by all MDBs. We also welcome the working groups considering the issues of environment, governance, infrastructure and finance.

The direction of change is right but we still think that a lot has to be achieved at the strategy level (deeper discussion of collaboration in the CAS document) and at the ground level (joint missions). Furthermore, we do not see much progress in the area of research and joint economic and sector work. These are important fields where we would welcome greater collaboration and coordination.

We encourage the Bank to take the lead into a more structured approach to coordination and collaboration among the IFIs. In this sense, we look forward to receiving the completion of the "Memorandum of Understanding" between the Bank and the ISDB, which will outline the main elements of their cooperation.

Conclusions

We are convinced that the foundation set up at Bretton Woods more than half a century ago should be adapted to a changing world that has been shocked by the information revolution. This change, even if slow, has to be steady.

Statement by Mr. Evans (Australia)[2]

The fallout from the global financial crisis has involved widespread economic and social disruption in a number of emerging market economies. Together, the World Bank and the International Monetary Fund are playing a prominent role in helping these countries tackle the broad macroeconomic, structural and social policy challenges they face. Progress is being made in

[2] On behalf of the constituency comprising Australia, Cambodia, Kiribati, Korea (Republic of), Marshall Islands, Micronesia (Federated States of), Mongolia, New Zealand, Palau (Republic of), Papua New Guinea, Samoa, Solomon Islands and Vanuatu.

countries such as Korea, Thailand, Brazil and even in Indonesia, notwithstanding its difficult political circumstances. Economic and financial sector viability is being restored and efforts are being made to protect the poorest, while work continues to redress the underlying structural weaknesses revealed by the crisis. In parallel with these efforts, the international community needs to press ahead with reform of the international financial architecture. While some progress is being made, it is crucial that we not lose our sense of urgency or purpose as crisis-affected economies bottom-out and recover.

Today's agenda reminds us of the importance of social policy issues, alongside macroeconomic and structural concerns. It also reminds us of the continuing difficulties confronting the world's highly indebted poor countries, and the particular challenges faced by those emerging from conflict and natural disaster. Finally, it underscores the need to continue to strengthen effective collaboration between the IFIs.

The Comprehensive Development Framework (CDF)

There is no doubt that development is a social as well as an economic process. The CDF underscores the enormity and complexity of the development challenge. However, while recognizing the importance of synergies and sequencing, this should not preclude opportunistic approaches to reform. Moreover, it is the country itself which must take the lead on managing the trade-off and tensions involved. Outside partners, such as the World Bank, can assist in defining the breadth of the agenda and in better understanding the interrelationships but must resist the temptation to try and be all things to all clients. Indeed, the CDF's practical value for the IFIs, including the Bank, lies in its potential for sharpening focus and clarifying the comparative advantage of each agency.

The most important operational challenges posed by the CDF for development partners are therefore those of selectivity and coordination. We hope that the proposed country pilots will identify practical means of strengthening both of these, while enhancing overall development effectiveness. The Executive Board will need to work closely with Bank Management on the lessons that emerge from the pilots for the Bank's own operational policies.

At the same time, the Bank and the Fund need to continue to improve their ability to assist those members whose limited institutional capacity make it difficult to frame a comprehensive long term development agenda.

Principles and Good Practice in Social Policy

Recent experience in our region has underlined the importance of giving due attention to the social dimension of development. There is now wide appreciation that the credibility of adjustment programs can turn on perceptions of whether or not they are socially disruptive.

The ten key commitments agreed in the 1995 Copenhagen Declaration remain relevant, and we agree that the UN is the appropriate forum in which to further elaborate on these. Our discussion today should move beyond declarations and add value by focusing on the difficult judgments and trade-offs involved in implementing sound social policies. Such trade-offs include: how to ensure that minimum social protection and flexible labor markets can be mutually reinforcing; how to design effective social safety nets in conditions of severely restricted budget resources and weak implementation capacity; how to strengthen public sector schemes, while preserving the social role of the informal sector; how to accommodate essential structural reforms while minimizing the social costs.

Social cohesion is fundamental to development, but external development partners should be humble about their ability to influence this. Moreover, while IFIs have much expertise and experience to contribute on social issues, they should be wary of ‘one size fits all’ policy prescriptions.

The Bank can play a useful role helping members focus, in a pragmatic way, on the link between specific social policy options and longer-term poverty alleviation gains. Emphasis on this linkage is the best way to ensure that the Bank’s legitimate social agenda is not derailed by protectionist interests. We would be very concerned if the Bank were to be associated in any way with a de facto protectionist agenda.

A clear focus on contributing to enhanced aid effectiveness is also important given the challenge of obtaining additional external resources for social policy considerations.

The HIPC Framework and Assistance to Post-Conflict Countries

An integral feature of the framework for assisting the highly indebted poor countries is the focus on linking debt relief to strong policy performance, including a clear commitment to strengthening social expenditures. Under the joint stewardship of the World Bank and the IMF, significant debt relief totaling over $3 billion in net present value terms has been provided to eligible countries since the framework was agreed in 1996. Encouraging progress has also been made in addressing the particular needs of post-conflict highly indebted countries, and in identifying funding options. Nevertheless, we acknowledge the widespread concerns about the pace and breadth of assistance provided to date. We therefore welcome the current review.

The objective remains to assure the world’s poorest countries of a robust exit from their current debt burdens. However, sustainable development depends fundamentally on the adoption of balanced, well designed and well implemented policies and it is crucial, therefore, that a strong link to policy performance be preserved. Many of the proposals are likely to require a significantly larger contribution of resources. Associated funding issues will also need to be carefully addressed before the parameters of HIPC are changed—so that expectations are not unrealistically raised. While we acknowledge the financial constraints they face, we encourage the multilateral creditors to examine further the funding they can provide for HIPC.

For the benefits of an enhanced HIPC framework to be maximized, we also need to make further progress in trade liberalization.

Bank Group Co-operation with Regional Development Banks

Implementation of the HIPC initiative to date has been an encouraging example of effective collaboration between the Bank and the Fund, and between multilateral creditors more generally. The need for continuing efforts to strengthen co-operation between the MDBs was a central theme of the 1996 MDB Task Force Report, which recognized the need to balance this against the benefits of competition. We therefore welcome the progress report on this. The leadership shown by the heads of the MDBs in institutionalizing regular contact is appreciated. MDBs need to be able to demonstrate to member governments and the public the value of their work if they are to attract continuing financial support. In this context, the development of a common methodology for identifying problem areas and evaluating development effectiveness is especially important.

Bank Group Capital Adequacy

Pressures associated with the global financial crisis have highlighted the desirability of periodically reviewing the Bank Group's capital adequacy and risk bearing capacity. For both the IBRD and the IFC, these issues need to be considered in terms of a clear agreement on their respective roles and strategic focus. Clearly, we as shareholders have a legitimate interest in the trade-offs and choices they involve. These boil down to the simple issue of how much risk we, as shareholders, are happy for the Bank to take, and how much additional capital we are willing to put into it. Proposals for increased capital will also necessarily be considered in the context of progress on the ambitious agenda commenced under the Strategic Compact for enhanced Bank effectiveness and efficiency, as well as rigorous scrutiny of the basis for and level of Bank charges. These considerations will take time and, in the interim, the Executive Board should continue to examine other means to bolster IBRD net income.

Strengthening International Fora, including the Roles of the Development and Interim Committees

Recognition of the importance of social policy considerations to both the recent financial crisis response and to longer-term development sustainability is a central theme of the agenda for this meeting. It goes to the crucial importance of efforts to enhance collaboration between the IFIs, and in particular between the Bank and the Fund, at all levels – i.e. at the operational level, between their respective Managements and Boards, and between their Boards of Governors. Proposals for reform of the Interim Committee therefore necessarily raise issues regarding the implications for the Development Committee.

In assessing these ideas, it is important to avoid making change for change's sake. We will assess proposals on the basis of whether they can make a real difference to the operation of the Committee concerned. We look forward to a full discussion of the various options which have been put forward with a view to clarifying the relationship between the two committees, and ensuring that areas of overlapping responsibility and interest are acknowledged and dealt with more effectively.

Statement by Mr. Fazio (Italy)

Improving the initiative to reduce the debt of the poorest countries

We welcome the discussion on a possible review of the HIPC initiative. Considerable progress has been achieved in the past two years by the international community in relieving the debt burden of the poorest countries. However, a deterioration in the overall economic environment of the developing world and the growing mobilization of public opinion, at the turn of the millennium, compel a review of the program. We are convinced that unsustainable debt levels generate a substantial drag on resources, reduce the ability of countries to attract private investment, and create rigidities in budgetary policies, often at the expense of social programs and poverty reduction objectives.

In dealing with this problem, the necessary aspiration for a higher global social justice should be balanced by a realistic assessment of the resources available for an enhancement of the initiative and a careful analysis of the risks involved. The financial integrity of the international financial institutions should be preserved. The programs should be designed so as to maintain the incentives for the beneficiary Governments to improve their domestic policies and permanently exit from unsustainable debt situations.

In our view the existing framework for the debt initiative is still valid and any revision of the program can be undertaken without altering its overall structure. At a time in which new proposals proliferate, any major departure from the present framework would generate uncertainties, complicate the assessment of the additional costs, and delay the process of revision. We should also bear in mind that even under the existing framework the overall costs of the initiative greatly exceed the amounts originally projected. It is therefore important not to raise excessive expectations that the international community would be unable to fulfill.

While acknowledging that HIPC was established for IDA countries, we think that it should have an even greater focus on poverty: the poorest among the poor countries should be given priority. New performance criteria concerning social development should be introduced. The policy track record should be judged mainly by assessing the effectiveness of the poverty reduction policies of the countries concerned and by looking at the ability of a country to sustain the reform process over a multi-year horizon. Additional interim relief through IDA grants could be provided for countries with a special satisfactory performance.

Italy has always been very sensitive to the debt problem of the poorest countries. In the past we have bilaterally provided very generous amounts of debt relief. The Italian Government has now defined a proposal to cancel all the credits deriving from the bilateral official development assistance and all the commercial debt with respect to the poorest countries. The beneficiaries would be all the countries with a per capita income of less than 300 dollars. Debt will be cancelled to those countries that have a good economic track record, respect human rights, renounce war, pursue peace and work for the prosperity of their peoples. Moreover, we are ready to participate in the HIPC Trust Fund according to a fair burden sharing among donors.

Principles of social policy

The crisis in Asia, Russia and in some countries of Latin America has highlighted the importance of the social component of any long-term development program. In many cases, financial difficulties by themselves would not have resulted in a major crisis, if social conditions had not previously deteriorated so extensively. At the same time, the financial crisis would not have had dramatic consequences if public social safety nets or other social programs had been put in place. Therefore, we attach great importance to a major concerted action to help countries bolster their social policies and institutions.

Social issues cannot be viewed separately from economic ones. In most cases the work of the World Bank in this area cannot be separate from its traditional activities. The success of macroeconomic adjustment programs and structural reforms depends on the ability to adequately cope with their social implications. There is no trade-off between social and economic development. One is the complement of the other.

We appreciate the draft note on principles and good practice on social policy that the Bank has prepared, building upon the "Copenhagen Declaration". We also agree on the two-track approach proposed. Further refinement of these principles should fall mainly under the responsibility of the United Nations. The Bank's main responsibility should be to apply those principles to its programs. The Bank can greatly contribute to improving social conditions in developing countries, not only through its analytical work, but also and mainly by assisting countries in areas such as education, health, post conflict recovery, and institution building.

In providing policy advice and loans, the Bank should take into consideration this set of principles, although it should apply them with flexibility and sensitivity to individual countries. Social development is the result of an internal, complex, historical and cultural process, which varies from country to country. A rigid application of uniform principles to individual countries may not be feasible and even desirable. The Bank cannot impose these principles but can assist countries in developing and implementing them through interactions among the government, the civil society, and the private sector.

Comprehensive Development Framework

The CDF is a timely and welcome initiative that can greatly contribute to the debate on how to improve the development agenda in this difficult moment. As we see the first signs of recovery from the severe crisis that has hit the developing world, it is very appropriate that the World Bank attracts the attention of the international community on the two messages of the CDF. First, that social, human, structural and institutional aspects of development should be treated at par with financial and macroeconomic issues. Second, that the donor community should better coordinate its efforts in coping with the various aspects of developing cooperation.

We encourage the Bank to continue to engage its Board in a thorough analysis of the implementation issues. The "ownership" by the borrowing country is crucial for the success of any lending program. We welcome a move in this direction. It remains to be fully understood how the application of this concept will be consistent with the need to preserve adequate incentives for borrowing countries to implement sound policies and the role that conditionality will play in this process. The setting up of more effective coordination mechanisms among governments, IFIs and bilateral donors is also mostly welcome. We believe that better partnership can fully be consistent with the need to preserve a clear allocation of responsibilities among the different players.

Assistance to Post-Conflict countries

We appreciate the progress made to develop a comprehensive strategy to assist countries emerging from conflict and the prompt answer of the Bank to the Kosovo crisis. In further designing this program it is important for the Bank to define clear eligibility and performance criteria in order to "ring fence" the access to exceptional assistance and to prevent moral hazard. We endorse the idea of a case-by-case approach.

We welcome the use of grants during the pre-arrears clearance phase of post-conflict recovery. However, grants need to be used in a selective way and taking into account situations where other funding appears to be inadequate. Moreover, the need to better integrate humanitarian and development efforts to make this initiative more efficient and effective is clear. Italy is ready to examine proposals concerning the creation of a Trust Fund as soon as an eligible candidate for exceptional assistance emerges.

Bank Group Cooperation with Regional Development Banks

We welcome the continuous efforts to improve collaboration and coordination among Multilateral Development Banks. Progress has been made in several areas over the last year and we encourage proceeding in this direction. We expect that much will be done within the Comprehensive Development Framework. Specific attention will need to be devoted to areas such as procurement, the environment and operation evaluation procedures. Policy harmonization can greatly contribute to development effectiveness.

Statement by Mr. Gurría-Treviño (Mexico)

It is an honor for me to participate in the 59th Meeting of the Development Committee, an occasion - as these meetings always are - for reflection and for sharing our experience on a subject of the utmost importance.

On the threshold of the new millennium, economic development, and poverty alleviation in particular, continue to be the greatest challenges facing many countries.

This is paradoxical in an era that has witnessed such stunning technological and scientific progress. The information revolution has shortened distances and time, bringing the countries of the world closer together. Commercial and financial ties have grown closer. However, this increased interdependence, while creating vast opportunities for development, also poses a number of risks.

Unfortunately, the benefits of this progress have still not reached many of the world's inhabitants. It is calculated that in the developing world, some 1.34 billion people subsist on less than a dollar a day – an indication of how much remains to be done.

The International Context

During the 1990s, the determination of developing countries to implement sound macroeconomic policies and introduce structural adjustment, combined with a more hospitable international economic environment, facilitated efforts to improve living conditions in those countries. However, the financial turbulence of the past 18 months has slowed progress in some countries, while still others have even lost the ground they had previously gained.

The short-term outlook for the world economy is hardly encouraging, particularly for the developing countries. Financial crises, the economic slowdown in industrialized countries and in world trade, together with reduced financial flows to developing countries as well as other factors, have clouded the external environment and fostered greater uncertainty. Heightened volatility in the expectations of financial markets, which seesaw from unjustified pessimism to outlandish optimism, is yet another factor. The current economic environment demands greater efforts on the part of developing countries and multilateral institutions alike.

Following a long postwar period of sustained and stable growth in Latin America during which living conditions improved, the region has been immersed over the past two decades in a quest for new development options. This effort has had both positive and negative outcomes. As a result, Latin American countries are showing a renewed economic vitality, and are consolidating their democratic institutions on the political front, both of these factors being crucial for development. As a product of profound economic transformations, Latin America has managed to forge ahead despite difficulties engendered by the severe external shocks of recent years. Until fairly recently, such difficulties might have had serious adverse consequences.

Topics for Discussion at the Meeting of the Development Committee

A consensus has emerged in recent years regarding the factors necessary for promoting development. These include, among others, fiscal discipline; price stability; the opening-up of trade and investment opportunities; deregulation and promotion of healthy competition; downsizing the public sector; and the liberalization and proper supervision of the financial system. However, further measures are needed in order to consolidate the progress already made and, in so doing, achieve a level of economic growth that will benefit the most vulnerable groups and improve living conditions for the majority of our people.

In this era of increasing globalization, in a world with diverse cultures, it is fitting to ask a number of questions: What is the impact of globalization on the effectiveness of national policies and institutions? How can ethnic groups be brought into the economic modernization process while simultaneously preserving their cultural identity? How can nations reconcile the need to promote the well-being of certain groups with the need to protect the environment? In order to find satisfactory answers to these and other questions, communities and governments must redouble their efforts, with strong support from the multilateral organizations.

These considerations must serve as the backdrop to our analysis of the very timely and well-conceived topics which are before this meeting of the Development Committee.

Comprehensive Development Framework.

This proposal sets forth topics that are widely regarded as essential factors for development, and it appropriately recommends a participatory approach whereby government, society, and the international community can strive together to promote development. However, there is a marked tendency in the proposal to assign the central role in the process to the multilateral organizations. Inasmuch as increased development is a national responsibility - a factor acknowledged in the document - society and national governments must define their own priorities, thereby ensuring that issues such as poverty, income distribution, and environmental degradation will be taken fully into account in their national projects and that they will be willing to shoulder the costs - social as well as economic - of addressing those issues. Once countries have reached this point, the World Bank can step in to supplement their efforts. In this regard, the dialogue between the Bank and our countries must acknowledge that different countries have achieved different levels of development. The initiative is a step in the right direction, but it needs to be analyzed more fully. Its operational and budgetary implications also must be identified, a step necessitating further discussion by the Bank's Executive Board.

Development financing must be increased. In recent years, this type of financing has increasingly tended to be provided by the multilateral institutions, whereas the industrial countries have been reducing the volume of resources they provide for this purpose; consequently, it is essential that the cost of support initiatives - all of which are very necessary - be more equitably distributed among the international community. This is why the Bank's participation in initiatives such as post-conflict assistance should be backed by solid cooperation from the international community. The Bank's activities would focus on coordinating cooperation and on assessing reconstruction needs. Similarly, and in light of the experience gained from natural phenomena such as El Niño and hurricane Mitch, the Bank and the international community must make room on their agendas for initiatives for dealing with emergencies arising from natural disasters. Last year, this type of disaster cost more than 50,000 lives, and caused loses of over US$ 90 billion.

Dealing with such damage absorbs resources which could otherwise be used to promote development. Consequently, I call upon the Bank to assume leadership on this issue, and to add a "culture of prevention" to the various items on the development agenda. In this regard, recent actions by the Bank, such as the establishment of the Disaster Management Facility, are very commendable.

In addition, the way in which the HIPC Initiative operates must be made more flexible if the program is to bring sustainable benefits. The time taken to decide a country's eligibility must be considerably shortened, and the amount of debt relief must be increased. I am well aware that the degree of flexibility achieved will depend on the availability of resources, and this is why I also believe such action should be concentrated on a particular group of countries. Moreover, if the benefits of this initiative are to be extended, it is essential that we have a clear idea of the financial implications for both the World Bank and the other multilateral institutions, together with the availability of resources in the rest of the international community. At the same time, for the initiative to have a greater impact, it must be more clearly linked to action on poverty reduction taken by the beneficiary countries themselves.

The agreement on IDA-12 is particularly gratifying, since it reflects the joint efforts of the donor countries to achieve the common goal of alleviating poverty. It is to be hoped that this spirit of cooperation will be extended to other initiatives serving the same purpose.

The Bank's instruments and financial capacity. A fundamental issue is the role that the World Bank should play in a global economy, and therefore the instruments and resources with which it should be provided. I referred previously to the "contagion" effects produced by the current financial crises. These have shown us that markets are slow to differentiate among the various situations that arise in different countries, each with its own particular economic base. In 1998, external short-term capital was withdrawn from the emerging countries and placed in what have traditionally been regarded as low-risk markets; at the same time, any access that these countries had to voluntary capital markets became more limited, and lending conditions became more demanding. This trend also affected Mexico, despite the solidity of its economic base, but this situation was finally recognized by markets at the beginning of this year. In light of this, the World Bank could play a more decisive role by helping markets understand these differences more quickly. This is why I believe that the recently approved guarantee program will be very useful, and I call upon the regional development banks to introduce similar instruments.

It is even more important that the Bank should have a capital level appropriate to the present situation, which is characterized by rapid movements of capital. The action taken by the Bank during recent crises has left no doubt regarding the importance of its ability to react in a timely manner and on an appropriate scale. The role that the institution should play in possible future crises is quite clear. Although currently the Bank is adequately capitalized, the future demand for resources is likely to be larger. As soon as possible, therefore, we must make an in-depth analysis of the need for changes in its capital. Such a measure would have to be complemented by others, so that, at the same time, allocations of the Bank's net income would be used as a means of financially strengthening the institution. In addition, and in order to boost net income, I call upon the Bank's management to substantially rationalize the administrative budget over the coming years. All these steps will make it possible to strengthen the Bank's financial capacity, so that it will be better prepared to tackle the problems of poverty.

Finally, I would like to encourage the Bank -- in its mission to alleviate poverty -- to continue supporting the implementation of sound macroeconomic policies and the establishment of a development agenda in which both governments and society at large can participate. These actions, together with the consolidation of democratic institutions, will help us make more rapid progress on the path toward development.

Statement by Mrs. Herfkens (The Netherlands)

The Impact of the Crisis in South-Eastern Europe

The dramatic events in South-Eastern Europe deserve our full and immediate attention. Many of the countries in the region had only just started their recovery from war and all are still in transition from a centrally planned economy. The countries of my constituency, five of which are among the most affected by the crisis, are grateful that the regional economic impact of the conflict has been put on the agenda for this meeting. The countries in the region are affected in a variety of ways by the crisis, ranging from the hugely increased costs of providing basic needs to the swelling numbers of refugees, the loss of income through foreign trade and services, including tourism, to an expected sharp reduction in private capital inflows, particularly in the form of direct investment. In addition, transport of goods has become much more costly, if not virtually impossible, especially for the landlocked countries. The preliminary calculations for the six most affected countries are very likely to be on the conservative side, as the staff has candidly indicated. Therefore the impact on growth and employment and the external position of these countries is likely to be very substantial.

We call on the IMF and the World Bank to continue to do their utmost to ensure that the adverse, and potentially destabilizing, effects of these developments are contained as soon and as much as possible. I am pleased to note that both institutions have reacted swiftly to the crisis and that missions are already active in the countries involved. Obviously the Fund and the Bank cannot face the task alone. We call on multilateral and bilateral donors to provide sizeable additional balance of payments and budget support. If we do not act now, the costs we face for the future will be much higher. The Netherlands has already pledged substantial new financial assistance and we seek encouraging signs of a preparedness to help by others. While the duration of the conflict is uncertain at this stage, it can be said with certainty that after the cessation of hostilities, we must consider a large scale effort by the IMF, World Bank and all other interested parties to help the region recover.

There is a need for the World Bank to enhance its presence in the Balkans. The Bank's mandate is poverty reduction; therefore, the World Bank has an important mission in the region, since the EBRD lacks a window for concessional resources. The World Bank should focus on this region both in terms of its lending and non-lending services and in terms of mobilizing concessional resources for the low-income countries.

HIPC Initiative and ESAF

The Netherlands has always been one of the strongest advocates of debt relief for the poorest countries and the HIPC Initiative in particular. We have always backed up this strong conviction with substantial financial contributions, for example by bilaterally alleviating multilateral debt service obligations. We welcome the fact that debt relief for the world's poorest countries has been put high on the political agenda again.

We would like to draw attention to the most pressing problem of the HIPC Initiative: in its present framework it is still significantly under-financed. While gold sales by the IMF, which we have been advocating for a long time, would alleviate most of the financing problems for the IMF contribution, there would still be a sizeable financing problem for the World Bank and other multilaterals.

Although we strongly welcome the recent pledges of some countries, there is by no means yet fair burden sharing. In terms of actual contributions, the Netherlands is still the largest donor to the HIPC Trust Fund of the World Bank; in terms of pledges we are the second largest donor. This is not an isolated case. The Netherlands also remains one of the largest contributors to the ESAF-HIPC Trust and a major contributor to the Subsidy Account of the ESAF Trust of the IMF. Most of the modification proposals by the G7 countries require vast resources, but not one of the countries that proposed changes to the HIPC framework gave a clue as to how the additional costs for multilaterals were going to be financed. The emperor should really buy a new suit and pay for it.

All in all, we hope that the increased political attention for the HIPC initiative is not just talk but will also translate into significant financial support.

We also see room for improvement in the present framework. Already in 1996 we suggested that, where necessary, bilateral debt relief should be given up to 90% under the HIPC framework and we repeat this proposal. We attach great importance to new proposals to strengthen the link between social development and the HIPC Initiative. However, we do not believe that this should be achieved through relaxation of conditionality or through the creation of special windows. Economic and social development should not be separated. We urge the Bank and the Fund to apply conditionality in an integrated fashion, safeguarding social expenditures and fostering pro-poor labor-intensive growth and adjustment. Adjustment and reform continue to be essential in order to reach the final goal of debt relieve: sustainable economic and social development. The Netherlands believes that aid in general only works in an environment of sound policies and good governance. This has been clearly shown in recent studies, such as "Assessing Aid", and this belief is also the reason for the overhaul of our own bilateral structural aid program.

Once well performing poor countries have reached a sustainable debt level through the HIPC Initiative, we must make sure not to create new debt problems. Therefore, like others, we urge all industrialized nations to provide aid in the form of grants to the poorest countries in the future. The Netherlands has been doing so since the beginning of this decade and we will continue to do so.

Social Policy

The Netherlands welcomes the document on practices on good social policies**.** However, it is not up to the Bank to define these practices. The Bank should contribute to their implementation according to its mandate and comparative advantage. The document leans too much towards social protection. Poverty reduction, still the overarching mission of the Bank, entails more than that. Poverty reduction implies integrated action on the social and economic front.

In a way the World Bank is still struggling with implementing the 'broad-based economic growth' paradigm of the 1990 World Development Report on poverty. The focus is too much on macro-economics and social protection. Growth policies promoted by the World Bank still do not appear to be adequately poverty- and gender-focused. Empowerment of the poor is essential.

One should also pay adequate attention to meso-level economic policies, geared towards the sectoral structure and the institutional aspects of an economy. The poor need access to markets. Many markets are distorted by actions of powerful interest groups. The state needs to eliminate these distortions and to stimulate access to markets for everybody, including the poor. This requires a careful mix of transparent and accountable regulation and deregulation and a focus on issues like property rights, competition rules, the prevention of corruption and specific measures to stimulate employment, such as training and access to credit, besides more poverty-focused prioritising of public expenditures.

The World Bank should exploit its comparative advantages. The Bank is in the best position to promote good socio-economic policies in the policy dialogue with the borrowing country, furthering pro-poor or 'inclusive' growth, including access to assets and adequate access of poor people to social provisions.

The World Bank has the pre-eminent advantage of having a critical mass of economists. They should be able to provide us with more insight into the economics of poverty reduction. Many development partners are therefore looking to the World Bank for answers. Once again, I would like to stress that I expect a leading role for the Bank in this. I am aware of the progress made thus far, but I am also aware of the length of the road ahead before we can decisively improve the quality of the lives of so many poor people. We should not wait for the World Development Report 2000 / 2001: action aimed at linking the 'social' and the 'economic' needs to be on the World Bank’s agenda.

The Comprehensive Development Framework

I would like to thank President Wolfensohn for his personal engagement in exploring new ways to improve the quality of the development process. The CDF is an important contribution to this process. We support this initiative and agree with its principles of holism, partnership and participation. Never before has the opportunity for recipient-country-led donor co-ordination been greater than it is now.

We want the CDF to be successful, and that depends on a number of factors. Crucial is commitment from the IMF, Regional Development Banks and bilaterals. Bilateral donors have to move away from projects to sectoral approaches, and ultimately to budget support. In order to be accountable to parliament and the taxpayer, and in view of the fungibility of funds, donors can only move towards budget support within the context of a reliable financial and monitoring framework and we look to the World Bank and the IMF to provide this. Public Expenditure Reviews are one of the major tools, but their quality needs to be improved.

Another prerequisite is sufficient representation by the World Bank in the developing countries and, more importantly, delegation of decision power to the field offices. A permanent dialogue among all players is needed, and that takes place in-country. To be relevant the World Bank has to be present. Co-ordination is not automatically the World Bank's job and the Bank must accept operational participation by other donors.

As far as the pilots are concerned, Bolivia is of utmost importance and I trust that the experiences from this pilot will benefit the CDF in other countries. In this pilot special attention should be paid to the division of tasks and responsibilities among parties involved. I urge the World Bank to include gender issues in the CDF. I do see a need for more information on progress so far, and close involvement of the Executive Directors, also with regard to the implementation and the discussion on countries which have shown interest in participating in new pilots. The issues of performance measurement, monitoring and accountability are not secondary.

We welcome the unfolding co-operation on the CDF between the World Bank and the United Nations, and the statements of both the President of the World Bank and the UN Secretary-General on this issue. But more should be done to enhance co-operation, from the policy level to partnership in the field. Together, the various organizations should devise cooperation and a division of labor on the basis of comparative advantage. This assumes all organizations take steps to enhance staff interaction in the implementation of their programs, through practical steps such as co-location of field offices and regular visits of country representatives to the other organizations' head offices. The opening of the Geneva Office of the World Bank will also prove beneficial. All partners in development should cooperate as much as possible, to the advantage of the developing countries and hopefully under their leadership, in the exercises under the CDF and the UN Development Assistance Framework. We should be very pragmatic in finding the best system per country. No system is sacrosanct.

Assistance to Post-conflict Countries

Conflict management is more than post-conflict management. Through its lending and non-lending services the World Bank can contribute to economic and social stability, and by doing so to political stability in the country as well in the region. This is the Bank's role in the Balkan crisis.

The Bretton Woods Institutions need to develop further a coherent post-conflict policy. The World Bank has to work together with the IMF to find ways to clear arrears and to resume lending. However, the policy has to go beyond solving this problem. The development of emergency and rehabilitation programs is a necessary concomitant to the solution for outstanding arrears.

I have stressed this issue at the meeting in October: post-conflict countries are very much in need of policy advice and technical assistance for rebuilding the institutional infrastructure. The World Bank needs to improve this aspect of its post-conflict policy. The debt aspects cannot be separated from rehabilitation and I believe the Bank has a dual role to play in partnership with specialized development organizations and bilateral development partners, with respect for the division of labor in the international donor community.

Inclusive development, i.e. participation of all groups in the society, and institutional development are key. Planning has to take place in the country with participation of the government and civil society and in cooperation with other international institutions such as the UNDP. In order for the World Bank to participate effectively, the Bank needs to be present in the country at an early stage.

With respect to financing, the Netherlands supports the creation of a specific trust fund for each post-conflict situation - rather than a Global Strategic Recovery Fund.

The World Bank Group Co-operation with Regional Development Banks

The Netherlands advocates coordination and cooperation between the actors in international development, both multilateral and bilateral. The cooperation between the World Bank and the Regional Development Banks is important in this context and I welcome the report from the President.

The report provides valuable information both on what has been achieved so far and on what still needs to be done. There is progress, but obviously there is a long way to go.

The report is revealing: on analytical work it shows that only a first step has been taken. I just mention the need for close coordination of country strategies between the World Bank and the Regional Development Banks, as well as with the UN with its UNDAF. At present, countries have to deal with and to base their development policy on a number of, sometimes inconsistent policy documents. That requires too much energy from the authorities and is wasteful of scarce capacity. I believe the institutions and the recipient country should co-ordinate the preparation of these documents. The CDF pilots should provide an opportunity to gain the necessary experience.

More cooperation on the Operational Level is needed and both the World Bank and the Regional Development Banks need to work on creating an atmosphere of mutual trust and respect. The CDF pilots in this respect are very useful.

A number of points need to be clarified (assessment of overlaps, information on comparative advantages of the different development banks). The banks also need to realize that ODA flows are diminishing. A degree of concentration and specialization of work is necessary, in order to avoid inefficient use of shareholders' money.

Role of the Development Committee and Interim Committees

International financial turbulence has put the functioning of the International Financial Institutions and the cooperation between them high on the international agenda. The core fora for discussion in the World Bank, the Development Committee and the Executive Board, combine full representation with manageable size. In my view, these fora have performed well in the past. However, in a changing world, institutions should be flexible to cope with changes in their external environment.

I have always advocated a clear division of labor between the International Financial Institutions, including the World Bank and the IMF. I am of opinion that the Development Committee and the Interim Committees should address the various subjects in such a way that it reflects the mandates of the World Bank and IMF. The Development Committee should focus on development issues and the Interim Committee on the international financial system. The most appropriate solution in operational terms would be that the Development Committee would mirror the existing Interim Committee, in the sense that the President and the Managing Director have similar roles in each other's committees.

IBRD Capital Adequacy

Financial strength is one of the key ingredients enabling the members of the World Bank Group to assist the borrowing countries. I am happy to note that, recently, MIGA shareholders and IDA donors have shown the commitment to maintain the financial capacity of these institutions. Looking into the future, demand for assistance from the IBRD and the IFC could go beyond their financial limits depending on their strategy. I would be willing to consider sympathetically proposals to add to the capital of these institutions, provided that this is needed to support the mandate to promote long-term structural development.

New Operational and Financial Tools

Given that the needs of members differ, there should be a range of financial products to meet these needs with the appropriate instruments. At the same time, the World Bank should keep within the limits of its financial capacity and mandate. The new loan and hedging products meet this test. In my view, policy-based guarantees raise questions of financial policy. Now that a pilot has been approved, implementation should be in accordance with the guidelines agreed upon with the Executive Board.

Statement by Mr. Imboden (Switzerland)[3]

The HIPC Initiative

We welcome current international proposals for providing deeper, broader and faster debt relief to heavily indebted poor countries. We also commend the Bank and the Fund for having initiated a broad consultation for the review of the HIPC Initiative.

Debt relief is a necessary yet not sufficient condition in the fight against poverty. To be successful, debt relief has to rely upon sound macroeconomic policies, a poverty reduction strategy and adequate financing.

We would like to comment on the latest proposals for enhancing debt relief as follows:

- *We support the shortening of the qualifying period under certain conditions*. First, economic policy performance and the qualifying period for debt relief have to be correlated: a reduction of the qualifying period should only be considered for countries having sound tax policies, a transparent and accountable public expenditure system, and adequate debt management and analysis capacities. Second, the reduction should depend on each case, but should not go below a one-year track record prior to the decision point, and two years for the interim period before the completion point.

- *The current level for the debt-to-export target is too high for most HIPC countries*. Also, prospects for fiscal revenue might be more critical than export trends. There should be room for flexibility for the debt-to-export ratio: the 200 % target should be seen as a maximum and not a minimum, in most cases.

- *The fiscal dimension of external debt is critical in judging its sustainability*. The fiscal criterion currently used and its pre-qualifying sub-thresholds have limited analytical value. We therefore support the reform proposals aiming at establishing alternative measures of fiscal vulnerability, such as the evolution of debt service vis-à-vis domestic revenue. Furthermore, internal debt is a major constraint in the budget of most HIPC countries and should appear in the calculation of debt service when assessing the fiscal vulnerability of a given country.

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[3] On behalf of Azerbaijan, Kyrgyz Republic, Poland, Switzerland, Tajikistan, Turkmenistan and Uzbekistan.

Any change of the HIPC Initiative has to encompass

- A fair and equal treatment of all HIPCs; and
- Adequate additional financing.

We believe that any change in the HIPC framework would have to apply retroactively to countries that have already completed the HIPC cycle. It would be inequitable indeed if the countries with the best adjustment record would be discriminated against other HIPCs. In addition, changes to the HIPC rules should not be made *ad hoc* but rely on thorough analysis. Lastly, all proposals to provide deeper debt relief have important cost implications.

Considering the cost implications of the current HIPC framework, and *a fortiori*, of a reformed framework, securing the HIPC Trust Fund and the ESAF-HIPC fund should become a top priority for those countries that have not yet pledged any money to the Initiative. In this respect, we hope the Cologne Summit will not only address the substance of the HIPC Initiative but also its financing. Similarly, we expect substantive work from all multilateral creditors, in the coming months, to consider options to ensure their contribution to the funding of the HIPC Initiative.

Principles and Good Practice in Social Policies

In the current efforts of the international community to improve the stability of the global economic and financial system, it is appropriate and timely for the World Bank to reaffirm how essential good social policies are to achieve sustained poverty reduction. The effects of the recent crisis on the poor have demonstrated the importance of good social policies and safety nets. We need standards and good practices for social policies, as much as we need them for financial and structural policies.

We support the proposed two-track approach, whereby the UN system leads in the development of principles and the Bank assists countries in drawing and applying lessons of good practice. However, the two tracks are closely inter-linked and the Bank should contribute forcefully its practical experience to the international debate and play a constructive and technical role in the 'Copenhagen plus 5' process.

The Bank's comparative advantage is the nexus between social policy and poverty which aims in particular at empowering the poor and reducing inequalities. Healthy economic fundamentals are the basis for sustainable poverty reduction programs, but they are not sufficient. The Bank should do more qualitative poverty assessments, differentiating between groups of poor, in order to design appropriate policies and programs for enhancing access of the excluded and marginalized poor to economic opportunities and social services. We also see a critical need to step up social assessments and to deepen the treatment of poverty in CASs, particularly with regard to the social dimension of poverty. Likewise, there is an urgent need to develop guidelines and good practices using OED evaluation results. This cannot be delayed any more.

The general principles capture well the main elements needed for formulating good social policies. The Bank can best assist client countries by contributing best practices rather than requiring minimum standards. In that context, potential contradictions and trade-offs between social standards and economic policies promoted by the Bank, IFC and MIGA (e.g. liberalizing labor markets vs. labor standards) must be addressed. At the same time, further analytical work would help to better understand such complex issues.

We encourage the Bank to pursue consultation with development partners and to participate in refining the identified principles and to transform them into operational policies and specific programs in developing and transition member countries.

Bank Group Capital Adequacy

The IBRD's risk-bearing capacity has been negatively affected by massive emergency lending in response to the recent financial crises, and the increased portfolio risk. While not threatening the Bank's current financial standing, the deteriorating risk-bearing capacity might constrain the Bank's future business development and increase tensions between support to long-term development and participation in international response to crisis. There is a need for action to maintain and strengthen the Bank's risk-bearing capacity and, in the longer-run, to provide the Bank with a bulletproof safety cushion even if external conditions remain adverse. A weakening of the Bank's financial standing is unacceptable, and the AAA rating is crucial to the Bank's ability to fulfill its mission. We suggest the following possibilities to be further explored:

- Transparent accounting and costing may provide additional indications about the effective coverage of administrative costs. This might then lead to a consensus on the methods of loan costing.

- While we see no possibility to cut the transfers from net income to IDA and HIPC, we agree that the list of such transfers should not be prolonged in these times of limited income availability.

- The complex web of bilateral trust funds and other grant funding should be reviewed urgently to focus their use on achieving key Bank goals.

The need for a sustained increase of the Bank's risk-bearing capacity depends mainly on the assumptions on the Bank's future involvement in adjustment lending and other short- to medium-term lending. The need for a capital increase has therefore to be considered in the context of the Bank's future lending strategy and the role it should play in the financial crisis. As we said on other occasions, the Bank has to play a role in preventing and resolving financial crises. However, it should refrain from providing liquidity support and focus instead on addressing the immediate social consequences and the underlying structural problems. It should also have the capacity to respond in a counter-cyclical way to the increased demand for investment financing. While a capital increase could provide the basis for the Bank to take such a role, it should be accompanied, at the same time, by a mechanism to prevent a possible misuse of the new headway for emergency liquidity support.

Capital adequacy is also an issue for IFC, as it has to respond to the increased demand in the aftermath of the financial crisis. The decline of the private capital flows to crisis-hit countries has abruptly changed IFC's business environment. We recognize that, due to capital restrictions, IFC's capacity to respond to this demand is limited. At the same time, this new demand might divert IFC from its extension into frontier countries. A capital increase needs to be considered against IFC's future strategy and the role it wants to play in preventing and reacting on the shortfall of private capital inflows. Therefore, we expect IFC to provide a revised strategy and a careful evaluation of its financial capacity.

Strengthening International Fora, Including the Roles of the Development and Interim Committees

Improving the stability of the global economic and financial system and steps to strengthen the international financial architecture are a necessary and ambitious undertaking. To review the roles of the Development and the Interim Committees must be part of it. Discussions were intense over the past few months, but so far, no broad-based consensus has emerged.

The holistic approach we all favor towards development and the international financial system, as well as the fact that most crisis situations have liquidity and structural causes and consequences require that issues are discussed both in the Interim and the Development Committee. This is inefficient. We need frank discussions to address global common issues. An overarching body will not allow us to do this. Giving the Bank's President some form of "privileged status" in the meetings of the Interim Committee begs the issue.

To assure that issues which are of common interest are discussed, taking into account the specific mandate of each committee, we need (i) a common forum to prepare the agenda, to organize the papers to be submitted to the two committees and to determine which of the common issues is discussed where; (ii) a clearer division of responsibilities, and (iii) a pragmatic, ad-hoc approach depending on issues without major institutional changes.

The following approach might be used:

- Deputies to the Interim Committee and Development Committee prepare the agendas of the two committees and identify the issues which are of concern to both committees;
- Common issues are analyzed jointly by the Fund and the Bank and approved by both Boards;
- The Deputies would decide in which committee the common issues are discussed; issues where the macro and stabilization aspects are predominant would be treated in the Interim Committee; issues where the micro and structural aspects are preponderant would be discussed in the Development Committee.

Comprehensive Development Framework (CDF)

We welcome that the CDF builds on internationally agreed principles and lessons for enhancing development effectiveness. Through the CDF, the Bank is embracing a partner-oriented approach with greater emphasis on the social, human and structural dimension of development. We see the CDF as a potentially powerful tool to improve the Bank's strategic selectivity and to achieve better complementarity of assistance programs of all development partners. For us, the CDF is useful to assure country level coordination and transparency and as a tool to provide accountability and evaluation of our common development efforts. However, it cannot yet be used as an analytical tool for allocating resources or sequencing of activities. We urge the Bank to accompany this process with the necessary operational research.

The CDF raises significant expectations and poses risks that are worth taking. We should move ahead and gather experiences on a pilot basis:

- There has to be sufficient scope for country ownership. To secure the actual country ownership, domestic coordination efforts should accompany donors' coordination. This implies that good governance is not enough – broad public policy discussions with all stakeholders should be promoted within a flexible, dynamic, process-oriented framework. Institutional capacity building is the first priority.

- Pilot countries should offer good prospects for reaching adequate coherence between the client country's policies and long-term strategies and the goals and policies of the international donor community.

- There must be sufficient willingness among donors to use the CDF as an opportunity to better coordinate their programs. This calls for flexibility on the donors' side to harmonize procurement, disbursement and monitoring procedures and to help build related country-based systems. Without tangible progress on such practical matters, the development community will not be able to deliver on the high promises of the CDF.

- Each pilot needs transparent and selective objectives as well as a solid framework for monitoring and evaluation. It is fundamental to track results, the quality of ownership and partnership, as well as costs.

- The CDF should determine how to include the private sector. New structures and modalities to cooperate with the private sector have to be defined.

- The CDF should also promote the sharing of experiences among recipient countries.

The CDF is still at an early stage. Much remains to be done, both in terms of furthering dialogue, consultation and collaborative analytical work at the conceptual and methodological level between DAC, bilateral donors, UN agencies, MDBs and the Fund, as well as in terms of starting to implement the CDF approach and allowing for joint learning in pilot countries. Switzerland welcomes the consultative process at the conceptual level through regular interactions of contact points of bilateral and multilateral agencies and the CDF Secretariat of the Bank. We stand ready to participate in that process and support a joint effort to make the CDF a common undertaking of the development community as a whole.

Assistance to Post-Conflict Countries

We appreciate the efforts of the Bank and the Fund to define a coordinated strategy in the field of arrears clearance. We hope that this will result in a global approach in all post-conflict cases, and we expect to receive a joint paper before our next meeting.

We encourage the Bank to rapidly finalize the case study on Liberia, to better apprehend the arrears situation of that post-conflict country and to be in a position for a more fruitful discussion on existing constraints and possible action.

Bank Group Cooperation with Regional Development Banks

The report submitted to this Committee provides useful information on recent achievements in the cooperation between the Bank Group and the Regional Development Banks. We note with particular satisfaction the joint agreement reached on standard procurement procedures.

However, we believe the Bank should analyze in more detail some of the recent experiences made and constraints faced in its partnership with Regional Development Banks, in order to better articulate the future orientation of its cooperation and coordination with these partners. This could be a useful contribution towards preparing the effective implementation of the Comprehensive Development Framework.

Assistance to Central Asian Countries

In recent years, the Central Asian countries underwent a very difficult and far-reaching adjustment process. These societies have become much poorer and more unequal. The benefits of the transition to private ownership, competition and open borders are just emerging. In some cases, regional and domestic strife threatens their internal stability.

The financial crisis in Russia has had significant adverse effects on the region. We welcome the special effort the Bank and the Fund and some bilateral donors have undertaken at the end of last year to provide additional balance of payments support to the poorer countries. As the crisis in Russia continues, these countries will have to take even more radical steps to loosen their economic ties with Russia and to diversify their economies. They depend on international support at favorable conditions to render their courageous reforms a success. We therefore strongly urge the Fund and the Bank to continue and even strengthen their assistance to these countries.

Statement by Ms. Frafjord-Johnson (Norway)[4]

During the last few years, it has increasingly become clear that sustainable development depends on a complex set of interrelated factors. Macroeconomic and financial issues cannot be treated separately from structural and social issues, and a holistic approach is necessary. Countries are responsible for their own development. At the same time we know that we are all responsible for contributing what we can to assist the development process.

Changes in the development paradigm were neatly summed up by the President of the World Bank early this year when he launched the Comprehensive Development Framework. The values emphasized by the framework, national ownership, stakeholder participation, private sector involvement and donor coordination - in other words true partnerships - have been high on the Nordic-Baltic agenda for a number of years. We are supportive of promoting a holistic approach to development and we sincerely welcome the timely initiative taken by the World Bank. We believe that the time is ripe to move forward and make the ideas encompassed in the CDF work on the ground. The Nordic and Baltic countries want to be active partners in the design and implementation of the Comprehensive Development Framework.

For the initiative to be successful, it is a prerequisite that national governments are at the center of the framework. National authorities must take charge of the development process and co-

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[4] On behalf of the Nordic and Baltic Countries

ordinate support for development in their own countries. Their capacity to do so must be strengthened.

It is important that donors are able to set aside their national individual agendas and become more concerned with providing tailored support to a country based on that country's own priorities.

The involvement of civil society and the private sector is imperative to a country’s development, and we are pleased to find this reflected in the Comprehensive Development Framework. A challenge will be to ensure proper inclusion of the real stakeholders in the development process.

Gender sensitivity must be an underlying principle of the Comprehensive Development Framework. The mainstreaming of other crosscutting issues, such as financial stability, the environment, governance and human rights is equally important.

The Comprehensive Development Framework must be fine tuned at the local and national level in order to provide the flexibility needed to adjust to the varied conditions of each country. It is also crucial to involve all actors in the design of the Comprehensive Development Framework, according to an appropriate division of labor. The Comprehensive Development Framework could build on and strengthen the axis between the World Bank and the UN system. We would also like to emphasize the need to fully include the IMF, the regional development banks, and the EU in the Comprehensive Development Framework. Consequently, the concept must be further elaborated in the pilots and the initiative implemented in cooperation with other development actors. The Nordic countries stand ready to support the process by organizing a workshop to gain experiences in how to introduce a partnership approach at the field level.

Vast improvements have been made over the years in World Bank policies. However, the Nordic and Baltic countries are increasingly concerned about the gap that continues to exist between good intentions expressed by top management and what we see taking place at the operational level. The Nordic and Baltic countries welcome the initiatives taken by the current leadership to change the Bank. At the same time we stress that such initiatives must be followed by appropriate changes in incentives to staff and in the budget structure. To make sure that changes happen on the ground, the Nordic and Baltic countries urge management to spend more effort on internalizing new values, policies and approaches among staff at all levels.

The HIPC Initiative

The Nordic and Baltic countries have been staunch supporters of the HIPC Initiative since its inception. We believe that the time has come for a revision of the initiative in light of the experience gained so far, with a view to secure for countries a viable exit from the debt trap. The Nordic and Baltic countries have taken active part in the HIPC review, and welcome the initiatives put forward by G-7 countries, aiming at delivering deeper, broader and faster debt reduction, and linking debt relief more closely to poverty reduction.

Since the financing of the HIPC Initiative must be made secure, it is hard to take seriously proposals for costly reforms of the HIPC mechanism if not accompanied by an expressed intention to carry a reasonable share of the financing of the initiative. The Nordic countries are among the largest contributors to the HIPC Trust Fund and see a strong need for a more equitable distribution of the funding of HIPC. Thus, the indications made by the G7 countries to contribute to increased financing are warmly welcomed. The Nordic countries are also prepared to take their share of the financing of HIPC, including through the ESAF. Furthermore, the Nordic countries support the idea that part of the financing of the ESAF could come from limited sale of the gold reserves of the IMF.

What the initiative needs now is not delay, but swift implementation. Changes to the HIPC Initiative should not give rise to lengthy negotiations. Provisions must be made to ensure that already eligible HIPC countries continue the process.

The revision of HIPC should be based on the following principles: shortening of the track record and interim period, a lowering of the NPV Debt/export ratio and a revision of the fiscal criteria. This should be based on a careful analysis in order to arrive at a combination of measures that would: a) Provide further incentives for pursuing reform and policies supportive of sound development in the medium and long-term; b) Provide incentives for governments to further raise revenue collection; c) Send a strong signal of confidence to private investors.

As for the speed of the initiative, the Nordic and Baltic countries support a shortening of the track record. For indebted countries that demonstrate the will to pursue reform, additional flexibility in the track records should be considered, based on the analysis put forward by the Bank and the Fund. The introduction of "floating targets" as a substitute for set timeframes is in line with our wish to foster ownership of reform, and could be further explored.

As for the depth of the HIPC Initiative, the Nordic and Baltic countries believe it is necessary that the debt burden of the HIPC countries remain sustainable. This could be done through a lowering of NPV Debt/Export and Debt Service/export targets.

The Nordic and Baltic countries also find that a revision of the fiscal criteria is necessary. However, this should happen in a way that does not introduce disincentives for raising revenues.

HIPC should provide an incentive for achieving social targets agreed to under the macroeconomic reform programs, national development plans or social sector plans. These targets and their associated performance indicators must be built into a country's development plan and should feature prominently in the reform and adjustment programs supported by the donor community. The reform programs leading up to the completion point should be designed to facilitate that resources freed through debt relief are used for developmental purposes, in particular within the social sectors, however without increasing or complicating conditionality under the Initiative.

As for bilateral debts, the Nordic and Baltic countries have long promoted the principle of full proportionality among creditor groups in the debt relief under the HIPC mechanism. The Nordic and Baltic countries support further debt relief from bilaterals in the Paris Club, i.e. by eliminating the present ceiling of 80%, enabling the Paris Club to take its proportional share. The Nordic and Baltic countries have long advocated cancellation of all ODA debt in the context of the HIPC mechanism and welcome recent proposals by some of the G7 countries to this effect.

The Nordic and Baltic countries believe that the issues related to debt relief, especially as regards monitoring at and after the completion point should be part of the more general policy dialogue between governments and donors/creditors, for instance at the Consultative Group meetings.

Assistance to Post-Conflict Countries

Evidence has shown that it is hard to avoid recurrence of strife in post-conflict countries. This underlines the need for a comprehensive and coordinated effort in post-conflict situations. All the parties involved, from peacekeeping institutions to civil society, must pull in the same direction. The Comprehensive Development Framework could provide an interesting tool in this respect, and also contribute to a smoother shift from immediate emergency relief to long-term development efforts, focusing on national capacity building.

To secure financial stability in post-conflict countries, it is imperative that all relevant actors take part in finding solutions to handling the debt burden. The recent effort made by the World Bank and the IMF in this respect is supported by the Nordic and Baltic countries. We welcome the outlined solutions to the arrears problem, enabling both the World Bank and the IMF to participate actively in the reconstruction of post-conflict countries.

When providing assistance to post-conflict countries, provisions should be made to prevent that lending inadvertently perpetuates conflict by, for instance, maintaining tension among social groups and disfavoring particular regions.

Strengthening International Fora, Including Roles of the Development and Interim Committees

The Nordic and Baltic countries attach great importance to the issue of reforming the Development and Interim Committees. The international financial crisis in particular has highlighted the need for institutional reform to promote better cooperation and coordination of policy recommendations to affected countries.

The experience from Asia, Russia and Latin America also showed that there is a need to handle a diversity of issues of importance to the functioning of the international financial system. We therefore believe that one guiding principle for reform of the international financial system is that a broad mandate of relevant inter-related macroeconomic, social, financial and structural issues should be taken into account in order to enhance crisis prevention and management. The World Bank and the IMF both have important tasks to perform in this regard.

Any reforms of the Development and Interim Committees should build on enhanced cooperation. It is important to strike an appropriate balance between structural and social issues on the one hand and monetary issues on the other hand.

In order to promote political legitimacy, representation in the discussions concerning crisis prevention and management should have a broad base, allowing all affected countries to participate. The discussions should also be transparent enough to secure that the whole membership is informed of the deliberations that are made.

A variation of the double-hat structure might have the potential to cover these considerations, but we would at this stage not like to remove any options from the agenda.

Bank Group Capital Adequacy

Capital adequacy in the World Bank became an issue partly because of the large loans following the crisis in Asia, Russia and Latin America. The Nordic and Baltic countries see a merit for the Bank to be involved in emergency lending where linkages to the development mandate of the institution are clearly identified. Therefore, the spread applied on emergency lending should reflect the higher risks involved in such lending. The Bank's main focus on long term development lending should be maintained. The Bank's mission is to reduce poverty and improve living standards through sustainable growth and investment in people.

Commending the work already done, the Nordic and Baltic countries still see a need for further exploration of the Bank's capital situation. A continued discussion should address the issues of the Bank's capital base, financial strength and income dynamics. An extended discussion of the role of the Bank should also be taken into consideration. Conclusions on these issues should be reached at the next Annual meeting.

Principles of Good Social Policies

The Nordic and Baltic countries are strong supporters of establishing a social codex for the IFIs. We regard this initiative to be of major importance in the efforts to reduce poverty. The Nordic and Baltic countries do not believe that economic growth alone can ensure good practice in social policies. Redistribution of income is essential for eliminating social disparity. Furthermore, the initiative is an important step towards securing basic human rights. We would welcome a more extensive discussion on how the World Bank could better promote democracy and respect for human rights.

The two-track approach where the UN takes the lead role in further elaboration of the principles and where the World Bank distills lessons of good practice in the implementation of the principles, appears to be a constructive approach to cooperation between the two organizations. We welcome that the Bank's build-up upon recommendations from the 1995 Copenhagen Social Summit, as well as the declarations and experience of the UN in this area.

The Comprehensive Development Framework should be a guide for the definition of the respective roles and responsibilities of the different actors on the development scene. We believe that the Principles of Good Practice in Social Policies must be incorporated into the Comprehensive Development Framework. These principles are not a concern only for the World Bank, and they should be implemented in close cooperation with the IMF and other relevant agencies.

The Nordic and Baltic countries find that the implementation of the principles of good social policies requires that social issues are seen as interlinked with economic development. Concern for social issues must be incorporated into long-term development strategies as well as into crisis response. Structural Adjustment Programs should contribute to a strengthening of the social sectors within the countries. To achieve this the Bank should - in close cooperation with the IMF - apply the principles of good practice on social policies to the Structural Adjustment Programs.

The Nordic countries are large providers of aid resources, not least in the social sector, and will continue to provide such resources. The Nordic and Baltic countries urge that the commitments made at the Copenhagen Social Summit are followed up. Although it is clearly a public responsibility, efforts should be made to attract private investors for social development. A socially stable society is a prerequisite for an economically stable environment, and funding of social sector development is a prerequisite for doing good business. The Nordic and Baltic countries urge the World Bank Group to take the lead in promoting private sector investment in the social sector.

Bank Group Cooperation with Regional Development Banks

The Nordic and Baltic countries have always advocated better cooperation between the World Bank and the regional development banks, and we are pleased that this is now on the DC agenda. There is scope for more efficient use of each institution's resources if they work more closely together and thereby reduce overlap. The Comprehensive Development Framework could be seen as a vehicle to promote this partnership.

The international financial crisis caused the World Bank, the IMF and some regional banks to join forces in order to find swift solutions. This and other co-operative experiences should be translated into more systematic cooperation between the international financial institutions. A strategic approach to cooperation must contain an analysis of the comparative advantage of each of the institutions. Rather than building expertise within every development area in each organization, the institutions should in their lending programs draw upon analysis and economic and sector work of others.

The Nordic and Baltic countries see a need for strengthened cooperation in the field of CASs, PERs, Civil Service Reform, private sector development and sector programs among others. Regular exchange of information and documentation, joint missions and joint analyses are all ingredients in a more fruitful cooperation between the IFI's.

Kosovo

The Nordic and Baltic countries are deeply concerned by the human costs of the Kosovo conflict. The regional, economic and financial costs of this crisis are also of concern. The World Bank should be prepared to take part in a concerted effort by the international community to address needs for assistance caused by the Kosovo crisis.

Concluding remarks

Terms like putting national governments in the “drivers’ seat”, “donor coordination” and “partnerships” must not become clichés without real meaning. Experience so far indicates that it is difficult to translate good will to results on the ground. Or maybe lack of political will has been the problem, thus affecting results! To deal with this problem is one of the main challenges facing us in the time ahead. Furthermore, economic and social development are two sides of the same coin, and this must be reflected in the way multilateral as well as bilateral institutions work together and conduct business. The Comprehensive Development Framework could be an important stepping stone for all of us in our efforts to focus and speed up the activities required to make a better world.

Statement by Mr. Ketso (Lesotho)[5]

Global Context

Almost two years after the Asian financial crisis brought a halt to the record growth trend of emerging economies, its effects continue to be felt in much of the world. Russia and Brazil are the two latest casualties of an increasingly hazardous and uncertain global environment for developing countries, as the crisis in emerging markets appears to be deeper and more protracted than previously anticipated, and growth prospects are being revised downward. Current forecasts are for continued weak growth, a slowdown in trade expansion, low commodity prices and declining capital flows to developing countries. We are encouraged, however, by the early signs of recovery, as a fiscal stimulus and improved policies in the major industrial countries, especially the United States, have led to greater confidence in international financial markets. These traditional instruments of macroeconomic policy should, however, be complemented by comprehensive structural reforms, especially in the financial and corporate sectors and labor markets. Furthermore, every effort must be made by industrial countries to resist protectionist pressures and to further open up their markets to developing country exports.

For Sub-Saharan Africa, the economic revitalization enjoyed by most countries in the region suffered a setback in 1998, as aggregate growth slowed to 2.1 percent from 3.4 percent a year earlier. This resulted in a one percent fall in per capita income after several years of gains, due to slowing export volumes, declining terms of trade, lower capital inflows, civil strife and unfavorable climatic conditions. Plummeting oil prices in the aftermath of the Asia crisis led to a 23 percent deterioration in the terms of trade of the region's oil producers. Non-oil exporters also suffered from weaker prices for gold, copper, diamonds, cocoa, coffee and tobacco. Furthermore, the intensification of civil disturbance in a number of countries in the region poses a major threat to Sub-Saharan Africa's economic prospects. Finally, the El Niño weather phenomenon disrupted normal rainfall patterns across the region in the last two years, seriously affecting agricultural output.

This year is expected to see a pick-up of growth as more predictable weather patterns resume, boosting agricultural output and household incomes. However, slower growth in Europe and strong competition from Asia will continue to depress demand in the region's major export markets. Growth in the region, therefore, is forecast to average only 2.5 percent, well below recent growth performance. Sub-Saharan Africa's growth prospects in the medium term are anticipated to improve as world trade growth resumes and commodity prices rebound. In the longer term, growth performance will depend on economic diversification, regional integration and a continuation of the structural reforms implemented over the last several years. Sub-Saharan African countries are committed to maintaining the momentum of reform. However, their reform efforts will not yield significant results if they are not complemented by external funding at levels adequate to sustain growth and reduce poverty. Nor can their development objectives be met if they are burdened by unsustainable levels of external debt.

Resource Flows

This brings me to the issue of resource flows, which is, after all, the raison d'être of this Committee. In the wake of the financial crisis, international capital flows to developing countries,

[5] On behalf of the Africa Group I Constituency

including both private and official finance, fell dramatically from $319 billion in 1997 to $275 billion in 1998. The decline in foreign direct investment (FDI) flows was far less significant. However, while FDI flows are likely to remain a major source of financing for developing countries for some time to come, the slowdown in world trade and output is likely to lead to further declines in these flows to developing countries.

Of particular concern to the countries of Sub-Saharan Africa is the continued decline of concessional aid flows to developing countries, which fell from $33.4 billion in 1997 to $32.7 billion in 1998. In real terms, this represents a one-third drop from their 1990 high. What is especially discouraging is that this unfortunate trend occurs at a time when most Sub-Saharan Africans have achieved great strides in policy reform, and would benefit significantly from concessional funding to sustain their reform efforts. The share of net official development assistance (ODA) in the GNP of industrial countries declined to 0.20 percent in 1998, the lowest level ever recorded, and well below the United Nations target of 0.7 percent of GNP.

Worse still, prospects for a significant increase in ODA flows are poor, as the aid budgets of many of the major donors continue to shrink. I would like to appeal to the international donor community to make extra efforts to consider making substantially larger allocations to their aid budgets. It must be recognized that in a globalized world, all countries, industrial and developing alike, derive material benefits from an increase in the prosperity of developing countries, through expanded markets and a higher standard of living for all.

One important source of encouraging news is the successful completion of a twelfth replenishment of IDA. On behalf of all African recipients of IDA funding, I would like to express my deepest gratitude to all IDA donors who have pledged to contribute to the latest replenishment of IDA. We welcome the operational and policy guidelines embodied in the IDA Report, and the areas of priority it establishes, including poverty reduction, investing in people, governance, the environment and private sector development. We particularly welcome the decision to increase Africa's share of IDA resources to a target level of 50%, subject to performance, and to provide support to post-conflict countries. We hope that IDA will make every effort to attain these objectives during the replenishment period.

The Heavily Indebted Poor Countries (HIPC) Debt Initiative

We would like to reiterate our strong support for the HIPC Initiative, a bold step aimed at seeking a lasting solution to the unsustainable debt burdens of many of the poorest countries. We are highly encouraged by the progress made so far under the Initiative. However, as we pointed out at the Fall 1998 meeting of this Committee, the pace of implementation has been slow, with only two countries thus far having reached their completion points; the eligibility thresholds limit access to the Initiative to too few countries; debt relief offered under the Initiative does not reduce the level of indebtedness to sustainable levels; and the time frame within which relief is made available is too long.

We welcome the very broad consultation process carried out by the Bank, and are grateful to the numerous NGOs and civil society groups who offered their valuable contributions to the debate on how best to strengthen the HIPC Initiative and to relieve the poorest countries of the debt overhang that has stifled their development. We can endorse the principles proposed as a basis for modifying the current HIPC framework: that debt relief should be consistent with sustainable development and poverty reduction, encourage reform, provide a clear exit from an unsustainable debt burden, and preserve the financial integrity of the international financial institutions.

Specifically, we would like to see in a restructured HIPC, a shortening of the time frame needed for extending relief under the Initiative from six years to a maximum of three years. We would further like to see a substantial lowering of the debt sustainability thresholds to more realistic levels, more reflective of the modest export earnings of these countries, thus increasing access. We believe the amount of relief offered should be sufficient to remove the debt overhang of HIPC countries, and we would like to see the Initiative making a greater contribution to poverty reduction and development in these countries.

Undoubtedly, a restructured, more effective HIPC will entail substantially higher costs, and we are cognizant of the financial constraints of the multilateral creditors. We would like to urge them to explore alternative financing mechanisms through which they can enhance their contribution to the HIPC Trust Fund, without compromising their financial standing. We would support the sale of part of the IMF's gold holdings, in such a way as to minimize the adverse impact of such an action on the economies of gold-producing developing countries. We would also be prepared to support an increase in the capital base of the IBRD, to enable it to increase its contribution to the HIPC Trust Fund. We look forward to an opportunity to consider concrete proposals at the next meeting of this Committee.

We would also like to join the call for greater debt relief from bilateral creditors, especially ODA debt. We welcome the several expressions of intent, by a growing number of major bilateral creditors, to forgive the ODA debt of the poorest countries. We trust that this relief will be complementary to additional flows of ODA to HIPC countries, which should be in the form of grants or on highly concessional terms.

Assistance to Post-Conflict Countries

We welcome the recent efforts of the Bank and the Fund to enhance their capacity to assist post-conflict countries, in response to the Committee's request. Specifically, we welcome the Fund Board's recent agreement to enhance post-conflict emergency financial assistance, and to take into account the special circumstances of post-conflict countries with arrears to the Fund. We also welcome further progress at the Bank in designing financial instruments for providing positive net transfers to post-conflict countries implementing reform policies. We would like to encourage the Bank and Fund to continue to work in partnership with the UN agencies, bilateral donors and other institutions, to strengthen their support for post-conflict countries. In particular, we encourage the Bank and Fund to continue normal operations, to the extent possible, during conflict. In this way their response can be more timely, less costly, and based on more accurate information. Furthermore, more resources should be made available for post-conflict countries, through the establishment of a Post-Conflict Trust Fund. We look forward to the implementation of a pilot country case as soon as possible. We also hope that the international community's attention and response to countries in conflict will not vary from country to country on the basis of geopolitical interest.

Bank Group Capital Adequacy

If the World Bank Group is to be responsive to the constantly changing needs of its clients, it must be able to preserve its financial integrity. The East Asia financial crisis, which stretched the Bank Group's capacity to respond to crisis situations, highlighted the importance of the Bank Group maintaining its financial soundness. The successful conclusion of the IDA 12-replenishment agreement and the MIGA general capital increase will enhance the capacities of these two member institutions of the Bank Group. We welcome the priority being given by the Bank Board and management to the financial strength of the IBRD and IFC. In particular, we are reassured by the assessment of external advisors that while the Bank may be nearing its risk-bearing capacity, there is no immediate cause for alarm. However, the external advisors also warn that in the event of a major shock, the Bank Group may not be able to respond effectively without compromising its financial integrity. Furthermore, the Bank Group's ability to provide adequate support for IDA, the HIPC Initiative, post-conflict countries, capacity building, and other important long-term development initiatives could be constrained by its limited capital base. We would like to urge early consideration of a capital increase for both the IBRD and IFC as one major option for enhancing the Bank Group's financial capacity, within the context of a full review of institutional priorities in the light of recent and anticipated global economic and financial developments.

Comprehensive Development Framework

We very much welcome the Bank's proposal of a Comprehensive Development Framework which envisages a holistic approach to sustainable development. African policy-makers have long believed that the consideration of the structural, social and human aspects of development are an important complement — often overlooked — to the macroeconomic and financial aspects that have preoccupied the international community for so long. Fundamental to the success of such a holistic approach, as the CDF recognizes, is country ownership in decision-making in partnership and coordination with civil society, the private sector, and other multilateral and bilateral institutions. For the Bank Group this will mean, among other things, being ready to yield the leadership position in areas where other development actors have a comparative advantage.

The key to the success of the CDF will be in its implementation, and we look forward to learning about the experience of the pilot countries, several of which are in Sub-Saharan Africa. Clearly, the experience will vary from country to country, reflecting the importance of avoiding a blueprint approach to development in different countries, and we hope that the CDF will be flexible enough to deal with the diversity of country circumstances represented by the Bank Group's member countries. In particular, capacity constraints may require that some Bank guidance may be necessary to assist some countries in assuming ownership of their development efforts. The increased collaboration called for by the CDF may test the capacities of the multilateral and bilateral development partners, and every effort must be made to ensure that this partnership does not result in delays to the implementation of programs and projects due to cross-conditionality or a multiplicity of legal procedures and procurement standards. We would like to see the Bank Group's Executive Board play a monitoring role throughout the pilot process, and look forward to a full evaluation at the completion of the eighteen-month pilot period.

Principles and Good Practice in Social Policy

One useful lesson that the recent financial crisis has taught us is the importance of applying global principles for social policy aimed at the social development of the world's people. These general principles were agreed at the 1995 World Summit for Social Development in Copenhagen, and complemented by a set of standards and principles established throughout the United Nations. We welcome the draft note on principles and good practice in social policy, prepared at the Committee's request by the World Bank, in cooperation with the UN and other institutions. We believe that the further development of these basic social principles is more appropriately carried out by the UN, as part of the international community's follow-up to the Copenhagen Declaration.

In our view, the World Bank's comparative advantage in this endeavor lies in the area of implementation, where it can apply its cross-country experience in helping countries to implement these principles, taking into account the unique characteristics of these countries. We would, therefore, recommend that the UN assume the lead in further developing the social principles, with the Bank directing its attention to helping countries mobilize the necessary resources to implement these principles, and sharing best practices on the effective use of such resources. It is important to stress that the adoption and implementation of these social policies must remain voluntary, and countries will differ in the extent to which they have the capacity to implement such policies. While these principles are acceptable to many countries, we do not believe that the Bank should police their application, or attempt to impose them on developing countries by using them as conditions of lending.

Strengthening International Fora: The Roles of the Development and Interim Committees

We welcome the efforts of the Executive Boards of both the Bank and the Fund to strengthen the decision-making processes of the Development and Interim Committees. We believe that there is some scope for enhancement of these two bodies in such a way as to maximize their effectiveness. We urge the Boards of the Bank and Fund to pursue this effort further, taking into account the ever-expanding international development agenda, the importance of broad representation and participation, and the need to increase efficiency and effectiveness while avoiding duplication and overlap. Moreover, we believe that any effort to strengthen these international fora should seek to accord equal status to each institution. We would encourage the Boards of the Bank and the Fund to develop specific proposals for consideration by the Interim and Development Committees at their next meetings so that agreement can be reached on this important matter as soon as possible.

Bank Group Cooperation with Multilateral Development Banks

We welcome the report on strengthened World Bank Group cooperation with the regional development banks. The regional development banks play a crucial role in addressing the needs of developing countries, and the World Bank can benefit immensely from enhanced collaboration with them, through improved lending efficiency and effectiveness. This has become even more evident in the dramatic evolution of the international environment in recent years. We are pleased to note the enhanced collaboration among the management and staff of the multilateral development banks at the country and regional levels, and at the operational policy and sectoral level. We encourage the World Bank and the MDBs to continue to strengthen this collaboration while not overlooking the potential benefits of diversity and independent efforts, and while respecting each institution’s unique mandate.

The Partnership for African Capacity Building

I would like to take this opportunity to update Governors about the progress made thus far with the development of the Partnership for Capacity Building in Africa (PACT). I am happy to report that substantial progress has been made since our last meeting. We have had consultations with many of our development partners, most of whom have signaled their strong support for the initiative. Indeed, the framework of PACT has been enriched by the many useful suggestions offered by our partners, and several modifications have been made to address their initial concerns about the governance structure of PACT. In particular, PACT will now operate within the governance structure of the existing Africa Capacity Building Foundation in Harare, Zimbabwe, with a slightly expanded Board to reflect African representation.

A major feature of the PACT initiative is the establishment of a Trust Fund, which would be funded through contributions from multilateral and bilateral assistance agencies, as well as the private sector. I would like to call on all Africa’s development partners to make sizeable contributions to the

PACT Trust Fund once it is established, to ensure that it is adequately funded to make a material impact on the development efforts of the African people.

The HIV/AIDS Epidemic and its Impact on Africa's Development

The HIV/AIDS epidemic has spread at an alarming rate around the world, with devastating consequences in many countries — both industrial and developing. However, nowhere has the spread of the disease been more rapid than in Sub-Saharan Africa, where extreme poverty has limited the effectiveness of efforts to prevent the spread of the disease through behavior modification and awareness campaigns. According to a recent UN report, 34 million Africans have been infected with HIV, and almost 12 million of them have already died. In the last year alone, the region experienced four million new infections, and in at least four African countries, one in five adults is living with the HIV virus.

In the more developed regions of the world, access to new, more potent, drugs has led to a significant reduction in the number of AIDS-related deaths. The very high cost of such drugs makes them completely inaccessible for most Sub-Saharan Africans, and treatment options appear to be very limited in the region. Given their small budgets, African governments have been urged to focus their limited resources on AIDS prevention, with special focus on the high-risk groups, within the overall framework of sector-wide health programs. This strategy has not led to any significant change in the dramatic rate of infection in the region, and it is now time to explore other options.

AIDS is not just a health issue. It is also a development problem, with serious implications for productivity in many African countries. In many countries, whole villages are being wiped out. As the disease largely affects the most productive age groups, in many villages only infants and the elderly remain, with no source of sustenance, leading to increased poverty levels. For this reason, a multisectoral approach is fundamental to any effort to address the AIDS epidemic in Africa.

We would like to request the World Bank to formulate an effective strategy for addressing the AIDS epidemic in developing countries, with special attention to Sub-Saharan Africa where the impact of the epidemic is most severe. We look forward to an opportunity to consider this strategy as an agenda item at the next meeting of the Development Committee.

Conclusion

The new millennium holds promise for the developing nations of Sub-Saharan Africa. In a globalized world, sustained growth in the region would yield tremendous benefits. It is in recognition of this reality that African governments have persisted with economic and political reform. Their efforts must be rewarded with debt relief and additional flows of concessional financing if the momentum of reform is to be maintained. The growing number of countries in conflict in the region is a cause for concern, however, the Bank and Fund must do everything in their power to support their post-conflict reconstruction efforts. The Bank has a crucial role to play in Africa's development, and must remain financially sound if it is to respond to the growing demand for its services. Increasingly, the Bank must work in partnership with other actors in the international development arena, as is envisioned in the Comprehensive Development Framework, ensuring that countries are fully in control of their own development.

Statement by Mr. Kuroda (Japan)

Introduction

First of all, I welcome the successful conclusion of MIGA's (Multilateral Investment Guarantee Agency) capital increase and the agreement of IDA's (International Development Association) 12th replenishment. For Japan, both MIGA's capital increase and IDA's 12th replenishment have recently been authorized by the Diet, and we would continue to provide active support for the activities of the World Bank Group.

The Comprehensive Development Framework

The development agenda today includes a greater variety of issues than before. Our challenge includes emergency response to the economic crises of emerging economies which originated in Asia, the safety measures for vulnerable groups affected by the abrupt economic and social structural changes after the crisis, and the efforts towards the better governance. Under these circumstances, we welcome that the World Bank is re-examining its activities and achievements, and proposing the Comprehensive Development Framework (CDF) as a new development framework enhancing collaboration with other development partners.

What is critical to this comprehensive approach is the question of how to ensure stronger ownership and incentives of the countries to incorporate good policies in designing and implementing development strategies. These points should be kept in mind as we address specific development issues such as heavily indebted poor countries, good practice in social policies, and assistance for post-conflict countries. While partnership among the players in development, including NGOs and civil society, is a critical message of the CDF, it will also be important to always set the focus upon the commitment of the recipient countries. In order to make effective and efficient use of limited financial and intellectual resources, the importance of collaboration among bilateral and multilateral donors cannot be overemphasized. In particular, close collaboration between the World Bank and regional development banks is one of the most important elements in designing development strategies under the CDF. It is most desirable to make further effort to facilitate dialogue among the MDBs.

HIPC Initiative

The implementation of the HIPC Initiative, since its inception in 1996, has steadily proceeded towards alleviating debt problems of heavily indebted poor countries, and Uganda and Bolivia have reached the completion point. We appreciate the effectiveness of the framework.

To date, under the framework of the Paris Club, Japan has actively supported efforts to alleviate debt burden of those countries suffering from particularly severe debt overhang. Under such efforts, Japan has rescheduled 940 billion yen, and has forgiven 340 billion yen of its ODA claims for 27 poor countries in the past two decades. To address the multilateral debt under the HIPC Initiative, Japan has contributed 1.3 billion yen to the HIPC Trust Fund and 7.1 billion yen to the ESAF-HIPC Trust.

Given the fact that the debt burden of heavily indebted poor countries remains severe, there is a need for the international community to further strengthen effort to address the debt problem. In examining measures to reduce the debt burden to a sustainable level that enables countries to regain capacity to pursue social and economic development, the international community should take into account the following principles:

- The Initiative should be based on the "ownership" of the heavily indebted poor countries. It is particularly important for these countries to continue their efforts toward sound economic management and economic reform.

- Financial resources made available as a result of debt relief initiative should be used effectively for development objectives, such as education, health and other social services, and employment.

- Fair burden sharing among bilateral creditors and between bilateral and multilateral creditors should be ensured.

- Attention should be paid to minimize "moral hazard."

- After the debt reduction under the Initiative, it would be difficult to extend new loans to those countries, thereby making it important that future assistance be provided in grant in principle.

Based on these principles, Japan has made the following proposals to improve and enhance the current framework of the HIPC Initiative, noting the fairness of burden sharing among creditors;

- The current debt relief ceiling of bilateral ODA claims of 67% will be increased to 100% (Japan would opt for equivalent measures to achieve debt forgiveness, such as grant assistance for debt service).
- The current debt relief ceiling of bilateral non-ODA claims of 80% will also be increased, as necessary.
- The international financial institutions shall enhance their relief measures, paying due consideration to fair burden sharing with bilateral donors. Donor countries are requested to make equitable contributions to the trust funds established by the IMF and the World Bank for the Initiative, ensuring that their respective total contributions to the Initiative be fairly shared. The IMF will sell its gold to finance the Initiative.
- Flexibility would be given under the Initiative to those debtor countries which have made long strides in achieving reform and those to which urgent assistance needs to be provided.

With these proposals we would like to continue to participate actively in the discussion regarding the assistance for heavily indebted poor countries.

Principles of Good Social Policy

Sudden large scale macroeconomic adjustments in response to the recent Asian currency crisis have had more serious impact on vulnerable groups than had been anticipated. There is a danger that the achievements of poverty reduction to date could be lost.

Drawing lessons from this experience, efforts should be made to ensure that the development strategies adequately reflect principles of "good social policy" in order to minimize the impact of economic turmoil on the vulnerable groups. In this regard, it is timely for the World Bank to distill generally agreed social principles from its experience, and respect them as a part of the guiding principles for its operations.

The World Bank should make sure that these principles not be applied uniformly. It is important to recognize the unique values as well as the complex and diverse structures of the societies of individual developing countries. To facilitate these societies to accept various measures that promote "good social policy", we should fully examine the sequencing and pace of implementation, and formulate strategies carefully considering people's awareness, social structure, and implementation capacity including financial constraints.

An essential premise to such efforts is that the developing countries themselves recognize the necessity for social reform, and demonstrate ownership in implementation. To this end, individual societies need considerable time and effort for building consensus to support social reform. We hope that in the discussions with recipient countries for designing development strategy, the World Bank will encourage them to deepen their understanding on the importance of these principles of "good social policy", and will adopt a realistic approach to support them.

The Roles of the Development committee and Interim Committee

As part of the wider effort to consolidate the international financial architecture, it is important to strengthen the Development Committee and the Interim Committee so that they reflect political will more appropriately, and to enhance the efficiency of the Bretton Woods Institutions in their operation.

There are a number of alternative proposals to strengthen the two committees. Whatever options we select, a clear reformulation of the two committees' mandates will be required. This does not mean the two committees, or the World Bank and the IMF, should be hampered from approaching a certain theme from an independent perspective.

As the first step towards strengthening the two committees and deepening timely and effective collaboration between the two, the President of the World Bank should participate in the Interim Committee and be given the right to speak, as in the case of the Managing Director of the IMF at the Development Committee. In addition, we support the idea that the Management of the World Bank should be fully involved in the preparatory processes of the Interim Committee.

Statement by Mr. Jalan (India)

Although there are some indications that the worst may have been over for the East Asian crisis countries and the likelihood of a global financial melt down may have receded somewhat, there are still many disturbing signs on account of the problems faced by Brazil, repercussions of the crisis in Russia, continuing recession in Japan and some signs of slow down in growth in European countries. These trends have their own adverse impact on the growth prospects of the developing countries. The steep decline in commodity prices, slump in growth of trade and the reduced capital flow to the developing countries have all jointly brought down the average growth rates in developing and transition countries substantially from 4.8% in 1997 to just 1.9% in 1998. It is expected to fall further in 1999. In this difficult period, it is essential that the world community takes sound and timely decisions on various problems besetting the world economy.

We are very glad to note the successful completion of the agreement on the IDA-12 Replenishment. The sense of urgency exhibited in concluding the agreement is a testimony to the shared vision of the international community on the need to fund programs for poverty reduction.

Concessional assistance to developing countries, however, is steadily declining. Aid flows now are a third below the 1990 level in real terms and the prospects of increase do not appear to be bright. Unfortunately and paradoxically, the decline in aid flows in recent years has coincided with exceptional improvement in reforms and the policy environment, particularly in countries of South-Asia.

The Bank's own report on effectiveness of aid indicates that aid is most effective in reducing poverty in countries with sound economic management and that reallocation of aid to countries with good policies and a large number of poor people could substantially reduce the number of poor. The Bank's fundamental mission being poverty reduction, which is also the central message of the Copenhagen Declaration and Program of Action for Social Development, it is essential that the international community gears up to provide adequate resources for alleviation of poverty.

The 1990s have witnessed developments that signal the need for a sea-change in the manner in which the development community must collectively respond. Globalization, declining official assistance and greater participation by civil society and the private sector have ushered an era of fresh challenges and opportunities. In this context, the Comprehensive Development Framework (CDF) proposed by Jim Wolfensohn offers a bold vision to bring about a holistic approach which seeks to balance attention to macroeconomic issues with increased concern to social issues. Further, it is expected to enhance constructive partnerships between the four identified players – the Government, External aid agencies, the Private Sector and Civil society based on their comparative advantage. This approach is expected to reduce redundancies, improve targeted intervention, and help realize efficiency gains in resource allocation and utilization.

The model envisages a long-term framework, which raises a number of issues for borrowers. A twenty-year outlook based on a wide participatory approach requires a planning capacity that may not be available among many of the members. There is also the question about the Bank's own capacity in assisting members in this regard, since a twenty year framework is itself new to the manner in which the Bank has hitherto functioned. We must also recognize that development goals are dynamic by their very nature and governments periodically modify national priorities to reflect changing societal concerns and preferences. Furthermore, constructing such a plan will imply increased transaction costs to borrowers, which will clearly need to be weighed against the value addition of such an exercise. These issues are further compounded in large federal and plural societies.

The CDF envisions certain fundamental changes in our perspective on the development strategies we seek to adopt. Therefore, the sustainability of the CDF is crucially dependent on the ownership it draws from borrowing members. It is, therefore, essential to ensure that it gets universal support from the developing countries before being put into operation on a larger scale.

We recognize that the approach is still in an evolving stage. A number of countries have agreed to actively participate in the pilot program which on implementation should provide us an excellent learning opportunity. We would therefore urge that these early programs be monitored closely, and on the basis of that experience, we should review the concept in a year or so from now.

The experience of the past four decades has shown that development is a complex issue and it is now recognized that it is not possible to achieve comprehensive development through technical solutions. We would caution that we should not repeat the mistake of trying to find a "one size fits all" universal model for development.

The Bank's response to the East Asia crisis and its aftermath has been unique in terms of the nature and level of assistance extended. However, in responding to the crisis, the Bank is confronted with a predicament that highlights the precariousness of the institution's own risk bearing capacity.

The Report of the Expert Group in this regard is particularly helpful. It affirms Management's assessment of IBRD's risk-bearing capacity, and reflects our deliberations over the past year. However, while we had focussed primarily on the income aspects of the equation, the Report presents a broader perspective on the critical trade-off involved. It also directs us to some very fundamental issues, which we need to consider.

We believe that while securing the financial integrity of IBRD, emphasis should remain on the Institution's long-term development goals and poverty alleviation. We strongly urge that in defining its role for the future, the framework of assistance should be confined to the Bank's mandate, resources, and comparative advantage. We believe that a large component of the assistance to countries in crisis was in the nature of liquidity support. While we appreciate the compulsions of that response, it has resulted in undermining the Bank's own prospects. As currently structured, the existing capital base and the income dynamics do not allow further room for such responses.

The question that remains is to determine the Bank's role in the event of future crises. We believe that the Bank should stay within its traditional mandate, and would caution against fast-disbursing emergency loans as were provided in 1998. Furthermore, we also suggest that firm and transparent criteria be established to incorporate selectivity in future crisis interventions.

Regarding the risk bearing capacity of the Bank. I believe that the effort should be based primarily on the principles of burden sharing. This is in keeping with the cooperative character of the Bank. On the income side, IBRD borrowers have already assumed their share of the burden through the increase in lending prices. Further transfers from net income should be frozen at current levels and instruments such as a Trust Fund should be developed to facilitate broader burden sharing in this regard. These are of course interim measures which may alleviate some stress on the Bank's financial position. However, the long-term solution lies only through a general capital increase. I do believe that this is an opportune time to initiate the process.

We welcome the initiative taken by the Bank to ensure adequate financing for post conflict reconstruction. We need greater cooperation with the UN and other partners in this regard. Any exceptional assistance to post conflict countries should be preceded by clear eligibility and performance criteria. The humanitarian aid and development efforts have to be integrated for better results. It is important to avoid moral hazards associated with debt relief and for that reason adequate efforts on the part of the countries concerned are necessary. We also welcome Mr. Wolfensohn's efforts in trying to set up a donor-financed Trust Fund. We hope the international community will come forward by providing additional funds in the interest of early post conflict recovery.

It is heartening to note the all-round progress made in strengthening the collaboration between the World Bank and the Regional Banks. The impact of the financial crisis of East Asian and Latin American countries, the shadow cast by the enlarging conflict in some regions on the Bank's development programs, the proposed new H.I.P.C. Initiative – all require deeper collaboration and understanding between the World Bank and other regional development banks at all levels, particularly at the operational level. Failure to do so could jeopardize the success of many of the initiatives we have introduced in the recent past. We should, however, also not overlook the comparative advantages in diversity and the strength of regional banks, particularly their deep knowledge and understanding of the issues relating to developing countries and ensure that they are not compromised.

The Development Committee at the October, 1998 meeting has encouraged the Executive Boards of the Fund and the Bank to review the Roles of the Interim and Development Committees as a part of the ongoing consideration of steps to strengthen the International Financial Architecture. Since then the International community has discussed the issue at various forums including at the G-33 Seminar on the International Financial Architecture held in Bonn last month. The issues of strengthening the roles of the Fund and the Bank are quite complex as can be seen by the galaxy of proposals that have been made in various fora. The issues relating to strengthening need to be looked at from three different levels; first at the level of institutions in terms of delays, lack of transparency in the operations of the institutions; second, it should be seen in terms of functioning of the Board with regard to decision making including the pattern of voting power; and third, at the level of the Interim and Development Committees. These issues require more detailed study and discussion. However, as noted by Mr. Wolfensohn, in his note to this Committee, consensus on the various options has not yet emerged and I believe more technical work needs to be done with regard to all the three levels mentioned by me above before a definite recommendation could be brought back to this Committee.

It is well recognized now that the principles for social development are based on international agreements, which most countries have approved. No country is against achieving universal access to basic social services or decent working conditions for their labor. But, many countries are still lagging behind in achieving reasonable social development not because of lack of political will or commitment on their part. It is predominantly due to the conflicting demands on the limited resources available with them; and due to the clash between development needs and the need for adopting good social policies. The ongoing financial crisis has added new dimensions to this problem.

We agree with the two track approach – with the United Nations taking the leading role in further development of the social policy as a follow up on the Copenhagen Declaration and the Bank in collaboration with other partners, to help its member countries to implement these principles according to their own priorities. Social policies cannot be implemented independently of development. Since the fundamental mission of the Bank is poverty reduction, it has a major role to play in providing resources and knowledge that will enable member countries to implement these principles successfully. We need further increases of IDA resources for this reason.

We are happy to note the willingness and commitment on the part of the international community to provide deeper, broader and faster debt reduction to HIPCs and we extend our full support for the same. A number of initiatives already announced by the G-7 and other countries will have a far-reaching effect in reducing poverty in the poor countries. We also agree that the debt relief should be more tightly linked to poverty reduction programs.

We hope the developed countries will contribute additional resources generously in meeting the cost of the new H.I.P.C. Initiative. The burden sharing should be wholly and proportionately distributed among the developed countries. The transfer of resources from I.B.R.D. net income should be avoided since that can only be at the cost of financial integrity of the World Bank or reduced availability for the Bank’s effort at development and poverty alleviation.

While the debt relief should be linked to poverty reduction and human development, the details should be worked out in full partnership with the countries concerned. Caution should be exercised against imposition of overbearing conditionalities, which may lead to social and political problems and the sustainability of reforms itself. The World Bank as a knowledge Bank, in partnership with other developed countries should also play a catalytic role in transferring modern technology to the poor countries.

Under the present initiative non-Paris Club creditors have no role to play at all. The credit extended by them is equally important, if not more since it comes from the relatively less affluent countries.

We extend our full support for debt relief to the poor countries. At the same time it is essential to ensure support and encouragement to other developing countries that are regularly meeting their debt service obligations irrespective of their difficult circumstances.

Statement by Mr. Jin (China)

The world economy has suffered severe setbacks since the outbreak of the financial crisis more than a year ago. Its prospect will hinge, to a large extent, on the policy decisions and actions by all countries, particularly the major developed countries. Development issues and the global economic structure are closely interrelated. I hope that our meetings will help us deepen our understanding on development related issues and help the international community take appropriate measures to lead the world economy to a brighter future.

Transfer of resources to developing countries

The Development Committee was established to promote the transfer of resources to developing countries, which has been a major agenda for the development business. At present, some crisis stricken economies in East Asia have shown signs of recovery and the international financial market is stabilizing. However, world economic growth has slowed down considerably, international trade has contracted, commodity prices continue to decline, and the flow of international private capital to developing countries has reversed. Against this background, transferring resources to developing countries will exert a profound overall impact on stimulating global market demand and preventing worldwide deflation.

While providing assistance to crisis-hit countries, the World Bank and other international financial institutions should make more efforts to fully understand and meet the diversified financial needs of developing countries under the current situation. These institutions should not provide policy oriented structural adjustment loans to the neglect of the conventional lending, particularly those in infrastructure and other productive areas. The developing countries’ access to the international financial markets has been reduced since the crisis started. Under such circumstances, the Bank should make increased efforts to lower its lending costs and provide concessional resources to developing countries, demonstrating comparative advantages in its lending through relatively longer maturity and stable volume.

Official development assistance, particularly concessional funding, continues to decline despite improved fiscal positions in major developed countries, which have benefited from relatively low commodity prices, particularly oil. Major developed countries should make concrete efforts to increase

ODA as required by their moral obligation and the need to revitalize the world economy and help developing countries maintain their balance of payments.

We support the enhanced efforts on HIPC initiatives where debt reductions will be closely linked with poverty alleviation. In choosing the debt reduction schemes, efforts should be made to ensure such schemes truly bring down the debt burdens of the HIPC countries and put adequate resources in place as well. On the whole, additional development assistance is a prerequisite for further debt reduction. We welcome the political will recently expressed by several developed countries on debt reduction, and we are looking forward to their commitments to materialize promptly.

We support both Institutions' efforts to provide assistance to the post-conflict countries, and in this connection both Institutions should strictly comply with the UN Charters and relevant resolutions. Besides providing financial assistance through IFI's, we urge members of the international community to make concerted efforts to resolve conflicts through political measures instead of force. This is essential for a peaceful global development environment.

Comprehensive Development Framework

We endorse the comprehensive development approach, i.e. emphasizing the reinforcing effects among governance, structural adjustment, social and cultural development, and economic growth. Meanwhile, we believe that improvement on material productions is the foundation for all kinds of human civilizations.

The development experience of China and other countries demonstrates:

1) Social transformation is of great importance to sustainable economic growth, whereas economic growth is the foundation for social development.
2) Structural reform and economic development do not substitute for each other, rather they are mutually complementary. Smooth reform implementation requires economic growth, and in the course of reform, issues related to economic growth, such as poverty reduction, environmental protection, and infrastructure development, need to be addressed.
3) Given the diversity of countries in cultural and historical backgrounds and development stages, the contents of and approaches to comprehensive development programs will necessarily be different, and the design and implementation of individual program should certainly go beyond a single format.

Countries should take the driver's seat in implementing the comprehensive development strategies. The Bank's proposed CDF initiative should aim at helping its clients implement their own development strategies. The Bank had successful experience in promoting comprehensive development in the past, which was accomplished through providing financial and technical assistance in areas such as education, health, urban development, environmental protection, and institutional capacity building. The Bank should continue to contribute to comprehensive development through such efforts in the future. The Bank should strictly abide by its mandate, and implement the CDF according to its comparative advantages and capacity. In view of diversity in country circumstances and the constraints faced by the Bank in its institutional capacity in this regard, the Bank should pilot the concept and review the experience before it considers whether it is advisable to mainstream the CDF.

Principles and good practices of social policies

The “Copenhagen Declaration” of the UN World Summit for Social Development stipulates the basic principles for promoting social development in all countries. China is supportive of these principles and, indeed, has over the years proceeded with its development along these lines in the context of its actual situation. We support the UN ’s leading role in coordinating the implementation of these principles, and believe the Bank and other multilateral institutions should participate according to their respective division of labor and comparative advantages. They should not take over others’ responsibilities.

In establishing principles and good practices for social development, country differences must be respected. Even though economic globalization has been moving forward rapidly, the realities of the world are: levels of economic development vary from country to country, diversity exists on countries’ historical and cultural traditions, and constraints exist on mobility of factors of production, particularly labor, in the world market. Furthermore, a fiscal transfer scheme at the global level is not in place. Consequently, differences in social development and policies governing this area, including labor standards, are inevitable. It should be acknowledged that social improvement is constrained by economic development. Therefore, social development in developing countries cannot be accomplished through “standards” imposed externally; rather it can only be realized through economic development in these countries in conjunction with their efforts on implementing those social policies formulated in accordance with their individual country circumstances.

Enhancing the effectiveness of the Development and Interim Committees and other international forums

In order to enhance the effectiveness of the discussions on “global financial architecture,” the modalities of international forums concerned need to be improved so as to ensure the full participation by developing countries in the process. The prospective global financial architecture should be able to reflect the common interests, especially those of the developing countries, on world economic development. It should take into account the special needs of developing countries at different development stages and put them on equal footings during the economic globalization process. We support the efforts made by both the Development and Interim Committees on improving coordination based on the specified division of labor, and hope both Committees, through their constructive roles, will promote developing countries’ effective participation in the process of establishing global standards.

Statement by Mr. Malan (Brazil)

Highly Indebted Poor Countries - HIPC

We have been supportive of the HIPC initiative since it was adopted by this Committee in the fall of 1996. Our Bank/Fund constituencies include both HIPC eligible countries and creditor countries and this has resulted in a balanced view on this issue. This continues to be our position.

As the debt problem for many poor developing countries is still acute, we have seen over the last few months many proposals made by different governments and organizations of civil society in developed countries to deepen and expand the HIPC initiative. While we see merit in some of them, it is necessary to have a clear estimate of associated costs and the resources for financing them. We feel that taking decisions without guaranteeing the necessary financing is of little use. Financing is the critical issue in any enhanced Initiative. We propose that the discussions referring to the deepening and broadening of the Initiative goes hand in hand with discussions of how to fund them.

It is essential to have a much greater financial contribution from developed countries and also from multilateral organizations such as IDA which are major creditors of HIPC countries but that have not yet financially contributed to the Initiative. We welcome the announcements by some developed countries of their willingness to increase their bilateral contributions. Equitable and proportional burden sharing amongst both bilateral and multilateral creditors is critical for moving ahead.

It is also essential to preserve the financial integrity of the World Bank, whose net income is subject to increasing demands. At the launching of the program, the initial contribution by the Bank was estimated at five hundred million dollars. Current estimates for the end of 1998 assume the World Bank will have contribute some two billion four hundred million dollars. Of these, four hundred million dollars are still unfunded, and that refers to the existing program only.

The Fund is also facing similar financing shortfalls of SDR 1.3 billion to cover the current HIPC and will probably have to resort to gold sales, a decision which we support, but which may create problems for large gold producing countries and cannot be looked at as a permanent source of financing.

We should not forget either that an increase in ODA levels, which unfortunately have been falling substantially during this decade, would achieve the same results as debt relief operations. In this respect it is disappointing to see that what is given as debt relief is taken back through a reduction in official development assistance.

As part of our balanced position on this issue, I wish to reiterate what I said during the Fifty-fifth meeting in April 1997 on the importance of a good track record of macroeconomic performance and political commitment of the leadership to continue implementing sound economic policies to bring debt to sustainable levels. The HIPC initiative alone will not bring countries back to a strong, credible and enduring development standing.

In summary, we favor examining the issue of deeper, broader and faster debt relief, but call for a greater financial participation of IDA, which is the main creditor of HIPC countries within the Bank Group, in funding changes in the framework. This could be done, for instance, by making explicit provisions for loan losses. We also call for greater participation of developed countries, especially those which have been reducing ODA.

Principles of Good Social Policy

Good social policies are a fundamental pillar of development. Sound macroeconomic fundamentals and financial stability are a pre-condition for growth on a sustainable basis, but are not objectives in themselves. The real goal of development is the improvement of living conditions of the vast majority of the population.

We feel, however, that the unsatisfactory progress that has been made in improving social conditions in developing countries results not so much from the lack of principles and lack of knowledge of best practices, but from the lack of resources, both financial and human. As in the case of HIPC, this is the real issue. Hence, even more important than discussing the principles and best practices is to consider resources, both at the international and domestic levels, as well as mechanisms of financing.

With respect to domestic resources, there is certainly room for improving efficiency in resource utilization to spend scarce public resources in a more effective manner. In some cases what is needed is not additional funding but improving the way existing resources are spent. Social policies yield results in the long run. Their design has to take into account modes of financing, which in turn must be in line with sustainable budgeting over time.

At the same time, elaborating general principles in social or other policies is not the purpose for which the World Bank was created. More importantly, as principles and codes must be followed by all members of the international community, they should be discussed and adopted in multilateral organizations which are applied to the entire membership, rather than in the Bank where they would be applied them to borrowing countries only.

We should recognize the ongoing work under the auspices of the United Nations in the area of social principles. We feel that the United Nations is the proper forum for developing such principles. The World Bank can, however, play a relevant role in assisting countries to implement social policies at their request.

While defining and implementing principles and best practices of social policy it is important to guard against the dangers of these noble and commonly shared goals becoming hostage to hidden protectionist pressures.

Bank Group Capital Adequacy

Just prior to the last Development Committee meeting, difficult decisions were taken on net income allocation and pricing policy of the Bank. On that occasion we indicated that the problem of inadequate usable capital base of the Bank remained in place despite those pricing changes.

There is no disagreement as to the necessity to preserve the financial integrity of the Bank. We once more stress that this is the collective responsibility of all shareholders.

It is also clear to us that the Bank should continue expanding its lending in normal circumstances and be prepared to respond to crises, while preserving prudence in risk bearing.

It is also essential not to expand the allocation of the Bank's net income beyond those aims that are broadly shared by the entire membership, such as the present levels of contributions to IDA, HIPC, African capacity building and selected post-conflict initiatives.

Reducing administrative expenditures remains an essential element of sound management and should continue to be pursued, though it is clear that this will not make a major contribution in the issue under discussion.

As price increases have already being resorted to, we cannot rule out a general increase in paid-in capital as a means to strengthen the financial capacity of the Bank. Perhaps even more urgent than examining this issue for the Bank would be an early discussion and decision on a capital increase for IFC.

It is important that the Executive Board keep discussing this important issue and report back in the next Development Committee meeting with proposals that are balanced and consensual.

The Comprehensive Development Framework

The CDF contains promising features to deal with the challenges of development. We particularly welcome the emphasis on country ownership, which is a sine qua non condition for development effectiveness. As the responsibility to address the challenges of development rests ultimately with the borrowing country government and society, it is important that the concept of ownership be thoroughly applied, in particular in the definition of priorities.

Assistance to Post-Conflict Countries

We welcome the coordination which is taking place between the Bank and the Fund and other international financial institutions to define a strategy to provide exceptional assistance to post-conflict countries. Eligibility and performance criteria should be applied on a case-by-case basis. Similarly to the HIPC program, a strong commitment from the authorities to embark on adequate economic policies and capacity to prevent the country from returning to a conflict situation will be essential for the success of the initiative.

Estimation of potential costs and definition of sources of financing are critical. Here again is an area where decisive financial support from developed countries is required.

In the cases of IDA-only countries, we feel that post-conflict assistance should be provided by IDA.

Bank Group Cooperation with Regional Development Banks

We welcome the level of cooperation that has been achieved between the World Bank and other multilateral development banks. This permits avoiding duplication of efforts and promotes better use of scarce resources, thereby increasing development effectiveness in recipient countries.

At the same time it is important that each individual bank maintains its own institutional identity, profile and focus. This means that cooperation should not lead to policies, directives and decisions from one institution being automatically adopted by others.

We consider that progress made in cooperation among multilateral development banks has reached adequate levels and does not require this issue to be revisited in future Development Committee meetings for a while.

Statement by Mr. Martin (Canada)

Introduction

When we met last fall, the key challenge we faced was how to respond to the emerging markets' financial crisis. We have been able to manage the crisis, and international financial institutions have been central to our efforts. While weaknesses remain in the global economy, there are now signs of improvement in Asia and this gives us a basis for optimism for longer-term recovery. The challenge that the international community now faces is to maintain the focus established by the crisis on the need to strengthen the international financial system.

The World Bank's role in helping countries combat financial crises has been substantial. We owe our gratitude to President James Wolfensohn and Bank staff for their untiring work. The Bank's effectiveness in this difficult time has been boosted, in no small measure, by the greater flexibility and efficiency that are the hallmark of the internal reforms launched over two years ago.

Need to Refocus on Longer-Term Development Issues

The Bank has devoted substantial financial support to rebuild confidence in crisis countries, but it must not lose sight of its principal mandate – lifting the world's poor out of poverty and enhancing living standards worldwide. The World Bank is first and foremost a development institution with no quick fixes possible for the many challenges it faces.

For this reason we welcome the Bank's Comprehensive Development Framework (CDF), which envisages a broader, holistic approach to development, an approach that places countries themselves at the center of the development process.

A key element of the CDF is partnership. This partnership includes non-governmental organizations (NGOs), the private sector and other elements of civil society as much as governments. Indeed, NGOs active in the social sector in these countries, fighting poverty in the trenches, are important development players. The Bank, as well as other multilateral and bilateral development agencies, must do more to take advantage of the considerable range of NGO experience.

In the past, multilateral and bilateral agencies have not always agreed on approaches to specific problems, and institutional rivalry has in some instances led to overlap and duplication. This serves no one's interests. Different development assistance agencies have different strengths, and the CDF approach can help improve the coordination between the Bank and other development players by assessing their relative capabilities. Where an institution has particular expertise, it should take the lead on a specific issue. The Bank faces a broader range of demands than it can effectively address. It should direct its own efforts where it can best achieve its mandate in the battle against poverty. This will require strong efforts in the social sector, especially with respect to health and basic education.

Provided that the CDF evolves through closer consultation with the regional development banks, United Nations and bilateral aid agencies, it could be the catalyst for the closer and more effective development coordination that we have been asking for.

Aid Effectiveness

The CDF, however, is only part of the broader picture. To complete the picture, we must ensure that development resources are *used* effectively.

Over the past two decades considerable doubt has arisen in the public about the effectiveness of development assistance. Past problems of misuse and waste on the ground have fed public skepticism and diminished support for development assistance. Development agencies have drawn important lessons from past experiences and have taken steps to improve the effectiveness of assistance. The Bank, working in concert with others, can play a critical role in helping to boost public confidence by demonstrating that aid works.

There are four key lessons from development work that are as relevant to multilateral and bilateral aid agencies as they are to developing countries.

First, sound economic management is essential if development assistance is to be effective. Experience shows that foreign aid has reduced poverty in countries that are pursuing sound economic and social policies. Respect for the rule of law, effective anti-corruption regimes, openness to trade, macroeconomic stability and effective social services are the essential components of a good policy environment that ensures efficient use of resources. In this respect, the World Bank's landmark study on aid effectiveness released last year provides compelling new evidence of the strong link between sound economic and social policies and the effectiveness of foreign aid. Moreover, strong and effective government and legal institutions are essential for economic growth and success in poverty reduction. These conclusions have only been reinforced by the painful experiences from the emerging markets' financial crisis; those countries with the weakest policies and institutions have been most severely affected.

Second, development agencies must move away from an "approval and disbursement" culture. The quality of aid is much more important than the quantity of aid. Too often, development success has been measured strictly in terms of the volume of funds disbursed. True development success, however, can only be measured in terms of the extent to which assistance has strengthened institutions and, more generally, has promoted sound economic environments.

Third, aid should be tailored to country and sector conditions. Problems vary greatly from country to country, and institutional capacities can vary even more. Too often in the past, development agencies have not sufficiently analyzed individual circumstances. To this end, greater interaction with local agencies and community organizations can only improve project design. If we have learned anything from past experience, it is that a "cookie cutter" approach to development simply does not work and that for development projects to be successful, local players must have a strong sense of responsibility for their design and implementation.

Finally, good governance is at the nucleus of a sound policy environment and is key to the effective use of resources. While there has been recent progress in strengthening governance across the globe, many countries still lack effective legal and institutional infrastructures to combat corrupt and wasteful practices. To be successful, policies to strengthen institutions and improve governance need strong political support from governments. The Bank is a highly influential global player and it must use its influence on every occasion to reinforce the message that better governance produces stronger, richer economies.

Stronger anti-corruption provisions recently introduced in the Bank's own procurement guidelines are a positive step; however, more must be done. Greater support for civil service and legal reforms is a necessary component of a broader Bank strategy to improve governance worldwide. The Bank can play a decisive role in helping governments improve the transparency of their budgetary processes.

Bank Group efforts cannot be restricted to the state sector alone. Corporate sector reform, including the development of an effective legal framework for commercial transactions, the adoption of international accounting and auditing standards, better management practices and the promotion of management accountability to shareholders must be a major area of Bank focus. Moreover, with its special private sector mandate, the International Finance Corporation is well placed to be a key player in this process.

Need for a Strong Bank

Along with effective assistance planning and effective assistance use, we need strong international development institutions and, in particular, a strong World Bank. It is our responsibility as shareholders of the Bank to ensure that the institution continues to have sufficient resources to do its job well. Having asked the Bank to take an active role in the international effort to address the emerging markets financial crisis, we must be willing to address the impact of this burden on the Bank itself. There is no doubt that the emerging markets financial crisis has placed a significant demand on the Bank's resources over the last two years. While it has been able to cope, its financial capacity has been strained. We must therefore remain open to all options for strengthening the Bank's financial position including a capital increase, if necessary.

Canada's support for additional capital, however, would be predicated on efforts by the Bank to increase the development effectiveness of its operations, including forging a stronger link between Bank lending and performance on governance issues.

Debt Relief for the Poorest Countries

Many of the world's poorest countries, for which foreign debt represents a crippling financial burden, constitute a special category among developing countries. Better policies alone are simply not enough to promote longer-term sustainable economic development. Onerous debt service obligations drain resources from social sector priorities such as health and education.

Ireland has long been advocating stronger leadership on the issue of assisting heavily indebted poor countries (HIPCs), and recently the Irish Parliament approved the government's multilateral debt relief package, which involves a transfer of £4 million from the Second Special Contingent Account (SCA-2 Account) to the International Monetary Fund's (IMF's) Enhanced Structural Adjustment Facility (ESAF) HIPC Trust and the payment of £ll million to the World Bank's HIPC Trust. The Irish Parliament has also approved a contribution of £7 million to the ESAF Trust. Payments will commence within a matter of weeks. Ireland supports the deepening, acceleration and widening of the HIPC Initiative and the sale of IMF gold to help cover a portion of the IMF's participation in the HIPC Initiative.

Canada, working together with its G-7 partners, is committed to finding ways of better assisting HIPCs.

On March 25, the Prime Minister of Canada, Jean Chrétien, announced Canada's debt initiative to address this problem. The highlights of this initiative are, briefly, as follows:

- Bilaterally, Canada has already forgiven its Official Development Assistance (ODA) debt from HIPCs and provides all bilateral development assistance on a grant-only basis. Canada calls on all official bilateral creditors from the developed world to follow suit. Canada also supports a full write down of all debts (ODA and commercial) owed to official bilateral creditors by least developed countries (LLDCs) expected to qualify for HIPC relief, and which have shown a commitment to good governance and human rights. If others do not agree, Canada will proceed unilaterally to forgive its remaining non-ODA loans to eligible HIPCs.

- Multilaterally, Canada calls for broader, more generous and more timely debt relief under the Bank/Fund HIPC Debt Initiative. Also in support of the poorest countries, Canada has committed more than C$400 million to augment the IMF's ESAF loan resources.
- With a view to preventing future debt crises, Canada urges lenders to adopt good lending practices and to improve the transparency of their operations.

Debt relief, though an important element of a broad strategy to tackle poverty, is not a panacea. It must proceed hand-in-hand with measures to address underlying weaknesses, most notably with those that improve governance and reduce military and other non-productive expenditures.

The Special Needs of Small Countries

Small developing countries represent another category that merits special attention, and I would like to thank Prime Minister Owen Arthur of Barbados for his work as Chairperson of the Ministerial Group on small states that was constituted by the Commonwealth Secretary General. The Bank has recognized that its approach towards small states must be reconsidered, given these countries' unique strengths and problems. In any analysis of the economic situations of small states, particular emphasis must be placed on their vulnerability to natural and economic shocks and on the very real risk for small states of being marginalized in the context of globalization.

Countries in the constituency that Canada represents clearly fall into this category. The loss of export markets, through the elimination of preferential trade agreements and aggressive competition from other exporters, threatens growth prospects in the Caribbean region. There has to be a coordinated strategy by the Bank, Fund and other multilateral and bilateral agencies to assist these countries with their integration into the world economy. Integration, within the region and within the international economy, is essential for future economic development. Any proposed initiative for these countries must provide a comprehensive development strategy and should include assistance for a transition period leading to integration into the world economy.

Small size puts Caribbean economies at an economic disadvantage in terms of sustaining economic activity, given high fixed costs and the absence of economies of scale in production. Small size also limits options for risk diversification. Any assistance programs for these countries must seek to mitigate economic volatility. Moreover, diversification must be seen as an essential risk reduction mechanism. To this end, the Bank and other agencies must increase their efforts to promote economic diversification. This will, of necessity, require further analytical work on the part of the Bank to identify the specific challenges and constraints faced by small economies.

Looking Forward

The challenges facing the Bank and developing countries in promoting longer-term sustainable growth and in overcoming poverty are immense. Limited resources require the Bank to focus its efforts where its activities will be most effective. The key issue is how the Bank can help countries develop the effective economic policies and sound institutions that are essential for sustainable development and poverty reduction. The trying period of the last two years has demonstrated that the

Bank has the flexibility and the vision to tackle difficult issues. Canada has every confidence that the Bank can meet future challenges head on.

Statement by Mr. Maslukov (Russian Federation)

Trends in the Transfer of Financial Resources

Today, as at the previous Committee sessions, we cannot help being concerned about the situation in the area of transfer of financial resources for development purposes. The total flow of resources to developing countries and economies in transition has been demonstrably unstable: its volume fell from $319 billion in 1997 to $275 billion in 1998.

Especially alarming is the sharp decline in the inflow of portfolio investment and bank capital caused by the ripple effects of the global crisis. Many countries have found themselves effectively cut off from financial markets, while others have been forced to pay exorbitant prices for continued market access in the form of inflated spreads.

It should be stressed that the world community and in particular international financial institutions have not remained passive in the face of the crisis. Their share in the transfer of resources has increased dramatically, partially compensating for the heavy blow that was dealt to recipient countries. We would like to emphasize the positive role that these institutions and their management have played in the process of mobilizing international assistance to the countries hit by the crisis. The effectiveness of these aid packages may have varied from case to case, but none of the affected countries has been left to deal with the crisis on its own.

It is particularly important to note the relative stability of capital flows associated with foreign direct investment. No doubt some of this resilience can be explained by a sharp decline in asset prices in a number of developing countries. Nevertheless, FDI has proved to be among the most reliable sources of development funds. Accordingly, the World Bank Group’s objective should be to create an FDI-friendly environment in its client countries.

As yet the problems are by no means resolved. The world community faces the challenge of further resource mobilization. It is in this context that we are examining the problem of capital adequacy of the IFIs.

The HIPC Initiative

We share the concern of the international community with respect to the worsening of the financial position of the poorest developing countries and the need for additional efforts to alleviate their debt burden and channel the released funds into development. We empathize with the initiatives put forward by a number of governments and NGOs regarding both relaxing the eligibility criteria for assistance under the initiative and increasing the volume of resources available for debt relief. We highly appreciate the contribution made by the Bank and the Fund to the implementation of the Initiative, as well as the efforts of creditors and donors who find additional resources for the purposes of assisting the HIPC.

At the same time we are alarmed by the ever-growing need for new resources for the Initiative, even in its original shape. For example, according to new estimates the financial requirement now stands at 12.5 billion dollars in NPV terms, which exceeds the August 1998 estimate by almost 30%. This means that if the principle of fair burden sharing is observed the contribution of the Paris Club creditors will need to go up by 1.1 billion, and the World Bank – by 400 million dollars. If the Initiative is expanded beyond its original scope based on the new proposals, contributions of all parties, including the Bank, would have to be significantly increased.

In general we believe that the nature of the Initiative assumes the need for periodic adjustments in the course of its implementation, provided that such adjustments do not alter its agreed principles. For example, a number of eligible HIPC countries have seen a worsening of their financial position due to circumstances beyond their control. It could therefore be sensible to discuss the possibility of concentrating the funds and efforts under the Initiative on a smaller number of countries that have demonstrated their commitment to poverty alleviation, so as to ensure durable debt resolution and sustainable future development. Such a selective approach would be a far better solution than expanding the number of eligible countries because it would give us greater confidence that the resources are not wasted. In this connection we could think about developing additional criteria beyond those already envisaged (such as debt service ratios) and ensuring further flexibility in their application. The idea of providing an early cash flow relief in the interim period by subsidizing eligible countries' debt service to IFIs merits serious attention. Positive incentives contained in the Initiative could be enhanced by using the “floating tranche” approach which links the release of resources at completion point to the country’s performance under the Initiative.

At the same time any modifications of the Initiative which cause an increase in its cost must be discussed in close conjunction with the question of financing the resulting gap. Otherwise the Initiative risks becoming politicized and ineffective. For this reason we oppose the various broad interpretations of the Initiative which include regarding it as an alternative source of development finance or an act of charity. In our view, the HIPC Initiative is a balanced program aimed at bringing down to a sustainable level the debt burden of poor developing countries pursuing good economic and social policies. This program is based on clear principles defining the eligibility criteria and stages of implementation agreed by the international community. Among these principles are proportional burden sharing and strict conditionality which links debt relief to progress in the area of social policy.

In a number of cases deviations from the agreed rules regarding eligibility criteria, limits of debt relief and duration of periods between eligibility, decision and completion points may be justified by the country’s exemplary performance with respect to macroeconomic and social programs agreed with the IFIs. We also understand that it would be wrong to penalize the countries engaged in radical and complex reforms under adverse conditions by dragging out the stages of the Initiative. On the contrary, such efforts should be encouraged by providing real relief of the current debt burden. However we still categorically oppose the alteration of the main principles of the Initiative, particularly where it leads to a considerable increase of its costs. In practice we already observe sufficient flexibility in the implementation of the Initiative’s basic principles which allows for taking into account local and regional economic peculiarities.

We would also like to stress that the Bank’s participation in the Initiative should not put excessive pressure on its budget at the time of increased risks and the need to replenish its resource base. Any decision to increase the scope of the Bank’s participation in the Initiative must be balanced against the need to preserve this institution's risk bearing capacity and to maintain other existing and equally important programs.

Principles and Good Practice in Social Policy

Turning to the issue of the principles and good practice in social policy, I would like to point out at the outset their extraordinary importance for balanced and sustainable development.

On the whole we support the proposed list of basic principles and practices. This list for the most part coincides with the objectives of the Russian Government. Of course, the actual set of priorities and objectives is always country-specific — which, as President Wolfensohn rightly points out, constitutes the basis of the comprehensive development framework.

We believe that for transitional economies, institutional factors are particularly important. When institutions are designed they must be expected to address most complex and multidimensional issues. They must be able to react promptly and effectively to the emerging needs, particularly those of the most vulnerable social groups, to follow the guidelines issued by democratically elected governments, to promote effective participation by the people, especially at the local and sub-national level. In this respect we are convinced that such institutions can only be put in place if corruption and all its causes are completely eradicated. Therefore we strongly approve of the increased emphasis the World Bank is giving to the problem of corruption, and believe that this approach is beneficial for the countries where institution building is a priority issue.

Problems of social policy are equally important for all countries -- developing, transitional and industrial alike. We agree with the Bank that there is insufficient understanding of complex social developments and of the way a combination of various policies, each designed to produce a special and justifiable outcome, may result in something quite different from the original blueprint. Analysis of these issues ought to remain a major part of research activities of the Bank.

Perhaps it would be sensible in dealing with this issue to take into account the universality of social policy objectives. The experience of many industrial countries may have important and widely applicable lessons, both positive and negative. These countries also have much to work on, and a truly global approach to the social issues must not neglect this fact.

We agree in this respect with the proposed two-track approach when the Bank's objectives are formulated within a broader context of the network of international institutions. Specifically, the existing practice when the UN takes the leading role in outlining the general principles should be preserved in the future.

Finally, it should be remembered that the Bank's mandate is to fight poverty and foster sustainable development, primarily through the transfer of financial resources. Thus, social dimensions of the Bank's policies should not result in adding to the already heavy burden of conditionality. Moreover, the Bank should not tolerate instances of hidden protectionism disguised as pursuit of universal social principles, particularly in labor policies. It must be remembered that some measures which on the surface are aimed at improving social aspects of development may in fact be an impediment to attracting investment and therefore lead to increased poverty. This problem gains particular importance now when net capital flows to developing and transition economies have markedly weakened and in some cases turned negative.

Bank Group Financial Capacity

From the very beginning we shared the concern about the need to maintain at an appropriate level the Bank's risk-bearing capacity as expressed by its financial leverage ratios. We are grateful to the management and personally to President Wolfensohn for their unwavering attention to this important issue. Recent analytical work done by the Bank and the results of Board discussions have clearly indicated to us the impact of possible future non-accrual shocks on the Bank's profitability, its ability to play an active role in development and to take part in crisis resolution for countries and regions in distress. We appreciate the fact that the panel of leading independent experts has approved this methodology and main analytical outcomes.

Taking into account the existing economic instability in developing countries and countries in transition coupled with reduced private capital flows and increased political instability in some important regions, we believe that strengthening the Bank's risk-bearing capacity and maintaining its high credit standing should be an absolute priority for all responsible shareholders.

At the same time, practical achievement of this target implies some complex decisions in the areas of determining the appropriate dynamics and structure of Bank's assets, revenue generation and allocation as well as increasing paid-in capital. We believe that a combination of these measures based on the principle of fair burden sharing would be an appropriate way to address the need of maintaining financial stability of the Bank. This strategy would correspond to the cooperative nature of this institution and assure the needed consensus among shareholders. No asymmetrical solution can be viewed as realistic and sustainable in the long run. We strongly believe that this consensus-based approach will not lead to the repetition of the situation during the vote on loan pricing and FY98 net income allocation that resulted in a major split between the borrowing and non-borrowing countries. We believe that under present conditions such a course of events would be especially unacceptable given the paramount importance of maintaining the Bank's high credit rating.

In this respect we believe that the reference to the increased subsidy element embedded in the Bank's lending measured as a simple difference between market interest rates and the Bank's loan charges cannot be justified. This approach is especially dubious when applied in crisis conditions characterized by sharp deterioration in the borrowing countries' access to the international capital market, including the countries that maintain macroeconomic stability and continue structural reforms. We would like to emphasize that unstable access to capital markets is one of the structural characteristics of developing countries caused by their marginal creditworthiness and market participants' risk perception. While developed countries can compensate for the deterioration in their economic situation by borrowing from the market, the developing countries' access to the market during crisis can sharply deteriorate or even disappear. This factor can substantially aggravate the problems of resource outflow and deepen the recession. We believe that the Bank's nature and mandate do not allow it to follow the "pro-cyclical" behavior of private sector lenders. Otherwise it would be logical to set loan charges according to the sovereign borrowers' credit rating or stop lending activities during crisis.

At the same time we support the idea of differentiating loan pricing according to the nature of the loan instrument which could take into account each operations' impact on the Bank's financial situation and therefore on its ability to assist all borrowers. Since the last Development Committee meeting the Bank has made some progress in this specific area which has positively affected its profitability.

Finally, we support the continuation of consultations between major groups of shareholders and the management which will help to put together a balanced and broadly accepted set of options for maintaining and supporting the financial capacity of the World Bank Group.

The Future of the Development and Interim Committees

We are following the debates on a new international financial architecture with great interest. Without doubt, the Development Committee in any event must remain one of the most important elements of this architecture, as it has been for many years.

Obviously, the practical workings of such a representative forum necessarily have to take into account a whole host of highly important requirements, not all of which can be fully satisfied. Some form of compromise is unavoidable, and the main task is to define a set of principles to which the final result must conform.

In our view, the Bank has quite successfully formulated these principles, specifically:

- Broad mandate which includes most issues of economic and financial development;
- Common responsibility of countries for maintaining the efficiency of the world financial system;
- Adequate design and structure of the institutions concerned;
- Representation and legitimacy;
- Effectiveness and focusing on the most important problems.

There are several ways to define a specific organizational form of the Development Committee that is most consistent with the established principles. Nevertheless, this issue should be neither politicized, for this may lead to needless disputes and divisions, nor made too complex, for this may produce a new layer of international bureaucracy.

In addition, one of the most important and well-known rules of institution building is to study carefully the accumulated experience embodied in the established forms and traditions.

Taking these factors into account, we are inclined to favor proposed solution No. 3, which has been wittingly nicknamed the "double-hat structure". This solution, as has been correctly noted, will not require any special legal procedures. It fully conforms to the established practice of the two twin committees; in our view, it will further streamline their work and will thereby make them more effective in this complex and crucial time.

Comprehensive Development Framework Initiative

We welcome the new comprehensive approach to development. The Russian Federation has learned from experience that an excessive emphasis on macroeconomic measures at the expense of structural, institutional and social aspects of development does not lead to sustained growth. Development is a very complex and delicate process that does not lend itself to simple solutions. It is only through profound understanding of its internal mechanisms that we may achieve sustainable positive results in the area of improved living standards and poverty reduction.

Another important feature of the proposed approach is the emphasis on the country's own intellectual and political resources in the formulation of the development strategy uniquely suited to its needs. Such a program, founded in a broad consensus within the country and supported by a coordinated group of donors, has the best chance of succeeding in promoting radical and sustained improvements in the economy.

We will eagerly await the results of implementing the CDF approach in pilot countries. At the same time we hope that even before such results become available some of the obviously useful aspects of the new ideology will be streamlined into the day-to-day operations of the World Bank.

Assistance to Post-Conflict Countries

The Fund and the Bank already have a large set of instruments available to assist countries emerging from armed conflicts. Such instruments include structural adjustment loans, emergency assistance, the HIPC initiative, IDA grants, and special IBRD operations. Unfortunately, in practice these instruments are often inadequate due to the peculiarities of post-conflict countries. In addition, many of these countries have arrears to the multilateral and bilateral creditors. This is why we are pleased to note continuing efforts of the Fund and the Bank to find ways of increasing their effective help to the poorest countries emerging from conflicts, paying special attention to the timing of this help.

During the time elapsed since the last Annual meetings both institutions made great strides in their understanding of the problem. We are pleased to note that the urgent need to address the problem of arrears clearance in a consistent and coordinated matter was confirmed, as was the necessity to link the aid to post-conflict countries and the HIPC initiative.

We support the efforts to ensure a positive net flow of resources to post-conflict countries both before and after the clearance of arrears, provided that all the performance indicators agreed with the government are met. We also support the specific proposals put forward by the Bank aimed at improving the link between post-conflict assistance and the HIPC initiative. At the same time there remain a few issues of concern.

- The proposed mechanism of assistance to post-conflict countries envisages significant deviation from the existing financial policies and practice of the Bank and the Fund, in particular with regard to lending into arrears. In the past the two institutions have not allowed for postponement or restructuring of debt when tackling the problem of arrears due to considerations of their own financial integrity and preferred creditor status, moral hazard issues and principle of equal treatment of all clients. It is not yet clear that anything in the recent events may justify the proposed changes in policy. A careful analysis of the proposed measures is needed in order to ascertain that they will not jeopardize the Bank's and the Fund's financial stability and reputation.

- We confirm our belief that only coordinated actions of all donors, both bilateral and multilateral, in the framework of a joint rehabilitation program with broad and adequate participation of all international agencies can yield positive results. Any unilateral actions by the Bank or an attempt to burden it with disproportionate responsibility would be unacceptable.

- The financial mechanism of the proposed policy changes requires additional study. Net income analysis demonstrates that after allocating funds to traditional priorities (interest waiver, IDA and HIPC) there are not enough resources to pay for this new initiative. Therefore, grants from the net income to post-conflict countries seem unlikely. Similarly, we would not support an active use of IDA grants for these purposes, mainly because these resources are very limited. In our opinion the best way to finance early post-conflict initiatives and foreign debt resolution would be through a special fund managed by the Bank and composed of the voluntary contributions by bilateral donors.

- Further work is needed on developing eligibility criteria for post-conflict emergency assistance. We would like to avoid a pure case-by-case approach to specific countries which may render the decision process vulnerable to political interests. Any conclusion about offering emergency assistance in a post-conflict situation should be based on clear, transparent and recognized criteria rooted in considerations of poverty alleviation and long-term economic development.

- The latest events in the Balkans have demonstrated that considerable material damage may be incurred even by countries that do not take part in the conflict directly. It is therefore necessary to take a broader view of the post-conflict issue and consider the ways in which the international community may assist the indirect victims of the conflict.

Let me reiterate that we are attaching much importance to the initiative of assistance to post-conflict countries and we are ready to discuss it further. At the same time we remain very cautious about any actions which may jeopardize the financial standing of the Bank and its development programs.

The World Bank's Cooperation with Regional Development Banks

The report on cooperation with regional development banks submitted to the Development Committee contains a detailed picture of recent achievements in this important area, assesses the accumulated experience and formulates tasks for the future. We are in complete agreement with this document's basic assessments and conclusions.

What helps to strengthen relations among the multilateral development banks, in large measure, are regular meetings between their presidents. Such contacts provide a good opportunity to articulate a coherent strategic vision of the common and individual challenges facing these organizations. In addition, every such meeting between presidents sends a signal to the staff of their respective organizations that underscores the need for closer cooperation and for strengthening partnerships at every level.

From the standpoint of the client countries, it seems especially important to bolster these banks' cooperation at the country level. The report cites a whole host of recent examples of such cooperation in the area of analytical and operational work. I would like to take special note of the fact that the country strategies of individual MDBs are increasing their emphasis on partnerships with other MDBs. International development banks are also increasingly co-financing specific projects and programs.

At the same time it is obvious that the progress achieved in strengthening the cooperation between the World Bank and regional development banks has been so far rather limited. Moreover, the experience has been mixed in various areas of activity and countries. Above all, in our view, it is imperative to do away with the elements of adversarial competition and mutual distrust that may still occasionally be found in relations between the MDBs.

As a member of the World Bank, the European Bank for Reconstruction and Development and the Black Sea Trade and Development Bank, Russia has a strong interest in improving the cooperation among these institutions. Such cooperation is essential to us at this stage primarily for promoting the fastest possible revitalization of the financial sector and development of the real sector of the Russian economy.

Statement by Mr. Niamien (Côte d'Ivoire)

First, I would like to thank our Chairman, Mr. Tarrin Nimmanahaeminda, and the Executive Secretariat of the Committee for the excellent way in which they have organized our deliberations at this 59th Meeting. I would also like to thank the President of the World Bank, Mr. James D. Wolfensohn, and the Managing Director of the International Monetary Fund, Mr. Michel Camdessus, both for the excellent quality of the written communications they have provided, and for the standard of the documentation provided by the staffs of the two institutions.

My comments will mainly concern the topics presented to the Committee, namely: the HIPC Initiative; Principles of Good Social Policies; Bank Group Capital Adequacy; and the role of the Development and Interim Committees in the new financial architecture. I will then make some brief comments on the Comprehensive Development Framework, Assistance to Post-Conflict Countries, and Bank Group Cooperation with Regional Development Banks.

To begin with, I would like to say a few words on the problem of resource flows to developing countries. In the document “Recent Trends in Resource Flows to Developing Countries” that has been distributed to us, I note that the decline in concessional assistance that began some years ago is continuing. In particular, official development assistance (ODA) from OECD countries has reached its lowest level in 30 years (0.22% of their overall GDP). Clearly, the amount of official assistance these countries provide is getting increasingly more remote from the target set for them by the United Nations; namely, to transfer to developing countries an amount of concessional assistance equivalent to 0.7% of their GDP. We therefore call upon the donor countries to redouble their efforts to meet the UN target. Nevertheless, we are pleased to note that individual contributions of ODA from a number of European OECD countries has exceeded the level recommended by the United Nations. Our countries are grateful to them. We are also pleased by the results of the negotiations on IDA-12, covering the 1999-2001 period. We are very gratified by the outcome.

The HIPC Initiative: Progress Report

With regard to the HIPC initiative, we are pleased to note that the consultations that the two Bretton Woods institutions have carried on in such an inclusive and transparent manner have produced encouraging results. They indicate that there is a massive call for the initiative to be strengthened, for it to be extended to cover a larger number of countries, and for it to be amended so as to speed up the treatment of individual cases. The Bretton Woods institutions have now prepared their recommendations, and these have received broad support from within their respective Boards. The changes proposed do not affect the nature of the initiative, which continues to complement conventional mechanisms of assistance, and encourages an approach to sustained development that focuses on poverty reduction. The initiative must promote the adoption by the beneficiary countries of adjustment programs and credible reforms, and provide a strategy by which countries can eventually emerge from the process. It is also important to allow countries that have already reached the completion point to benefit retroactively from the program, provided that they satisfy the revised criteria.

Many of the countries in my group are either beneficiaries or potential beneficiaries of the initiative. We are pleased at the recommendations presented by the two institutions, because they are in line with the wishes we have expressed in the past with regard to making eligibility criteria and target ranges more flexible, and shortening the various stages. Properly applied, these recommendations could make a substantial contribution toward increasing the advantages of the initiative and opening it up to a larger number of beneficiaries, and therefore we heartily support them. Our countries are grateful for the proposals made by certain bilateral creditors to increase their contributions to the overall debt-reduction effort. Our countries also support the recommendation on the financing of the contribution by the African Development Bank (AfDB), a proposal that we ourselves have often made in the past.

Principles of Good Social Policies

As regards the document on Good Social Policies, I find the Bank's report very interesting. The origins of this topic lie in the statement issued at the end of the World Summit on Social Development, held in Copenhagen, Denmark, in March 1995. In this, the signatories committed themselves to establishing an enabling environment for eradicating poverty from the world; providing employment and decent living conditions for all; promoting social integration, including an equitable role for women; facilitating access to education and health; and fully integrating culture into the development process.

The Bank's document emphasizes "and rightly so" the need to involve the beneficiary countries' own institutions in the implementation of this action program. The Bank and the other development partners can assist in this by contributing the experiences and best practices they have observed throughout the world.

We fully support the approach by which the program would be implemented on two fronts, because it acknowledges that the United Nations plays the preeminent role in this field, and also allows the Bank to make its contributions in those areas where it has a comparative advantage. Finally, we must emphasize the need to take into account "and to respect" the individual cultural and institutional characteristics of each of the countries involved in the process.

Bank Group Capital Adequacy

Once more, we welcome the exchange of views on the Bank's capital adequacy. The document presented to us is the outcome of exchanges that have already taken place between the Bank's Board and management. It also presents a report by a "Committee of Wise Men", who were requested by the management to make a study of the subject. The recommendations of this committee are similar to those that the Bank's management had already proposed in the past. They suggest reducing the pace of lending, consolidating the Bank's net income, and/or strengthening its capital structure.

The management of the Bank Group has assured us that the current financial structures of both the Bank and IFC are sound; however, I agree that, because the institution is likely to experience growth over the medium term, we should adopt either one of the above proposals in particular, or else some combination of them. Each of them has its own merits, and we should continue to analyze them; nevertheless, we must take care to ensure that any decision we make on this issue will not have an adverse impact on transfers of resources from IBRD to IDA and to other development programs that are of importance to our countries, such as the HIPC initiative, the Partnership for African Capacity, and the Program of Assistance to Post-Conflict Countries.

Strengthening International Fora, including the Roles of the Development and Interim Committees

I appreciate the World Bank's report on ways of making the Development Committee more effective. The study had been called for by this Committee, as part of a general reassessment, the purpose of which was to redefine conditions for a reform of the international monetary and financial system and of the forms of governance in the Bretton Woods institutions. The Interim Committee had called for a similar study for the International Monetary Fund. That such studies were urgently required had been borne out by circumstances, and particularly by the recent Asian crisis.

The Bank's Board examined the project, but could not reach agreement on the adoption of any one option. We have also learned that the IMF has decided to present its conclusions in a separate report to the Interim Committee. Since the matter in question concerns the international financial architecture that is of interest to both, we might have hoped to receive a joint report.

With regard to the Bank's report, it is now up to us to express our views, so that the Bank's management and Board can continue their discussions and present their recommendations to us. At this stage in the debate, we believe that any possible reforms in the international monetary and financial system should necessarily take account of the links between macroeconomic, social, financial, and structural issues. Such changes should also take as their starting point the experience and expertise possessed by the Bretton Woods institutions. Finally, the framework adopted should be flexible enough to encourage participation by the international financial community as a whole, and by other international organizations such as WTO.

Of the various suggestions contained in the document, our choice would have gone to the proposal for transforming the Interim Committee into a joint World Bank/IMF Committee. This would have allowed each of the Committees to deal with the specific concerns of its own institution, while simultaneously cooperating with the other Committee on questions of common interest. We are well aware of the difficulties that could arise in such circumstances, and that could lessen the chances of success if this option were to be adopted, more particularly because it would entail introducing an amendment to the Resolution establishing the Interim Committee. Such difficulties could even increase if the Interim Committee were to become a decision-making body. In light of the absence of any consensus on adopting this particular proposal, we must be realistic and accept the proposal that the two bodies be kept in their present form, and that the Bank's role in the Interim Committee be somewhat strengthened.

The Comprehensive Development Framework

Our countries warmly welcome the new development framework proposed by the President of the World Bank Group, Mr. James D. Wolfensohn. I would like to add that, for some time now, my own country, Côte d'Ivoire, has been putting the new framework into practice, with some degree of success. The balance sheet with two sides (with macroeconomic problems on one side and structural and sectoral issues on the other, and including details of the activities of the various actors) makes it possible to pursue long-term objectives in a comprehensive and participatory manner, both at a domestic level and in cooperation with external partners. In my opinion, one important aspect is the organization and conduct of the strategy involved; these remain the primary responsibility of the country in question, in partnership with the development institutions.

We are firmly and unambiguously in support of Mr. Wolfensohn's proposal for the Comprehensive Development Framework, and we believe that it will help strengthen ownership in our countries and improve coordination among donors. Nevertheless, we call upon the Bank to ensure that our countries will continue to receive the substantial financial and non-financial assistance they need for their development. Finally, we are convinced that this new Comprehensive Development Framework will make it possible to avoid the multiplicity of conditionalities and cross conditionalities that the donors apply to our countries.

Assistance to Post-Conflict Countries

The group of countries I represent includes a number that fall into this category. Even now, some of them are still involved in conflicts. Although over recent years the Bretton Woods institutions have provided various forms of assistance to help these countries make the transition to reconstruction, experience shows that, in some cases, the destruction of physical and institutional infrastructure has reached such extremes that extra assistance is necessary. That is why we welcome the initiatives of the Bretton Woods institutions for establishing "in cooperation with other donors" new mechanisms for providing countries very promptly with additional financing, so that they can speed up their reconstruction processes. We also encourage the Bretton Woods institutions to continue with the Bank's recently launched examination of ways in which assistance from the international community could be extended to countries that are still experiencing conflicts.

Bank Group Cooperation with Regional Development Banks

The World Bank's report on Cooperation with Regional Development Banks is very encouraging. I welcome the cooperative efforts made by the banks, in line with the main recommendation of the Working Group on Development Banks, which was prepared by this Committee three years ago.

Conclusion

In conclusion, I would like to congratulate the President of the World Bank Group, Mr. James D. Wolfensohn, for the personal support he has given to the African Governors' initiative on capacity building in Sub-Saharan Africa. This initiative is now receiving increased support from donors.

Statement by Mr. Oualalou (Morocco)

The previous meeting of our Committee, held on October 5, 1998, provided an opportunity to assess the consequences of, and draw the necessary lessons from, the financial crisis triggered in South-East Asia 15 months earlier.

The subject has remained under consideration since then as various regional and multilateral forums and bodies have sought to identify the most appropriate ways to halt the current crisis and prevent similar new ones from occurring.

This process has clearly moved forward, and initiatives have been proposed to restore global economic stability on the basis of greater international solidarity founded on principles of sound management at all levels with the ultimate objective of ensuring sustainable growth and irreversible reduction of poverty.

This approach is inescapable, given the globalization of markets, the increased interdependence of national economies, and the interrelation between the real and financial spheres.

The success of this approach requires a shared strategic commitment at the international level to marshal the efforts of governments, multilateral institutions, and private operators.

It is important to recognize that even though fears of a widespread recession have now subsided, the crisis has not been halted completely, and it will be some time before its negative impact on most emerging countries and on the global economy has been overcome completely.

Increased poverty among the most vulnerable segments of society and higher unemployment in some affected countries are two factors that make it more essential than ever to refocus our policies and strategies on individual welfare and on social development.

This refocusing effort is now a necessity, not an option, for two key reasons: First, growth, no matter how strong, will prove truly sustainable only if its benefits are distributed equitably and if it enhances the well-being of the entire population and reduces insecurity and sources of vulnerability. This approach is crucial for an increase in the capacity of countries to withstand external shocks, including those generated by contagion, a danger from which no country is completely immune. Second, macroeconomic balance must not be an end in itself, but rather a tool for promoting social development and improving the well-being of the population.

These principles should guide the efforts of governments, multilateral financial institutions, and other donors within a strategic partnership.

In this regard, the initiative taken by the World Bank in organizing a new framework for cooperation with its member countries, namely the Comprehensive Development Framework, merits encouragement - to the extent that it allows macroeconomic, social, structural, and human issues to be addressed simultaneously.

This Comprehensive Development Framework is not yet in its final form, but, in my view, it should be founded on three fundamental principles: First, it should fit within the priorities and programs of the country concerned, so as to increase its chances of implementation and its impact. Second, it should have enough flexibility and adaptability to accommodate the wide range of countries, situations, and development levels. Third, the resources to finance the establishment of the Comprehensive Development Framework should be mobilized on appropriate terms and conditions. Our wish in this regard is to see the World Bank play a major role as a catalyst in attracting concessional resources to be made available through the Framework.

A similar display of international solidarity is also needed to support post-conflict countries. The proposals currently being examined by the World Bank for broadening the concept of post-conflict countries are to be encouraged.

Also to be encouraged are the recent proposals for expanding the scope of the HIPC initiative, soften the eligibility criteria, and shorten the period elapsing before eligible countries can benefit from this initiative.

Since such improvements will clearly add to the cost of the initiative, a consensus similar to what has been achieved in restructuring of the initiative is needed with regard to its financing. International solidarity is key, not only to ensuring that the initiative is funded, but also to alleviating the burden on multilateral financial institutions, including the African Development Bank.

I do not wish to conclude these remarks without appealing to the international community to reflect on ways to alleviate the debt burden of middle-income countries. I would urge the community, when doing so, to take into consideration not only the per capita GDP levels of these countries, but also their social development needs.

Finally, I would like to point out that it is of primary importance not only to safeguard the financial structure and viability of the World Bank, but also to reinforce them. If this is to be done, the Bank must refocus its attention on its key mission, which is to promote sustainable development.

At the same time, the question of the Bank's capital adequacy must be reviewed if the institution is to carry out its mission successfully. Any delay in this regard should not translate into an increase in costs to borrower countries.

Statement by Mr. Othman (Malaysia)

The past year has been exceptionally difficult and demanding for all the countries in our region due to the contagion effects of the crisis. The fallout from this crisis has eroded the hard-earned progress that we have made on development and poverty reduction over the past two decades. The present difficulties demand a strategic response and an appropriate mix of short and long term measures. It is imperative, therefore, that the international financial institutions redouble their efforts to bring stability to the global financial and monetary system, so that investors can be confident of a return to normal trading and investment patterns.

I, therefore, welcome the opportunity to discuss today issues that I believe are essential in our efforts to stabilize and regenerate economic growth in our region in particular and in the developing world as a whole, during the present difficult times. I would like to elaborate on them as follows.

Initiative for Heavily Indebted Poor Countries - HIPC

We record our appreciation to the Bank and the Fund for the significant progress achieved so far on this important initiative. I am pleased to note the increasing interest shown by civil society, international organizations and governments in calling for changes that will expedite and broaden debt relief to eligible countries. These concerns will surely add momentum to the progress on the Initiative.

It is encouraging to note that, as of January this year, 12 out of the 41 countries classified as HIPCs have been reviewed and that debt packages totaling $6 billion (in nominal terms) have been agreed for Bolivia, Burkina Faso, Côte d'Ivoire, Guyana, Mali, Mozambique and Uganda. We are optimistic that Uganda and Bolivia will take advantage of the fiscal latitude created by the substantial debt relief of $1.4 billion (in nominal terms) received in 1998 after reaching their completion points.

With the cost of the initiative now estimated at about $12.5 billion, it is imperative that clear mechanisms are developed to ensure equitable burden-sharing and sustainability of debt-relief efforts among all donors, bilaterals and multilaterals. We would also like to reiterate the need to speed up implementation of faster and deeper debt relief of HIPCs. In this regard, greater flexibility on the eligibility criteria, shortening the six-year completion period, and reducing the threshold of debt sustainability targets should perhaps be examined as possibilities.

We also believe that the success of the Initiative lies in how it can be effectively leveraged with crucial elements of HIPCs' overall development strategy like poverty reduction measures, public expenditure allocation and performance, policy reforms and social development. In this respect, co-ordination and collaboration amongst all bilaterals, multilaterals and HIPC governments are crucial and must be monitored by realistic and sustainable targets within the appropriate timeframes.

Finally, we would also like to thank donor countries for their heightened commitment, which we believe will further advance the Initiative.

Principles and Good Practice in Social Policy

I would like to thank the Bank for drawing up these principles and good practices in social policy in response to a request from this Committee made during the last meeting. The recent crisis revealed the shortcomings in the social dimension of development in most of the affected countries. It is essential that the Bank strengthen its approach, by drawing out some generally agreed principles and implementation issues based on lessons learned and experience gained from countries that have successfully implemented these social policies. We, therefore, welcome the elucidation of these principles and the underlying implementation issues. We also agree with the approach proposed in the note recognizing that whilst the Bank has a lot to offer in terms of implementation and guidance towards these principles, the setting of good standards require the leadership of more appropriate institutions, like the United Nations.

Nevertheless, the Bank through its policies and instruments must continue to urge developing countries towards the adoption of these principles bearing in mind the social, economic and political characteristics and peculiarities of each country. In this context, we would advocate better monitoring of the progress of developing countries in implementing their social policy based on these principles.

This should perhaps be connected to an appropriate resource mobilization mechanism agreed to by donors and development partners, to avoid another slippage of any progress achieved. Progress should be monitored by assessing how far countries have come close to fully satisfying these principles, taking into account the different starting points of each country. Moreover, progress should not be gauged by generalized standards that can be captured and manipulated by protectionist interests. However, we believe this must not preclude us from fulfilling social policy standards on issues like gender equity, discrimination and child labor as fundamental principles.

Finally, we feel it is crucial that the Bank has a clear view of the respective roles and responsibilities of all stakeholders and examine the implications in terms of resource mobilization, bilaterally and multilaterally.

Bank Group Capital Adequacy

The unprecedented growth in the Bank's loan commitments, which was prompted primarily by the East Asian Crisis, is expected to continue in FY99 and beyond as developing countries face limited access to international capital markets. The Bank has to take offsetting measures in order to cope with this increased demand, albeit of lower quality.

We welcome the review of the Bank's capital adequacy by the appointed panel of experts and are pleased to note their confirmation of the soundness of the Bank's financial position. We, therefore, generally agree to their mapping out a clear medium term picture of the Bank's capacity to effectively meet demand and the range of alternatives available. In this connection, it may be opportune for the Bank to clarify how much room it has in terms of strengthening its risk-bearing capacity through the broad measures recommended by the Panel, which are: slowing lending growth; strengthening net income; and building capital.

We would like to consider a general capital increase as the means to strengthen the financial structure of the Bank to enable it to expand lending activities and also as a way for fair burden sharing among shareholders. There is certainly a range of options available. In this context we would caution that an upward adjustment of pricing should not be considered as an option, as that would exert additional financial burden on borrowing countries especially during the present difficult times. In particular, we would like to draw attention to the important role of IFC in the current climate of declining private capital flows to developing countries. It may be opportune to examine what and how IFC's role and capacity could be utilized to mitigate the effects of declining private capital flows.

Nevertheless, we wish to support the Bank's effort in providing timely and substantial support to countries in crisis and endorse the need to safeguard the integrity of its financial structure.

Strengthening International Fora, including the Roles of the Development and Interim Committees

We welcome this discussion on the roles of the Interim and Development Committees as requested in the last fall meeting, and wish to express our appreciation to the Board for clearly outlining the issues and options for consideration today. We understand that there may have been some general support for an option where there is full participation of both the Bank and the Fund on both Committees, allowing a rationalization in the allocation of subjects between the Committees. We agree that the creation of a new overarching committee could be too ambitious at this stage but should not be ruled out completely.

Apparently, the options presented would require a mechanism to determine the precise division of responsibility between the two Committees. We believe that the mechanism should be guided by the general principle that the Interim Committee would be the forum responsible for global financial system issues, while the Development Committee would be responsible for development issues. It would also be essential that the review of the roles of both Committees should not take place outside the framework of the mandates of each institution.

We would also emphasize that the new structure needs to be sufficiently flexible to permit participation of the countries most affected by the issues under consideration at any given session of the forum. We believe the present constituency-based composition of the two Committees does not give as strong a voice to the emerging market economies and notably, the Asian and Latin American countries with strong stakes in the reform of the global financial system. In this regard, we strongly feel that the G22/26 process should continue.

The Comprehensive Development Framework

We welcome and fully support the Bank's initiative on the Comprehensive Development Framework (CDF), realizing that it involves a more holistic approach, with equal emphasis on the social and structural dimension to sustainable development and poverty reduction. We agree that necessary conditions for the successful implementation of the CDF are: client ownership; effective partnerships amongst governments, development institutions and the private sector; participation by all sections of the beneficiary community; and dissemination and full sharing of information.

We understand that the initiative is being implemented in some pilot countries and that more analytical work may still be needed, particularly research on certain policy implications and, their linkages with resource allocation and operational effectiveness. We also recognize the need for more on-the-ground assessment of the different constraints under different country situations. It would also be helpful if the Bank could provide some general prognosis of how CDF would be expected to raise its development effectiveness, given the implicit longer timeframe of 10-20 years of the CDF. Finally we would encourage wider consultations at this stage with donors as well as borrowing countries, for at least some general feedback before moving further with other pilots.

Assistance to Post-Conflict Countries

We are encouraged by progress made to date on this important front, recognizing that conflicts can severely weaken a country's institutional capacity and drain the resources required to rebuild and nurture it back to normality. We fully support the Bank's efforts in further developing eligibility and performance criteria for exceptional assistance to post-conflict countries and the design of associated financial instruments.

We understand that a coordinated strategy on post-conflict countries in arrears is under consideration by the Bank and the Fund, and entails a systematic approach to debt restructuring and the eventual resumption of net financial flows to these countries. It is absolutely important that consultations must continue with UN agencies, bilaterals, and other partners involved in post-conflict assistance to ensure the effectiveness of Bank, Fund and other institutions' financial support. In this regard, it would be important that the Bank consider its comparative advantages and its mandate under the Articles of Agreement, when determining what and how it can contribute effectively.

We wish to thank the Bank and Fund for their flexible approach towards resolving the arrears of post-conflict countries. Moreover, we would like to stress the importance of closely linking post-conflict assistance to the HIPC initiative. Given that quite a few countries fall into both categories, there will be a need to dovetail the two initiatives depending on the circumstances of each country.

We would also like to ask the Bank and Fund for a clear exit strategy in post conflict countries, should the situation deteriorate. Finally, we would also call for intensified efforts by the international community as a whole, as good partnership will be crucial for effective implementation of a post conflict strategy.

Progress in Strengthening World Bank Cooperation with the Regional Development Banks

We are very encouraged by the progress made to date on strengthening co-operation amongst MDBs. We believe this will enhance MDBs efforts to fill in the gaps and where possible optimally realign resources in a concerted effort to maximize development impact. With the advent of the CDF, stronger cooperation amongst MDBs can only augur well for its execution, thereby providing a solid stepping stone towards effective cooperation with other development partners.

Finally, we totally agree that convergence of policies and practices must be increased where relevant and practical, and that differences ought to remain if well founded and transparent. Significant challenges still loom ahead, but we would like to support the Bank's persistence in forging closer cooperation amongst MDBs at all levels, recognizing that we can only improve our development efforts in the process.

Statement by Mr. Rubin (United States)

Introduction

This is an uncertain period for the international economy and for our efforts to promote economic and social progress in developing countries. Certainly the challenges to achievement of equitable and sustainable development around the world remain considerable, and provide a stern test for the Bretton Woods institutions.

The World Bank and International Monetary Fund, in collaboration with the regional development banks, must continue to play a central role in helping emerging market economies restore financial stability and lay the basis for self-sustaining growth. Equally, these institutions need to remain in the forefront of collaborative efforts to help the poorest countries reduce poverty.

I would like to recognize the staff of the Bank and Fund for the exceptional professionalism and dedication they have demonstrated in their mission to help member countries confront the enormously complex and, in many ways, unprecedented issues posed by the financial crisis, natural disasters, and other shocks.

In current circumstances, sustaining financial confidence -- and the flow of capital that confidence can bring -- is a crucial priority for the emerging market economies. We are encouraged by the actions many are taking to adopt needed structural and policy reforms, while at the same time helping to protect the most vulnerable. And we appreciate the quick responses of the Bank and Fund in supporting these programs.

Where countries have moved resolutely on reform, there has been considerable progress toward return to stability. However, much remains to be done. The conditions that gave rise to the crisis took a long time to develop and they will take time to work through. Now more than ever, support from the Bank and Fund is important to promoting the economic and social policy frameworks needed to revive and maintain the momentum of sustainable growth. As Ministers noted in our Communiqué last October, all countries must continue to build markets and resist protectionism.

We must also not let our focus on crisis response detract our attention from the development needs of our poorer member countries in Sub-Saharan Africa and elsewhere. While the last few decades have witnessed substantial improvements in living standards in most of these countries, poverty remains unacceptably high. In good policy environments, the Bank and Fund can and do make an important difference in improving welfare and promoting the common good. Their efforts merit our continued strong support.

I am pleased that the IDA-12 replenishment negotiations have been concluded successfully. The policies and priorities embodied in this "Partnership for Poverty Reduction" represent a sound and cohesive approach to delivering enduring development results on the ground. Full implementation of this important policy framework must be an on-going priority.

The Comprehensive Development Framework

The Comprehensive Development Framework outlines a promising new approach for guiding the Bank's role. This effort to improve lending effectiveness reaffirms much of what we have tried to emphasize over a period of years, including most recently, in the IDA-12 agreement. As in any new strategy, we and the Bank's other shareholders will only be able to assess the true promise of this initiative when we have had a chance to consider its full implications for the Bank's operations.

We all agree that there is no alternative to sound policies if there is to be sustainable progress in economic and social development. It is also clear that greater national responsibility and locally owned development strategies enhance prospects for success, and that the quality of bilateral and multilateral donor performance also affects development outcomes.

It is surely true that all donors need to strengthen performance both at the "quality at entry" stage of their projects and in their "implementation." This is an even more important point when borrowers themselves are largely responsible for implementation. In particular, donors and implementors need to:

- Move quickly to adopt the "best practice" lessons of experience;
- Work hard to ensure their processes are efficient and effective;
- Selectively concentrate activities where they have a comparative advantage;
- Ensure effective coordination among recipient governments, donors, and civil society; and
- Develop viable country assistance strategies, monitor assistance, and measure the development impact of resources.

In this context, the holistic approach of the Comprehensive Development Framework makes good sense. We particularly like the CDF's integrated development strategy covering a broad array of sectors and the emphasis to be placed on more coordinated allocation of work among donors, and monitorable benchmarks to judge performance. We support a concept of joint ownership and full partnership. The increased transparency underlying the CDF should also foster much needed accountability on the part of recipient governments and donors.

At the same time, we need to recognize the operational challenges, particularly in the poorest countries where institutional and human capacity is weak. It is crucial that operational flexibility in no way undermine full implementation of Board approved policies, including the IDA-12 replenishment agreement, nor full accountability for results on the ground. There are no "short-cuts" to good policies and solid implementation.

We believe implementation of the CDF should proceed with a limited pilot program. A small number of pilot countries should be selected on the basis of an established track record of good economic performance, especially in terms of having in place functioning fiscal controls and publicly accountable governance structures. We favor the centrality of the Country Assistance Strategy to all operations, with the CDF firmly rooted into the performance and other criteria established in the CAS as called for in the IDA-12 agreement. We also recommend that CDF pilots have an evaluative framework and that an Operations Evaluation Department evaluation be undertaken before there is any Board decision to extend or expand the pilot program.

Good Governance

President Wolfensohn and Managing Director Camdessus have both shown real leadership in engaging their institutions to help member countries promote good governance and combat corruption. Corruption is one of the most serous impediments to effective economic management and sustainable economic development and we remain strongly supportive of active Bank and Fund programs to address the problem head on. It should be unequivocally clear that governance considerations and corruption are taken into account in allocating IFI resources, and that government failure to address the problem of systemic corruption will have important consequences. Certainly this linkage is central to the recently concluded IDA-12 agreement.

The IDA-12 agreement also made substantial progress to improve the openness and transparency of the Bank itself. The agreement specifies that Executive Directors have full access to the documents needed for the discharge of their functions, while ensuring that institutional and personnel confidentiality is protected. Management and the Executive Board are also to undertake a review to determine which Bank documents should be published in addition to those already publicly available. This crucially important and complex task, and its promise of greater openness, warrants priority commitment and attention. I hope that other members share my strong belief that providing greater public access to Bank documents, including all significant OED and Management reviews, will make the Bank a stronger and more effective institution.

As members will recall, I have in the past also urged the World Bank and the regional MDBs to move quickly in establishing uniform MDB procurement rules of the highest standard, require standard bidding documents, and establish best-practice fiduciary management of the procurement disbursement and audit process. An MDB working group has been engaged on the technical issues for several years. It is time to come to closure.

Going forward, effective operational and financial controls must be strengthened. Controller and Internal Auditing Department reports have identified weaknesses in the Bank's internal control functions which Management is now seeking to address. It is crucial that operations be managed in a way which reinforces and centralizes implementation and enforcement of fiduciary controls. I therefore recommend that the Bank's Controllers and IAD offices, whose resources are already stretched thin by demands of decentralization and systems renewal, be provided with the additional staffing and funding necessary to meet the legitimate expectations of shareholders.

The fight against corruption extends to other areas. We encourage all signatories of the OECD anti-bribery convention to ratify the convention. We also urge all OECD members to eliminate the tax deductibility of bribes and to support initiatives in the Export Credit Participants Group to formulate standard anti-bribery guidelines of all such agencies. The approval at the OECD Ministerial in a few weeks time of the OECD's new Principles on Corporate Governance is of major importance. The Asia crisis has underscored the need for reform in the corporate sector and we expect that the use of the OECD Principles as a base for building stronger and more effective corporate governance around the world can make a major contribution to economic stability and growth. Finally, we strongly support efforts to negotiate a multilateral agreement on transparency in procurement in the WTO.

Assistance to Post-Conflict Countries

Post conflict reconstruction is a high priority development issue. The special needs of poor countries emerging from conflict underscore the importance of a well-coordinated approach among all key partners, including the Bank and the Fund. We believe it is particularly important that the Bank and Fund be positioned to join with other partners in providing timely and effective assistance when such countries have achieved a reasonable level of political, economic and social stability. We need to be able to move quickly to provide the people of these countries with well-coordinated programs to restore a climate that provides opportunities for recovery and growth.

Last fall, the Committee agreed to explore ways to provide quicker and more effective assistance to post conflict countries, especially those with large and protracted arrears to multilateral institutions. We also agreed on the need for creditors to provide (and, where necessary increase) positive net transfers to those countries that are adopting sound economic and social policies.

We welcome Bank and Fund efforts to explore measures to enhance their post-conflict assistance. While we recognize the difficult financial policy considerations posed by arrearages, we do not believe that the existence of arrears should preclude the timely provision of Bank and Fund assistance linked directly to measures to stimulate economic recovery. The objective should be to achieve positive net transfers as soon as possible assuming recipient political, economic and social policy performance consistent with that needed to sustain recovery.

Both institutions have adequate mechanisms available to provide such assistance in ways that limit moral hazard and do not endanger their financial integrity. It is our view that they must be prepared to participate on a full and equitable basis in cooperative efforts to support post-conflict economic recovery, and we urge the Boards of each institution to act quickly to put in place the complementary policy framework necessary to achieve this. In this context, we believe the approach which the World Bank has outlined in the Progress Report is very sensible and merits strong support.

We also support integrating the post-conflict efforts of the Bank and Fund, as well as those of other creditors, into the HIPC framework

Bank Group Cooperation with Regional Development Banks

The multilateral development banks have become the centerpiece of official efforts to spur development, with new loan and credit commitments just last year totaling more than $55 billion. Borrowers have a major stake in the wise use of such funds.

The Development Committee has long viewed strong cooperation among the MDBs and with the IMF as essential to efficiency and effectiveness. Complementary policies and strategies need to be shaped around development practices of the highest standard, with insights, best practices, and critical evaluations routinely shared and harnessed to increase development impact.

We welcome the report on Bank Group cooperation with the regional development banks and the progress toward the increased collaboration called for by this Committee's 1996 MDB Task Force Report. The report is also candid in noting the very real difficulties in deepening collaboration. The overall assessment of a "mixed record" conforms with our own judgment, based on a wide variety of different in-country experiences. While we have seen many instances of genuine collaboration on operational country and policy work, all too often, collaboration appears to be "pro-forma" with inadequate investment in a substantive dialogue and/or learning.

We regret that the progress report offers few concrete results nor a sense of serious enthusiasm for achieving meaningful efficiency gains. I note in particular that best practice uniform procurement rules and common evaluation methodologies have not been finalized; nor has the 1995 joint statement by the Heads of the World Bank and IMF, subsequently endorsed by the MDB Task Force, calling for increased collaboration in public expenditure work been given any real operational direction and impact.

While I do not underestimate the real challenges involved, I believe that we can and must do much better. The process for developing Country Assistance Strategies, as elaborated most recently in the IDA-12 report, provides major opportunities for substantially deepening in-country efforts. I would also strongly urge the MDBs to draw on their evolving experience to develop priority "best practice" approaches for wider replication. And I call upon MDBs' Management and their respective Boards to prioritize collaboration in their day-to-day oversight of MDB policies and operations. In our view, there should be a strong pro-active commitment to deepen IFI collaboration along the following lines in order to project greater transparency, efficiency and accountability into assistance operations:

- Independent and transparent evaluation functions that harmonize evaluation procedures to the highest standard;.
- Transparent and independent inspection functions in all the MDBs;
- Joint country procurement and financial accountability assessments;.
- Joint country strategy preparation grounded in demonstrated comparative advantage and lessons learned, and assessments of the composition of borrowers' public expenditure, fiscal controls, and national procurement capacity.
- Joint World Bank/IMF Public Expenditure Reviews covering the full range of spending and taxation issues including the role of non-development, including military, spending; and

- Technical assistance to help countries to meet the standards set forth in the IMF's Code of Good Practice in Fiscal Transparency.

We urge regular reports be made to the Development Committee, updating Ministers on the results of on-going efforts to achieve these important goals.

HIPC

We welcome the substantial progress which has been achieved under the HIPC initiative. As members are aware, we and others have made a serious commitment to improve and strengthen the development impact of the initiative. As President Clinton stated last month:

> "*Our goal should be that no country committed to fundamental reform is left with an unsustainable debt burden that diminishes its ability to meet people's basic human needs and to spur growth."*
>
> *"We should provide extraordinary relief for countries making extraordinary efforts to build working economies."*

Debt reduction is a technically complex and financially sensitive issue. We want to assure that the development efforts of those poorest countries committed to sound policies are not put at risk by unsustainably high debt service payments. But at the same time we want to ensure that the resources freed up by debt reduction produce lasting development benefits and contribute to an environment in which private capital and private risk-taking can flourish. The President's debt proposal seeks to strike an economically sensible balance between these competing considerations.

The U.S. proposal focuses on strengthening the partnership between creditors and the poorest most heavily indebted countries. It builds on the proposals of other G-7 countries, but more importantly, it increases the incentives for debtor countries to strengthen and deepen economic and social reform. The more these countries take responsibility for sound economic policies that promote development, the more creditors should be willing to respond with greater relief.

- We are asking all creditors to join the Paris Club in providing cash flow relief in the interim period before the debt stock is permanently reduced at the completion point;
- We are seeking support for bilateral creditors to forgive all outstanding concessional loans and to increase non-concessional debt forgiveness from 80 percent up to 90 percent and, in exceptional cases, on a broader base of debt;
- We also want to provide deeper debt relief by all creditors under the HIPC Initiative for exceptional performers; and
- To ensure that the debt overhang problem is not exacerbated further, we are seeking commitment by all bilateral donors to provide at least 90 percent of new assistance to HIPC countries on a grant basis.

One of the major advantages of the HIPC framework is that it addresses the debt problems of the HIPC countries in a comprehensive way with the participation of all recipient country partners. In this context, we look forward to working with other members of the international financial community with a view to timely consideration of the President's proposals.

Principles and Practices of Good Social Policy

The new financial architecture is not just about the financial system and macroeconomic policies that provide for broad based economic growth. It also requires attention to social policies which provide for the basic human needs of the most vulnerable members of society. These closely related objectives are at the heart of sustainable development. More recent experience has also highlighted the need for countries to be better prepared to deal with the special needs of the more vulnerable during crisis periods.

Spending choices can entail difficult trade-offs, particularly in constrained budget environments**.** However, our recent experiences in Asia and elsewhere have dramatically highlighted the crucial importance of up-front action integrating social sector priorities, including mechanisms to protect the most vulnerable, into national development strategies.

Lessons which we suggest we can begin to distill from the recent financial crises include the importance of:

- Maintaining a fiscal framework which tries to protect core social expenditures at levels prior to the crisis, or at least not disproportionately reduced;
- Designing means-tested programs for the poor and disadvantaged;.
- Developing effective and targeted programs, including public works, for the most vulnerable;
- Reinforcing good governance controls, especially fiscal transparency and accountability; and
- Adhering to core labor standards.

We welcome the World Bank's efforts to distill a set of social sector principles, and commend the consultation process undertaken in the drafting of the paper. We strongly support continuing work by the Bank on this issue with a view to identifying practices and policies that are of particular relevance to core Bank competencies, and using them when helping countries develop social sector programs and policies. Bilateral donors can also use these practices and policies as a guide.

We support the World Bank and the regional MDBs committing a substantial portion of their lending resources to the social sectors, including assistance to help establish functioning social safety nets. It is also essential that the World Bank and the IMF increase their collaboration in this area. Both the IMF and the World Bank, when making decisions on the provision of resources and establishment of programs, should take into account whether funding is adequate for social safety nets and other targeted social programs. Furthermore, when preparing macroeconomic frameworks for a crisis country, the IMF should take into consideration the degree to which the prescribed fiscal stance provides for adequate spending in the social area. To provide support for work in the social sector, we believe there is a strong case for joint Bank-Fund preparation of public expenditure reviews. There is also scope for close collaboration between the World Bank and the ILO to ensure that programs do not harm core labor standards.

Capacity building, within both the borrowing governments and key donors, also merits greater attention to help improve service delivery by strengthening sectoral and local institutions.
In addition, careful analysis of fiscal transparency is essential to ensure that public resources are prioritized and expended for social programs.

Labor

The World Bank and the other IFIs have made progress in advancing respect for core labor standards, including freedom of association, the right to organize and bargain collectively, together with prohibitions against exploitative child labor, compulsory labor, and discrimination in employment. Most recently, as part of the IDA-12 Agreement, the World Bank adopted provisions that call for systematic analysis of key issues, including core labor standards, in the preparation of Country Assistance Strategies. The African Development Bank has also agreed to incorporate core labor standards into its sectoral and cross-sectoral analysis and in the preparation of Country Strategy papers. We urge the other MDBs to adopt similar provisions.

The IDA-12 agreement calls on the Bank to draw on the resources of the International Labor Organization (ILO), as warranted, in the preparation of country assistance strategies. The ILO Declaration on Fundamental Principles and Rights at Work , adopted in 1998 with no opposing votes, provides a basic reference instrument of almost universal acceptance, on core labor standards. We support the ILO Declaration and encourage the Bank and other MDBs to consult with the ILO on an ongoing basis in the development and implementation of policies which seek to reconcile issues of economic efficiency with equity.

Bank Group Finances

We have a shared responsibility to safeguard the Bank's financial soundness and risk-bearing capacity. It is the Bank's high standards of financial integrity which over the last eighteen months have enabled it to provide exceptional support to help members restore financial stability. Financial soundness is also fundamental to the Bank's future ability to respond quickly and effectively to the evolving development challenges of our borrowing members.

I appreciate President Wolfensohn's initiative in engaging a Panel of External Advisors to review the Bank's financial structure. We agree with the Panel on soundness of the Bank's own systems for assessing portfolio risk, and share their views on the importance of both protecting the Bank's risk bearing capacity against stress events and maintaining its "AAA" rating.

While recognizing the Bank's very considerable capital resources, the Panel also suggests a number of possible options on how best to safeguard the Bank's future position.

Assessment of the options depends in large part on judgments on the prospects for the world economic environment and the potential future demands -- and inherent risks -- on the Bank's portfolio. There are encouraging signs in a number of crisis countries, which we welcome. If the financial crisis is successfully contained and economic recovery begins to take hold**,** this would increase the likelihood of a scenario under which the provision of emergency financial assistance diminishes steadily over the next year or so, with the bulk of the Bank's lending reverting to traditional project and structural adjustment operations. At the same time, we recognize that it will take time to restore growth momentum and that there are still significant downside risks in some major borrowers.

In this context of an uncertain environment, it is important for Management and shareholders to continue to monitor closely the Bank's financial situation. We need to maintain the Bank's future capacity to be able to respond quickly and flexibly to the evolving requirements of borrowing members. In considering the most appropriate ways to protect the Bank's financial integrity, we suggest priority consideration be given to the suggestions which the External Panel made for mobilizing additional support from within the Bank's existing resource framework.

Strengthening International Fora, including the Roles of the Development & Interim Committees

Work is underway on a broad range of potential measures to strengthen the international system in six areas:

1) Strengthening prudential regulation in industrial countries;
2) Strengthening financial sectors in emerging markets;
3) Exchange-rate regimes in emerging markets;
4) Private-sector involvement in crisis prevention and resolution;
5) Strengthening the Bank and Fund; and
6) Minimizing the human cost of financial crises.

With regard to the Bank and Fund, we are drawing on the lessons learned in meeting recent economic challenges to explore approaches which would delineate more clearly their respective missions and responsibilities, ensure closer collaboration, and establish more productive roles for the Development and Interim Committees.

The recent global crisis has highlighted the close interconnection between macroeconomic stability, the health of the financial sector, and structural reform particularly in the social sector. This underscores the importance of more effective collaboration to ensure clear complementarity between the programs of the Bank and Fund, and their partners in the regional development banks. Real and intensive cooperation is essential to make economic growth and social progress mutually reinforcing. This would suggest the roles of the Bank and Fund in the Development and Interim Committees be made more symmetrical.

We look forward to discussing this issue in more detail at the Chairman's luncheon.

Conclusion

The United States is committed to working with the World Bank and the International Monetary Fund to strengthen the coordination and effectiveness of the institutions and their ability to respond creatively to the evolving needs of their membership. Our goal is global stability and economic growth, shared equitably. We seek a stronger and more assured base for democracy and human rights with an active civil society and greater opportunities for the poor.

These are goals that are easy to prescribe, but difficult to achieve. Yet an increasing number of countries have better policies, with governments more committed to poverty reduction and reform than ever before. And we know that financial assistance in good policy environments produces growth, reduces poverty, and improves social well being. I am convinced we must maintain our forward momentum and continue our progress along these lines.

Statement by Ms. Short and Mr. Brown (United Kingdom)

Introduction

The Development Committee will be considering a number of important issues at these meetings. We look forward in particular to our discussions of HIPC and the principles of good social policies at the restricted session, and of the issues on the agenda for the Chairman's lunch. As requested, this statement focuses primarily on the CDF, assistance to post-conflict countries, and Bank Group cooperation with the regional development banks.

When we met here last October, few of us imagined that by the time we came together for these Spring Meetings we should be facing a major conflict in south-east Europe, with as many as a million people becoming either homeless in their own country or refugees in neighboring states. We all hope that very soon this conflict will be brought to an end, so that refugees can start returning safely to Kosovo. It is welcome that members of the Development and Interim Committees are discussing the Kosovo crisis and its implications for the region at a separate meeting.

As members of the international community we are reasonably good at responding to humanitarian crises. What we are much less good at is helping to build sustainable peace. Too often, peace agreements are not adequately resourced and supported, leading to an early resumption of violence.

Assistance to Post-Conflict Countries

It is appropriate, then, that *Assistance to Post-Conflict Countries* is one of the issues for consideration here at the Development Committee. What is striking is that, so often, conflict arises in the poorest areas of the world, and makes those who were poor to start with even poorer. To take the case of Kosovo, almost all the refugees have had to flee to Albania and Macedonia - themselves the poorest countries in Europe. As we recognize, this imposes an immense burden not only on those involved in the conflict but on their neighbors, too.

The issues to which conflict give rise are therefore very real and, in considering the technicalities of providing help, we must not lose sight of the practical objectives: to assist the people of countries which have experienced conflict to rebuild their lives and move forward to sustainable development and the elimination of poverty.

Post-conflict is not a single condition; it describes a changing scenario in which states move in and out of conflict to a greater or lesser degree, and may continue to do so over a considerable period. When conflict re-emerges, it may well destroy what has only recently been put in place, obliging donors and governments to start again with new resources, sometimes incurring new debts as they do so. The Bank has an important role to play in assisting with this transition from conflict to peace, and helping to ensure that peace sticks. Its involvement in Sierra Leone, where innovative work is being attempted through support for the Government's Demobilization Program, is crucial to that country's struggle to find a lasting peace and begin to rebuild itself. While there are undoubtedly risks to this type of flexible approach, we believe that these are far outweighed by benefits. We must work together to put an end to this vicious cycle and find innovative ways in which the international community can take a practical role in countries' efforts in post conflict situations. We believe that, through such assistance, we can help to prevent these countries lapsing back into conflict.

In all of this, the World Bank and IMF have key roles to play in helping to identify ways in which post-conflict countries can be assisted, without adding permanently to their indebtedness. In other words, we must find ways of resolving the very real problems of post-conflict countries, and helping with rehabilitation, without storing up difficult problems for the future. The UK was pleased to participate with the Bank in a workshop in March at which some of these issues were discussed.

At the Birmingham Summit in May 1998, G8 leaders called on the Bank and the IMF to come up with agreed proposals for the specific problems of post-conflict countries. It is disappointing that there is still some way to go in reaching firm conclusions. Nevertheless, some progress has been made.

Bank staff have developed criteria for lending programs to post-conflict countries - clearly, for the poorer among them, IDA is likely to be the most suitable source. In parallel, IMF staff have made proposals for a mechanism for increasing available financing and lending on easier terms. These ideas are welcome.

We also welcome the willingness of the Bank and Fund to approach the issue of arrears on a case-by-case basis and to allow arrears to accumulate. It will be essential for all other International Financial Institutions to do the same. The possibility of making IDA grants available before arrears are fully cleared, and the IMF's willingness to offer non concessional rescheduling through the postponement of payments or payment in local currency, are both constructive ways to proceed.

For post-conflict countries, these measures, when taken together, amount to a considerable advance in flexibility, and a move away from the traditional position of linking conditionality with the length of a borrowing country's track record and repayments levels, and towards a position which looks, more realistically, at what they are actually doing.

The proposals for a post-conflict trust fund, however, are not yet straightforward. We believe it would be premature to call for donor contributions now. Resources are scarce and it would be undesirable to tie them up in such a fund in advance of identifying a country where they would be used. The Bank and Fund should continue to monitor the situation until a suitable candidate emerges sufficiently from conflict for the trust fund to be mobilized. Only then should donors be asked to transfer resources.

Finally, we are pleased to see a move in the international perspective on the link between post-conflict strategies and debt relief, where appropriate to individual country circumstances. But debt relief is an instrument that goes wider than the 20-30 countries currently listed as post conflict, and must be considered wherever it is needed. It is not a synonym for a post-conflict strategy.

Comprehensive Development Framework

In recognizing the need to go "Beyond Projects", and in setting out the elements of a Comprehensive Development Framework (CDF), the Bank has identified one of the key issues which is holding back development. That issue is the fractured nature of the system in which we, as donors, are engaged with developing countries. While it may not be entirely new, the CDF takes a more holistic, longer-term view of development. As such, we welcome it.

Perhaps the most important element of this approach is that it will require the government of each developing country to take <u>ownership</u> of its own development program. This is at the heart of the CDF. The role of donors will be to facilitate the process by adding knowledge and resources in ways identified in the Bank's Partnership for Development Strategy. This is therefore much more than just another attempt at a donor co-ordination exercise, but rather, as its name implies, an intention to set out a development program, country by country, involving all those with something to contribute. As such, it will require a willingness to share information with governments (national, provincial and local), multilateral and bilateral institutions, the private sector, civil society and others so that the whole range of issues - including trade, investment and debt relief - can be addressed. Where necessary, the issue of corruption will need to be confronted openly. The White Paper on International Development, which the UK Government published in November 1997, recognized these issues were integral to its own international development agenda. In all of this, we see the involvement of the IMF - not least because of its contribution to Policy Framework Papers and ESAF programs - as being very important.

The challenge now is to identify ways of working which will turn a vision into good everyday working practice. This can happen just as much at the level of individual projects as in policy discussions with government at a sector or national level. This points to using a variety of different vehicles, including sector-wide approaches; a much more transparent and consultative process for developing Country Assistance Strategies; and better working relations between individual donor agencies.

The CDF should, therefore, be regarded as a process guided by a change of mindset, rather than as just another exercise in donor co-ordination. The process is one which works towards building a strategic vision for poverty reduction which is owned by developing countries and fully shared by development partners.

The focus of work on the frameworks must be in each country, and pilot exercises in a suitable range of countries are important to test the concept. We are pleased to be working with the governments of Ghana and Bolivia, as well as the Bank, on developing frameworks in these countries. The readiness of their governments to offer themselves as pilots demonstrates their commitment to make the process work. But self-selection in itself is not sufficient pre-condition for being one of the pilots. Clearer criteria are needed for the selection of those to lead this exercise, and this may point to having fewer than 13 pilot countries. Some of these may need help to manage the process. Nor should we make the mistake of expecting too much, too soon. It will take time for governments to develop ownership of the process, and encourage participation in drawing up the frameworks. Eighteen months may, therefore, be too short a period in which to evaluate the effectiveness of the process.

At present, the framework focuses too much on inputs - what are we as donors and others putting into development. In our view, we need to look at the other end of the process: what results we aim to get out of it. In the UK's view that should mean achievement of the International Development Goals to reduce the proportion of people living in absolute poverty by 2015. The World Bank has committed itself to these; so too, we are pleased to note, has the African Development Bank in its recent Vision Statement.

Attention to outcomes is one of the issues on which further work needs to be done centrally. We therefore welcome the setting up, within the Bank, of a CDF Secretariat to look across the pilots, draw lessons applicable to all countries, and to share best practice. But, in no way should this detract from the principle that ownership rests with the countries concerned. The CDF provides the Bank with the opportunity to put into practice its principles on partnership. We welcome the acknowledgement that it will not be appropriate for the Bank to play the lead donor role in all pilot countries, and hope that, in some of these, the Regional Development Banks might do so.

Co-operation with the Regional Development Banks

We recognize the significant contribution which all the multilateral development banks - through the scale of their resources, their global coverage and their wealth of knowledge and expertise - have to make to development and the elimination of poverty. As a member of the Task Force on Multilateral Development Banks, which reported to the Development Committee in 1996, we therefore welcome the continuing follow-up of its recommendations.

The Task Force's report justified the case for the combined existence of the World Bank and the Regional Development Banks on the grounds of diversity. The present system, it said, offers choice, sparks innovation and serves to limit the scope for complacency. However, this requires co-ordination if the combined presence of these institutions is not to become wasteful, self-defeating and cause duplication and overlap, reducing effectiveness and blunting responsiveness to country needs. Instead, they need to pool their respective strengths through adoption of coherent policies and coordinated operations. We agree entirely with this.

To this end, we welcome the regular meetings which have been instituted between the Presidents of all the Multilateral Development Banks - the most recent being held in Abidjan last October. We welcome, too, the progress which has been made on harmonizing procurement and evaluation procedures and practices.

But we must recognize that the world has changed even in the 2½ years since the Task Force report was published. Most notably, the World Bank is in the process of decentralization with the aim of getting closer to its borrowers. Through its Field Offices, many Bank staff are themselves now in the regions. This means that the scope for close liaison with staff in the Regional Development Banks has increased, offering many opportunities for closer and collaborative working. Against this background, it seems to us that the paper that has been circulated may paint too rosy a picture, given that the instances of co-operation between World Bank and Regional Banks staff have, to date, been surprisingly limited. We urge them all to work together more in the interests of greater effectiveness. But they are just one part of a bigger picture. With the advent of the Comprehensive Development Framework, we see <u>all</u> members of the international financial community working together to deliver a strategy owned by the borrowing country. If the eradication of poverty for which we are striving really is to be achieved, co-operation amongst all the players will be the key to success.

Conclusion

Recent events have emphasized the importance of systems being in place to help protect the most vulnerable from the effects of financial crises, and make economies more robust in the face of financial shocks. Minimum standards for tackling unemployment, ill health, poor education will help to build the trust and popular support necessary for economic reform.

In proposing, last October, that the World Bank should draw up general principles of good social policy, we saw this as an essential part of the reform of the international financial system. We commend the Bank for the substantial progress it has made in putting before the Development Committee a draft paper on principles and good practice in social policy. We believe that this deserves our strong support and speedy implementation. These principles have the potential to complement the vital role of other organizations, notably the UN, in this area, and to be a valuable tool to be drawn on by the World Bank and IMF in the design and implementation of adjustment programs. Used in this way, we can have greater confidence that social sector spending for the poorest, most vulnerable groups will be protected.

Statement by Mr. Strauss-Kahn (France)

At the time of our last meeting in early October, we were faced with brutal market movements, affecting emerging and industrial countries alike. Since then, thanks to collective action, we have redressed the situation. Encouraging signs of recovery have begun to appear in certain of the emerging countries which were among the first to be affected by the violent financial crises undergone since the summer of 1997. Some of them have even regained normal access to international financing.

The repercussions of financial crisis are still with us. And there are countries which are confronting added exceptional difficulties. I am, of course, thinking particularly of the Balkans.

We must assign three priority missions to our multilateral institutions, instruments through which we build solidarity among the international community:

- To support emerging countries in crisis. For this, we must make progress in constructing a more stable international financial system;
- To support the poorest countries in their social and economic development. For this, it will be necessary to go further both in debt alleviation and in maintenance of sustained official development assistance ;
- To mobilize our institutions with the international community to address exceptional events: conflicts and natural catastrophe.

I take pride in the fact that France’s contribution to development assistance as a percentage of its GDP is the highest of the G7 countries, and , thus, that France is doing its best to contribute to these three forms of solidarity.

Support for Emerging Countries

The World Bank and the regional development banks, in partnership with the IMF, have already adapted their instruments to be able to bring rapid assistance to countries in crisis. The Bank has the means to carry out this policy, with good management of its priorities and of its financial margins of maneuver. What lessons should the Bank draw from these crises ?

- Our reflection on reinforcing the governance of our institutions should be completed, in order to give them the mandate and the political legitimacy necessary to intervene in crisis situations in the name of their Governors. To this end, France has proposed that the Interim Committee of the IMF be reinforced and transformed into a Ministerial level decision-making body, the "Council", which is provided for in the Articles of Agreement of the Fund. This body, in which all member countries would be represented, is the most suitable to make policy decisions on financial stability and crisis management, which have implications for the international financial community as a whole.

In the same perspective, it is necessary to strengthen the governance policy bodies of the development banks, to allow them to better attend to their borrowers. In this spirit, President Wolfensohn has proposed to enlarge the role and mandate of the Development Committee. I fully support this direction.

The importance of discussions on the composition of the two committees is secondary to the need to rapidly strengthen their roles. France favors maintaining the present composition of the Development Committee and defining a special status for the World Bank within the Interim Committee.

It would be my wish that, at the next annual meetings, the Committees will have been renewed , and their aspirations and capacities increased.

- We must strengthen the capacity of the international financial institutions of surveillance of capital flows and prevent instability. We had the opportunity to discuss this yesterday at the Interim Committee. An important aspect of addressing this challenge is the building, in each country, of robust national financial systems, within an international framework with clear regulations.

- We must do our utmost to accommodate the return of direct investment to emerging countries.

At a moment when there is a danger that investors may turn their backs on emerging countries, the World Bank, the IFC, and the regional development banks have an important role to play in encouraging a return of confidence.

It is therefore important, during such a period, that the IFC and MIGA develop together with the World Bank a clear action plan aimed at supporting the private sector. I know that President Wolfensohn, Mr. Woicke, and Mr. Ikawa are all committed to this course. Rather than put forward financial volumes which could be considered both insufficient and too costly, I hope that management will work on operational strategies which can be discussed by the shareholders of the World Bank at the next annual meetings.

The World Bank Group must indeed pursue achievements in three areas essential to the return of confidence:

- Having a demonstration effect through the quality of its own operations;
- Leveraging private financing;
- Improving the environment of the private sector through implementation of structural reforms.

Guarantees can be a useful and efficient instrument to promote investment, on the condition that they are focussed on the support of well-specified investments or funding. Distorsion risk exists especially for guarantees on bond issues: we must therefore be particularly cautious in resorting to this instrument, and I hope that additional work will look further into the question of leverage effect and systemic risk.

The present crisis should not allow us to forget the situation in the poorest countries, which have never had access to capital markets and remain dependent on official development assistance, all the while having to pay off heavy debt.

The issue of developing world indebtedness returns to the forefront with increasing calls for very substantial debt forgiveness of the poorest countries.

France has always pleaded for the rapid treatment of debt overhang problems. As a result of the Lyon Summit, the international community has now at its disposal the HIPC initiative, an adequate framework for treating the bilateral and multilateral debt of these countries. France has also taken the initiative in purely bilateral debt forgiveness, notably at the time the CFA franc was devalued and more recently in support of countries affected by Hurricane Mitch. Nevertheless, we must go even further today.

Looking forward to the Cologne Summit in June, I presented last February the 20th a French initiative for developing country debt. This initiative, which responds to proposals advanced by others among our partners, focuses on the situation of the poorest and most indebted countries, without sidetracking other developing countries suffering from difficult indebtedness.

The French initiative revolves around three fundamental principles:

- S*olidarity*, which incites us to grant the most favorable possible treatment to the poorest countries. We propose exceptional measures to forgive ODA debt for eligible HIPC countries;

- *Equity*, which impels us to call on our partners in the Paris Club and the international financial institutions to share the burden fairly. France, which, like Japan, has contributed the most to financing the poorest countries through its official assistance, urges the other G7 and OECD countries to cancel their residual ODA debt, but also to support new financing;

- *Responsibility*, which justifies that these measures of exceptional support benefit countries with impeccable economic and social policies and "good governance". I hope that, on this point, we will be able to gain the support of the relevant non-governmental organizations.

We must not forget those among the poorest countries which will not be eligible for HIPC. It is for this reason that we support the harmonization of Naples terms at the most concessional levels possible, i.e. 67% of cancellation.

From this time forth, we must work with all our partners in the international financial community so that, in the near future, we will be able to announce concrete measures to definitively solve the debt overhang which confronts the poorest countries.

Reaching this ambitious goal would allow us to remove one of the obstacles currently blocking progress in the poorest countries. But this will not suffice. Measures to forgive debt, as generous as they may be, can only accompany, not substitute for a real development policy.

Official development assistance remains indispensable for the poorest countries. It is particularly essential for the establishment of basic infrastructures and services (education, health). It must also help in developing necessary governmental capacities (respect for the rule of law).

I am proud that France, each year, contributes twice the average of official development assistance donated by other developed countries. This effort makes France the most generous of the G7 countries. The European Union as a whole provides 57% of global official development assistance.

Thanks to these endeavors, the concessional resources of the World Bank and the African Development Bank, which are most directly involved in fighting extreme poverty, have been replenished at high levels. The rapid conclusions of AID-12 and AFD-8 attest to donor confidence in the action of both Banks and give them the capacity to act in the coming years.

This European and French effort should not remain isolated. France intends to maintain its own efforts, but calls on all developed countries to participate more actively in official development finance. It is in our collective best interest.

The World Bank and the regional development banks are by nature the central actors in development assistance.

I acknowledge the work achieved by the World Bank in defining and promoting principles of good social management among all its borrowers. The integration of social principles is to all intents and purposes essential to every country's development and it behooves the international community to help developing countries take this step.

I thank President Wolfensohn for having contributed to this reflection on the goals and means of assistance by proposing the Comprehensive Development Framework to us. France, like its European partners, can only support an approach which combines sound economic management and social and institutional development.

Bank management must, from now on, commit itself, in close cooperation with the Board, to determine an implementation strategy which will allow the Bank to anchor this policy vision of development goals in reality. The World Bank's status in the development world gives it the ability to be heard, but also confers it with great responsibility on the ground.

Here, there are high stakes for the development community: the Bank itself has much at stake in that it must successfully complete its own internal change, but there is also much at stake for its relations with other development partners. To make this ambitious proposal a reality, the Bank must be wary of two pitfalls: first, the framework must not become a straitjacket; and, second, the initiative and management of development must remain the full responsibility of the countries themselves.

Our solidarity must extend to mobilization in exceptional circumstances. The multilateral development institutions are the main tool of this international solidarity.

Two dramatic events have marked these last several months since the fall meetings. The Balkans have suffered another humanitarian disaster that threatens the stability of the whole region and is reminiscent of the darkest hours of history. Hurricane Mitch has devastated a large part of Central America.

- In the Balkans, the current urgency is humanitarian, but also financial. I am happy that yesterday, at France's request, a meeting of all the concerned institutions and countries was held. Our exchange yesterday permitted the pursuit of a coordinated mobilization of emergency aid to the countries affected by this conflict.

  It is indeed essential to rapidly support the economies and finances of the principal countries hosting refugees, which are, in their turn, in danger of being destabilized. It was with this goal in mind that I proposed to the creditors of the Paris Club to decide a debt moratorium of more than a year for Albania and Macedonia.

  Above and beyond these emergency measures, and in hopes of a rapid resolution of the conflict, it is even now necessary to reflect on how to integrate this region of Europe into the regional and international economy. The action of international institutions will be crucial in this phase and yesterday's meeting constituted a point of departure for decisive work in facilitating peace and stability in the region.

- In the aftermath of Hurricane Mitch, thanks notably to the impetus provided by the Inter-American Development Bank, the international community was able to mobilize rapidly to support the financing of Central American reconstruction.

This solidarity manifested itself, in France's case, in immediate aid to the affected countries, in the form of ODA debt forgiveness. All the creditors of the Paris Club have also responded to my call to defer the debt service of all countries hit by the hurricane for three years. I hope that the Inter-American Development Bank and the World Bank will continue to direct their resources to face this emergency and pursue reconstruction. We will meet again in Europe on May the 25th to do this.

It is in this type of circumstance, as in the case of financial crisis, that our institutions and the international financial community as a whole must demonstrate the capacity to mobilize rapidly to confront major difficulties. I know that I can count on the leaders of our institutions, as well as on the solidarity of all the member countries, to give the Balkans the support they so badly need.

Solidarity of the international community is our common responsibility. It must express itself toward countries in crisis, allow the long-term support of the poorest and create the capacity to react to exceptional circumstances.

This is the clear message of France and of Europe, which live it as everyday reality through their efforts at official development assistance.

I hope that our institutions will also embody, to the best of their ability, a commitment to be the legitimate and effective instruments of the international financial community for countries in difficulty.

Statement by Mr. Viseur (Belgium)

Before turning to our agenda, I would like to express my appreciation and strong support for the efforts which the Bretton Woods Institutions are undertaking to assist the countries affected by the Kosovo crisis. I welcome the Bank's early participation in emergency financing assistance to address the humanitarian consequences of the crisis. Beyond these immediate needs, I would also encourage the Bank to join other relevant partners in a substantive reflection on the economic and developmental requirements which could contribute to the restoration of a lasting peace in this part of the world. The construction of the European Union has shown that economic integration, driven by sound market and democratic principles, can make an essential contribution to this objective; it is a model which may well inspire other regions in the world as well.

The Comprehensive Development Framework

Let me start by joining the general support for President Wolfensohn's initiative on the Comprehensive Development Framework (CDF). The development agencies in my Constituency look forward to cooperate closely with the Bank on the implementation of this ambitious initiative. The CDF has the potential of improving development and aid effectiveness in several respects. Let me especially single out the prospect which it offers to discuss and address governance issues with countries more systematically in the context of an agreed framework; the possibility which it offers to the Bank and other agencies to better valorize their expertise on the appropriate sequencing of market based reforms in full awareness of the institutional prerequisites for the successful functioning of market economies; and the opportunity which it offers to all development partners to valorize their respective comparative advantages in a more cost effective and, ultimately, in a more developmentally effective way.

The implementation of the CDF will be a labor-intensive exercise requiring full and continuous attention not only from the Bank, but also from the countries embarking on it. It will therefore be important to concentrate CDFs on these countries clearly perceiving the benefits which they can bring to their development agendas. It will be equally important not to divert resources and attention away from countries not applying for a CDF because the benefits would be less obvious to them. We look forward to further discussions with the President as implementation proceeds.

Principles of Good Social Policies

The work which is underway on the development of general principles of good social policies can potentially make an important contribution to the success of the CDF and to the deepening of the Bank's role in assisting countries with their long-term development challenges, more generally. This is an area in which the Bank's development practice, strong country ownership and effective partnership with other agencies, in this case the relevant UN agencies including the International Labor Organization, can make a genuine contribution to the advancement of the global development agenda. I am happy to note from the report prepared for our meeting that work is progressing along those lines. If continued effectively, this renewed partnership will have enabled the Bank and this Committee to make a substantive contribution to the establishment of a social pillar at the center of the new international architecture. The four principles of sound social policy have been drafted skillfully in the progress report and I will limit myself to the following brief observations for their successful implementation.

The Asian crisis, which was at the origin of this exercise, has highlighted the need for emerging economies, participating in the global economy, to avail themselves of effective systems protecting their populations against the negative forces of globalization. Integration in the global economy should not become a source of social disintegration locally. I welcome the efforts which are made by all affected countries to protect their populations against the immediate poverty implications of the crisis. The reconfirmation of the social policy principles in the framework of the Bank's development agenda should help to ensure that these efforts do not stop halfway. The difficulty to implement some of the present emergency programs effectively and rapidly precisely indicates that a sustained commitment will now be needed to move beyond the notion of social safety nets and to introduce the kind of employment and social protection policies capable of absorbing future economic shocks more systematically and at a smaller human cost.

The transition countries face special challenges in this area. A number of them are still coping with the difficulty of dismantling egalitarian models providing free social services to all and of replacing them with market based systems combining an appropriate income differentiation with sustainable social protection schemes. Unless they receive appropriate advice and support from the international community, they run the risk of accumulating rising inequalities and poverty, compromising the social cohesion needed for a successful completion of their reforms.

Concerns have been raised regarding the capture of the social principles, especially those on core labor standards, by protectionist interests. On this point, I am convinced that the best safeguard to avoid such an undesirable outcome is to encourage the Bank to redouble its efforts to help its client countries build strong ownership of these principles by being fully responsive to their local social fabric and by providing appropriate assistance in support of ambitious reforms.

The Initiative for the Heavily Indebted Poor Countries (HIPC)

I wish, first of all, to congratulate the staffs of both Institutions for the excellent documentation which they have prepared to support our review of the HIPC Initiative. President Wolfensohn and Managing Director Camdessus have set the tone for today's discussion in their joint statement and I would like to thank them for their constant leadership in taking this challenging exercise forward.

I fully endorse the principles for change on which an enhanced HIPC Initiative should, in their view, be based. Let me especially single out the notions that debt relief should provide a clear exit from unsustainable debt burdens, thus providing an appropriate cushion against exogenous shocks; that, in view of its irrevocable nature, debt relief should be based on sustained policy performance; that debt relief should complement, rather than substitute traditional ODA flows; and that proposals for change should be accompanied by proposals for their financing, implying that decisions on change will also be accompanied by firm commitments on their financing.

Failure to apply these principles consistently would entail the risk of moving forward with an ambitious mandate which fails to meet its high expectations either because it is under-funded, or because it disregards the general requirements for sustainable development, or both. With this in mind, let me make the following comments on the more specific proposals for change.

First, we should acknowledge that there are valid reasons for deeper debt relief than originally envisaged. The external outlook has deteriorated for many HIPCs, especially those who are heavily dependent on primary commodity exports. The fiscal dimension of unsustainable debts was not explicitly addressed in the original framework, although it is in many instances an obstacle to higher investments in social development. I believe that a lowering of the external and fiscal sustainability targets to a maximum of 200 percent will be needed in order to achieve the Initiative's ultimate purpose of providing countries with a durable exit strategy. In combination with a restoration of aid flows, which is vital to the overall success of the Initiative, this lowering should substantially improve prospects for releasing resources which can be used for effective development purposes.

Second, we have to take seriously the repeated calls from our developing country members for the faster alleviation of debt burdens which are compromising their development outlook. I believe that we should show confidence in demonstrated commitments to strong reform and sound development and therefore propose to give serious consideration to a shortening of the track record requirement under the initiative from six to three years for countries demonstrating such commitments.

However, we should do so in full awareness of the implications of such a decision. It will require countries embarking on such a fast track to debt relief to commit themselves at the outset to an ambitious reform agenda, including a governance agenda, meeting all basic requirements for developmentally effective debt relief. Frequent slippage in the implementation of this agenda would delay the prospect of debt relief and damage the credibility of the Enhanced Initiative, more generally. This is why the Bretton Woods Institutions should mobilize and combine all relevant skills to assist countries undertaking such programs with judicious, socially sustainable policy advice.

Third, I strongly welcome the intention to tighten the links between debt relief and the investment in poverty reduction and social development programs. While I agree that it may be difficult to establish a mechanistic linkage between both, it is important to keep a clear perspective on the desirable increase in social investments as a result of debt relief. The World Bank's new networks can greatly contribute to this dimension of the Initiative by collecting a best practice list of social development programs from which countries could make a selection as they prepare themselves for allocating the net resources released by debt relief. I encourage the Bank to embark expeditiously on this exercise, in close cooperation with bilateral development agencies and relevant civil society organizations.

Finally, on the financing of an Enhanced HIPC Initiative let me reiterate the need to establish, in the coming months, a positive climate in which all relevant players do their utmost to complement each other with firm commitments of their own. The World Bank and other development banks should do whatever they can to increase their contributions. Their efforts should be complemented by an early indication of the Paris Club's readiness to go beyond the 80 percent limit of debt relief, as needed, and by firm commitments from the creditor countries, especially the large ones, to contribute to the HIPC Trust Fund.

Assistance to Post-Conflict Countries

I welcome the progress which has been made since our last meeting on the establishment of agreed principles for a case-by-case assistance to post-conflict countries, recognizing the intractable dilemmas which may arise when they are simultaneously confronted with enormous reconstruction needs, arrears clearance to the multilateral institutions and unsustainable debt burdens. I note that the satisfactory resolution of such situations may require exceptional measures including, in some cases, the postponement or rescheduling of payments obligations. Under this approach, the final resolution of the arrears situation would take place within the framework of the HIPC Initiative, after the international community has obtained sufficient assurances about the sustainability of the peace process and of the countries' economic and development policies. It is important that the Fund and the

Bank continue to coordinate their evolving views on these issues closely and that any exceptional measures, taken in application of the emerging financing framework, would be firmly embedded in appropriate support by the donor community. I am, however, not convinced of the usefulness to establish a general donor trust fund for such future contingencies.

Further work is also needed on the establishment of clear criteria of eligibility to exceptional assistance under a post-conflict framework and perhaps even more importantly, on the specific safeguards to be put in place once a country emerging from conflict is declared eligible for comprehensive support by the multilaterals. Close monitoring and the active deployment of measures which can reduce the risk of backsliding into conflict are important elements of such an approach.

Let me conclude with two specific observations in this connection. First, decisions on post-conflict assistance are based on a comprehensive set of considerations, including the availability of sufficient assurances that peace will take hold; it is important for the Bretton Woods Institutions to have access to transparent channels of communication with those international bodies best placed to be consulted about the continued transition to peace, including the conditions which would justify a suspension of further financial assistance. Second, the reduction of military expenditures and demobilization plans have become common elements of post-conflict programs and I encourage the Institutions to continue with rigor along these lines. But we also know that other aspects, such as the proliferation of light weapons and ethnic tensions, constitute, in many cases, an obstacle to sustainable peace and development. I encourage the Bank in close partnership with other relevant agencies to improve their common knowledge of these issues and integrate them more systematically in their assistance programs.

Statement by Ms. Wieczorek-Zeul (Germany)

Kosovo Crisis

Germany is helping to accommodate refugees and deportees from Kosovo, who have fled to Macedonia and Albania. 35 million DM are being provided for food and humanitarian aid. Refugees are being flown to Germany from Macedonia and Albania with planes from the German Bundeswehr. Germany will host the refugees from civil war until it is possible for them to return. Efforts to find a peaceful solution to the military conflict enabling a return of refugees to their homes are underway.

The consequences of the Kosovo-Crisis have been discussed in various fora at national and international levels over the last few weeks. Efforts to find a peaceful solution of the ongoing military conflict are under way in an effort to secure active involvement of the OSCE and the UN. Heads of State and Government of the European Union, currently presided by Germany, mapped out a general political perspective for South Eastern Europe, the so called stability pact, on the basis of German proposals.

This stability pact tries to outline medium and long term objectives in order to prevent future ethnic confrontations and to create lasting conditions for democracy, economic development, civil society, and regional cooperation. As a medium term instrument Chancellor Schröder and President Clinton have put forward the idea of underpinning the stability pact by an economically oriented Marshall-Plan for South Eastern Europe.

In the EU we want to give the political perspective of an association to Macedonia. A budget aid of 100 Mio euro has been decided upon and its apportioning among Albania, Macedonia and Montenegro is currently being finalized.

We welcome the initiative of the Paris Club for a one year moratorium in favor of Albania and Macedonia. Bilaterally we are working for debt forgiveness regarding commercial debt inherited from the former GDR.

On the bilateral side we have had very active contacts with the governments of Albania, Macedonia and Bulgaria on economic cooperation recently. Government negotiations on Albania will be brought forward to June and I assured the Albanian Minister of Foreign Affairs that we are willing to commit new funds in the order of magnitude of 35 Mio. DM and for Macedonia in the order of magnitude of 45 Mio. DM for a two year period. Discussions with the Bulgarian Government have been concluded last week in Sofia. 25 Mio. DM have been committed to them.

Everything has to be done to prepare for the refugee return. This involves, in particular, immediate humanitarian assistance and disaster relief. In our view lessons to be learned from the experience in Bosnia speak strongly in favor of forward planning and firm coordination and an active role to be played by UNHCR.

We welcome the Bank and the IMF management’s readiness to provide emergency financing assistance to the most affected countries now. We are grateful that the World Bank and the IMF tried to deal with the difficult issue of mapping out the economic consequences of the Kosovo-Crisis for the region as a whole and to give us a preliminary assessment of external financing needs. These proposals have already been discussed in the Bank's Board and the alternative estimates are widely used by other institutions as a planning basis for further action beyond our current efforts.

Debt Relief Initiatives

A whole range of new initiatives to relieve the debt burden of heavily indebted poor countries has been tabled within the last few months. From this set of proposals we must choose a package

- that will lead to a lasting solution of the debt problems of the poorest countries;
- that will support significant poverty reduction efforts in the debtor countries;
- that will fight poverty, promote democracy, human rights, the rule of law and good governance.

In the view of the new German Government this will require

- speeding up the debt relief process, so that HIPCs can benefit from debt service reduction as early as possible;
- increasing the volume of debt reduction, so that more funds can be released for measures to fight poverty and to promote sustainable development;
- and embedding the debt relief process in a development strategy that promotes sustainable development focusing on the reduction of poverty in the debtor countries.

> Debt relief measures therefore need to be linked to strong conditionality of IMF/World Bank adjustment programs.

The German Government has outlined specific changes to the framework of the HIPC Initiative in its "Cologne Debt Relief Initiative". Its full implementation would lead to a substantial reduction of the debt burden of heavily indebted countries that are willing to embark on a process of economic, political and social reform. We are, of course, open to discussing all proposals and ideas that will move us towards finding a consensus in resolving this pressing issue.

In particular, it is urgent to agree on and directly contribute to a mechanism and procedure for the funding of a reformed debt reduction strategy, especially regarding the multilateral creditors' share. In finding a solution, we are committed to safeguarding the financial integrity of all creditor institutions involved.

Principles and Good Practice in Social Policy

We expressly welcome the World Bank's draft *Principles and Good Practice in Social Policy*. The paper largely reflects the current status of decisions taken in UN fora, such as the Copenhagen Summit in 1995 and the ILO-Declaration in 1998.

The *Principles* document, that social issues and economic issues must be given equal weight. The World Bank has come a long way on this issue, and it has not reached the finish line yet. Only when we can see by even clearer results that the programs and strategies are oriented towards socially balanced growth will the *Principles* have served their purpose.

There are two fundamental objectives:

For one thing, a serious effort should be made to provide all people in a given society with equal opportunities to take part in economic progress, regardless of their race, gender, religion or social background. Unless integration of all sections of the population is achieved, development will not be possible in the long term, as is evidenced by numerous unfortunate examples. Equal access to education and health facilities is a vital element of such a policy. (In this context, the question of providing a minimum of material resources, for instance by means of land reform, should be raised anew as well.) Other elements such as the rule of law, good governance and participation of all people in the political process must also be in place.

Secondly, systems of social protection have to be strengthened or introduced to cushion undesirable social impacts of economic development, especially during periods of crisis.

Expenditure for basic social services is not just a cost factor, but also an investment into human capital and thus, into the competitiveness of a given country. No country can remain competitive in the long run based on low wage costs alone. The quality of work and thus, of products, the ability to handle modern technology, and the availability of knowledge, together with a reliable institutional framework, are far more decisive for trade advantages and decisions in favor of investment.

It is especially the governments of all countries that are called upon to implement these efforts. The task of all the bilateral donors and international organizations is to support them in that effort by making more efficient and cost-effective use of available resources.

We would welcome it if the IMF and the regional banks, too, could decide to adopt these *Principles* for guidance.

Comprehensive Development Framework

The World Bank has proposed a challenging strategy to increase the effectiveness of development assistance. We welcome the initiative and are ready to participate in testing the new approach in pilot countries. The CDF builds on various initiatives of donor coordination within the UN, EU and DAC frameworks and broadens them further to encompass all donor activities taking place in a given developing country.

As a first step, the CDF promises to increase transparency of donor activities, which has been lacking in many cases. In the longer run it offers the opportunity for a true division of labor along the lines of comparative advantages. This will require adjustments in donors' strategies and procedures, for some in a quite fundamental way. The burden of implementation, however, rests mainly on the recipient countries themselves, which decided to participate.

Adjusting to this new framework and this holistic approach will require time and patience along with active support from all sides. Since we do not want to wait until everything is perfect, we must be alert to the fact that many obstacles will surface which have to be addressed in a cooperative fashion. We do not expect to have results on the ground after an 18-month pilot period, but we hope to gain valuable experience on the feasibility of this strategy, along with some first insights into the process of implementing a truly cooperative effort. To this end, an evaluation of the process involving the partner countries and the donors alike would be most helpful.

Supporting Post-Conflict Countries

Supporting post-conflict countries in their efforts to rebuild their economy is an important challenge for the international community. Bilateral donors and multilateral financing institutions should work together in devising a coherent strategy designed to meet the specific requirements of these countries.

In particular, the issue of arrears to the multilateral finance institutions needs to be addressed in a manner that allows early financial support for the reconstruction work without jeopardizing the preferred creditor status of the institutions. All multilateral financing institutions concerned should participate in this endeavor in parallel, bearing in mind their respective mandates.

Work towards a coordinated strategy with other IFIs, UN agencies and other donors should proceed as proposed by the Bank.

Apart from these financial considerations, I would like to place the burden of proof on the respective post-conflict country under consideration for exceptional support. We expect the previously conflicting parties to demonstrate their commitment to lasting peace, to reconciliation and to constructively working together in rebuilding their economy, their society, their lives.

It is the donor community that will have to determine whether these conditions are met in each individual case. If proposed, we would therefore reject automatic mechanisms for post-conflict support, where eligibility decisions for extraordinary support are taken solely based on economic criteria.

Review of the Roles of the Development and the Interim Committee

In analyzing the causes and the impact of the financial crisis there is a widening consensus that macroeconomic, financial, structural and social issues are linked with each other and have to be approached in a more coordinated fashion.

The World Bank and the IMF have made commendable progress towards this objective by renewing their "Concordat" and improving day-to-day coordination. It appears only logical to improve the structure of the IC and the DC as well as to reflect this necessary interaction between the World Bank and the IMF.

The objective of reform should be to find an improved institutional arrangement for treating global issues of relevance to both institutions in such a way that the World Bank and the IMF can each provide input from their specific experience.

A number of proposals have been submitted, none of which have met with broad support so far. One proposal we feel is worth pursuing is the full participation of the World Bank in Interim Committee meetings on topics of mutual concern. Another conceivable idea, from our point of view, is to debate global issues of relevance for both institutions at joint sessions of the two bodies, possibly broadening the range of participants for certain topics.

The Bank's Program of Renewal

We commend the enormous progress that has been achieved under the very ambitious reform program the Bank is currently implementing - the Strategic Compact. With a view to achieving the targets that have been set, that is, further and significant improvement of the development effectiveness of Bank activities, every effort should be made to meet the quality goals set in the program - within the budget frameworks, as has been the case so far. This might require applying, even more consistently, a selective approach, taking into account the mandate of the institution, its comparative advantages and development priorities identified.

World Bank Cooperation with the Regional Development Banks

We welcome the progress achieved by MDBs during the past years in strengthening their cooperation on different levels - in terms of enhanced development effectiveness and efficiency. The report of the President reflects a further deepening of collaboration in policy areas and especially in operational activities during the year since our last spring meeting. The banks are now engaged in several joint activities, and sensitivity for the benefits of cooperation is increasing among their staff members. On the basis of these achievements and of a growing consensus on development goals and principles we should move ahead and analyze our harmonization targets. Harmonization is not an end in itself and diversity and competition between the different institutions undoubtedly have their benefits in several areas. We should identify those areas, as we should identify areas where our goal is confined to coordination of activities and those areas where we strive for harmonization, especially at the policy level. Further, it should be discussed where some kind of division of labor, defining leading roles on the basis of comparative advantages, is possible and efficient, especially with respect to analytical work. This assessment should obviously be linked to ongoing discussions especially around the Comprehensive Development Framework.

Prepared Statements Circulated by Observers

In addition to the foregoing statements by Members, the following statements were submitted by Observers:

Statement by Mr. Fawzi Al-Sultan, President, International Fund for Agricultural Development (IFAD)

This meeting of the Development Committee comes at a moment of unusual importance in the evolution of international cooperation for development. The process of globalization has created new opportunities but at the same time poses new risks especially to vulnerable groups. Moreover, during the last two years, a number of crises, both natural and man-made, have sharpened the urgency of strengthening the development process in countries ranging from South and South East Asia, Sub-Saharan Africa, Central and Latin America as well as the countries in transition. Estimates strongly suggest that the numbers living in absolute poverty have risen significantly as a result.

Unfortunately, the transfer of resources in the form of ODA and private capital flows have both declined, the former by an estimated 20 percent over the last five years.

The consequences of crises and disasters do not fall equally. The poor, especially the rural poor, tend to be particular victims of such disruptions. At a time like this creating the conditions and providing support to enhance production in the hands of the poor, whether as farmers or as micro-entrepreneurs, assumes a central role in the effort to combat poverty.

Combating rural poverty by assisting poor groups to raise their productivity and output is the precise mandate of IFAD. Such efforts are especially relevant in the case of countries emerging from post-conflict and post-emergency situations. In recent years, the Fund has supported refugees from the conflicts in Rwanda, Central America and elsewhere to rebuild their production and livelihoods. These initiatives have been founded on its two decades of poverty alleviation experience, working with civil society institutions and community organizations as well as its national and multilateral partners, to reach the poor with targeted assistance. We estimate that we reach directly some 10 million very poor people each year through Fund-supported projects whose investment costs are about one billion dollars.

Through these efforts, IFAD acts as a close ally to IDA. IFAD's targeted, community-based efforts to eradicate rural poverty and hunger are an important complement to IDA's role in financing larger-scale sectoral and infrastructure investments to promote sustainable development and alleviate poverty in the poorest countries. The need for IFAD’s unique, supportive work and expertise will continue to grow in countries where the rural poor are affected by severe currency fluctuations, natural disasters, conflict, or the transition to market-based economies.

The Fund's capacity to continue to respond to the growing needs of the poor depends on mobilizing adequate core resources. Enhancing cost-efficiency can of course release resources for project activities and indeed IFAD has reduced its budgetary and development costs by over a quarter in the last six years. Nonetheless, adequate member country contributions are indispensable to maintain or increase our lending levels and Program of Work. The Fourth Replenishment of the Fund's resources covered the period 1997-1999. Accordingly, this year we are embarking on a review of our resources with a view to reaching agreement on funding arrangements to cover the next three-year period, 2000-2002.

The Development Committee played a very valuable role during IFAD's past replenishments in drawing attention to the priority needs of the poor and by calling for support for the Fund's programs that help them to work their way out of poverty. The Committee's support will be all the more important in the context of the recent crises and in view of the target the international community has adopted to reduce absolute poverty by half in the first fifteen years of the new century. In this connection, we would propose that the Development Committee include language in its communiqué that calls on IFAD Member States to conclude the resource review this year and to pledge to IFAD the resources it needs to meet the growing need for its work.

Statement by Mr. Ousmane Seck, Vice-President, Islamic Development Bank

As an epic development forum the Development Committee has always assumed special significance for development planners and practitioners around the globe. The meetings of the Committee provide opportunities to take stock of the direction of the world economy and the efforts needed at different levels to overcome the challenges of development.

The Fifty Ninth Meeting of the Development Committee is taking place at a time when the world economy is still trying to adjust to shocks caused by sharp fluctuations in the financial and capital markets in different parts of the world, emerging markets are continuing to learn how to deal with the destabilizing effects of globalization, and major commodity producing countries are struggling to pursue their developmental gain currently being threatened by a sharp decline in commodity prices. While most industrial economies in North America and Europe have been relatively quick to recover from the after effects of the Asian crisis, the emergence of a similar crisis in economies such as Russia and Brazil, poor performance of stock markets in most parts of the world during 1998, prospects of slow growth in major economies such as China and the persistence of the adverse social and economic effects of the financial crisis in Indonesia and some other economies in the region can hardly be overlooked.

From the point of view of most developing economies what is of crucial significance is the impact of global developmental efforts on poverty, hunger, malnutrition and the overall level of human development. Lack of any major breakthrough on any of these issues in the least developed countries and reversal in earlier gains in some of the emerging economies call, once again, for having a fresh look at the global development framework as well as the efforts made at the national and multinational levels to overcome those challenges. The performance of IsDB member countries have continued to be in low key as two of its large and economically vibrant members, namely, Indonesia and Malaysia have yet to recover their lost momentum. Some other economies in the region have experienced further macroeconomic imbalances due to certain strategic initiatives leading to adverse international reactions. Furthermore, the decline in commodity prices could also have far reaching effects on the pace of development in a number of ISDB member countries. Consequently the growth rate of member countries which already dropped from 5.8 per cent in 1996 to 4.4 per cent in 1997 has been estimated to drop even further to 3.3 percent for 1998. This significant downturn in GDP growth of member countries obviously is a source of concern for the IsDB. But of greater concern to the IsDB are the poverty in its member countries in general, and in the Least Developed Member Countries and those affected by conflicts in particular, indebtedness, and erosion of resources capacity to sustain developed efforts in some of the major economies of its member countries.

Against this backdrop the agenda of fifty-ninth meeting of the Development Committee has assumed much greater significance to the IsDB and its member countries. Compared to some of the earlier meetings, it is much more comprehensive and covers wide ranging subjects such as Comprehensive Development, Highly Indebted Poor Countries (HIPC) Initiative, Assistance to Post-Conflict Countries, Action Plan on Small States, Principles of Good Social Policies, and Bank Group Cooperation with Regional Development Banks. Let me share with you views of the IsDB on the agenda of our meeting.

Comprehensive Development Framework

The IsDB has always viewed economic development to be a comprehensive concept involving economic and social as well as moral dimensions of human life. Accordingly it has tried to support and promote initiatives aimed at improving the quality of human life encompassing all dimensions. This approach of the Bank has been embedded in its Medium Term Strategic Agenda adopted in 1994. The Agenda has been designed to provide a broad development framework within which IsDB could play its role. However, the major emphasis is on development themes which aim to promote human development in member countries. Three out of five priority development themes are 1) alleviation of poverty, 2) human resource development, and 3) preservation of the environment. Besides, Science and Technology is emphasized in the Strategic Agenda so that knowledge could be made as a resource in development. And there is an emphasis on private sector development, which indicates that the scope of development cannot be limited to one sector. Private sector development could encourage wider participation as well as distribution of the fruits of development to different segments of the society.

The IsDB is however fully aware that the scope of development needs to be further widened to include all other dimensions which affect the process and outcome of the developmental efforts at the national and multilateral levels. Similarly, we also recognize that the operational strategies of development financing need to be continuously revised so that the purpose of development is truly achieved.

The Bank however feels that the need to adopt a comprehensive development framework would have to be balanced against national level sensitivities and the challenges of assuming new role by the multilateral development financing institutions in this context. Secondly, some clear indicators would have to develop to capture the concept of comprehensive development for the sake of operational convenience at different levels. Third, any temptation to present a particular country or set of countries as role models of comprehensive development would have to be resisted. Fourth, there is a need to ensure that human beings remain the focus of development. Finally, efforts have to be made to achieve greater ownership and participation of the beneficiary while operationalizing such a framework of development through multilateral efforts.

Highly Indebted Poor Countries (HIPC) Debt Initiative

Concerning the HIPC Initiative, we would like to express our satisfaction at the concrete results from our joint efforts obtained so far. Coordination among our institutions and also with bilateral creditors has been very good. Multilateral development banks (MDBs), including the Islamic Development Bank, held several meetings to review the implementation of the Initiative and discuss the status of country cases. No doubt, since the endorsement of the Initiative by the Interim and Development Committees in September 1996, a lot of progress has been achieved by MDBs through these meetings, particularly in defining the modalities of participation. It is worth noting that, from the beginning, the modalities through which MDBs will provide assistance have been flexible. This flexibility has contributed a lot to the successful implementation of the Initiative. However, although the MDBs have already taken some decisions favourable to eligible countries, including mainly the introduction of more flexibility in the criteria of the Initiative and extension of the entry period into the Initiative till the end of 2000, they noticed in their last meeting in September 1998 that they were severely criticized for the lack of the Initiative's impact on the countries concerned.

The criticism of the HIPC Debt Initiative from different quarters is related to various aspects of the Debt Initiative, including mainly the moral argument. It is argued that the right decision would be an unconditional cancellation of all debts owed by the poor countries because high external debt service in poor countries is responsible for insufficient social spending. While agreeing that a certain form of cancellation of debts may have an important impact and contribute to the enhancement of spending in social sectors, the Bank recognizes that full cancellation of HIPC debt amounting to US$ 200 billion is unrealistic and would imply reduction of aid flows to non-HIPC. In addition, conditionality is necessary to ensure that debt relief provided under the Initiative would help to promote social sectors, reduce poverty, and achieve sustainable development.

In other words, while sharing the view that the best response to these criticisms is to adopt an appropriate media strategy for better presenting the HIPC Debt Initiative to the general public and to designate an objective third party to undertake a comprehensive review of the Initiative including an impact analysis, we consider that there is a need for us to introduce new refinements in the framework with a view to accelerating the process of implementing the debt Initiative.

From the beginning, the IsDB has confirmed its participation in the Initiative and participated actively in the process of its refinement and implementation. The ISDB remains committed to meeting its full share of the cost of the Initiative. Its assistance to member countries will be mainly provided in the form of rescheduling the stock of debt owed by these countries to the Bank as decided by its Board of Executive Directors. In this respect, it is to be noted that the ISDB has been one of the few MDBs offering rescheduling of debt even before the HIPC Initiative. Therefore, by adopting this modality, the ISDB aimed, inter alia, at capitalizing on its previous efforts.

Accordingly, the IsDB started to implement this Initiative by proposing a rescheduling plan to Uganda, one of its member countries, which has been the first country to reach its completion point and has, therefore received debt relief from most of its creditors. While other IsDB member countries have reached their decision points or are being considered for eligibility under this

Initiative, the IsDB is currently examining its participation in the Initiative keeping in view the criticism, the current spirit of the Initiative, and the trend with other MDBs.

While retaining the commitment of the IsDB to continue to participate actively in this Initiative, we hope that, no later than the year 2000, all eligible IsDB member countries with unsustainable external debt would have reached their decision and/or completion points so as to benefit fully from the Initiative.

Assistance to Post-Conflict Countries

A number of countries seriously affected by conflicts are members of the IsDB. It is therefore natural for the Bank to be concerned with their reconstruction and resumption of normal economic activities for growth and development. The Bank therefore feels that besides addressing the problems of the heavily indebted poor countries, the area of enhancing assistance to post-conflict countries should be strongly supported.

Like other multilateral development banks, the IsDB has already supported the reconstruction efforts of these countries through its traditional technical and financial assistance and other financing activities. The IsDB. Several projects in post-conflict countries have been undertaken but not necessarily targeted to war-damaged areas. Some of the activities which the IsDB have undertaken to assist post-conflict countries over the past few years include:

- Special assistance amounting to US$ 1.5 million for the procurement of food, medicine and job creating equipment for Azerbaijan for their nationals who returned from other parts of the former Soviet Union in 1992 at a time when the country experienced conflict over Nagorna-Karobakh;
- One Integrated Rural Development Project amounting to US$ 9.565 for the war damaged area in Azerbaijan approved in 1999;
- In Bosnia Herzegovina (BH), the ISDB, at the invitation of the Government of BH, sponsored an International Investment Conference in Sarajevo in June 1998 to promote investment inflows to BH and to reactivate economic activity in the post-conflict period;
- Before this conference, the IsDB provided financing under its special assistance operations to BH, for Humanitarian Assistance for Purchase of Agricultural Seeds in 1995 and 1996 amounting to US$ 4 million;
- Emergency assistance of US$ 1 million for health to BH in 1992;
- Immediate relief assistance to refugees amounting to US$ 5 million in June , 1992;
- In Sierra Leone, the country that has been in political turmoil following the coup in May 1997, the ISDB approved an emergency assistance packages of US$2.75 million in May 1996 for the resettlement of displaced persons and refugees as a result of the civil war; and
- In Lebanon, the IsDB's involvement have been in various forms, from reconstruction of electricity networks to reconstruction of schools. However, they were not all intended specifically for "post-conflict" reconstruction.

The Bank, however, shares the view that multilateral development institutions need to strengthen their capacities to assist post conflict countries. In particular, they need to expand the scope of their emergency assistance policy in order to provide enough help at an early stage. In this regard, it may be useful to formulate a comprehensive and separate framework of assistance for these countries since their urgent problems and needs cannot be reduced to only the question of unsustainable debt. The IsDB therefore looks forward to the successful preparation and implementation of a new initiative for post-conflict countries with the aim of ensuring that these countries embark on a sustainable path of economic development. The focus should not be only on rebuilding their infrastructure facilities but also on helping them in meeting their social sector and institutional capacity needs. Particular attention needs to be given to the question of re-integration of displaced populations.

Action Plan on Small States

As regards the Action Plan on Small States, the IsDB welcomes this initiative as it would benefit four of its member countries, namely Comoros, Djibouti, Maldives, and Suriname. The IsDB has already recognized the special needs of Small States among its member countries and provided financial assistance on highly concessional terms. Accordingly, of the total financing extended to the said member countries amounting to US$ 67.6 million till the end of April 1998, around 76 percent was either loans carrying a nominal administrative fee or outright grants.

In term of further steps in this area, the IsDB is of the view that because of smallness of the states, action plans for them could be made as comprehensive as possible. The areas of assistance could be selected from sectors such as health services, education, housing, sanitation, water supply, and nutrition. Here, the direct improvement of the living standards of the people could be used as one measurement for the success of the operations of a multilateral development institution.

In addition, for developing the operational plan for any small state, intensive study and first hand inquiry of the pressing problems facing the majority of the population would be highly useful. The inquiry should include as broad development participants as possible from government, non-government organizations, and others. Regular evaluation of the impact of the projects on the level of development in the small states would also be required.

Finally, in the small states, the private sectors usually are also small; some of them can even be considered as micro-enterprises. In most cases, small private sectors cannot even have access to existing financial sectors. Thus, the MDBs could further extend their role in this area through the facility of micro financing. At the same time, they could possibly also pave the way, through partnership with the related authorities for the creation of business friendly environment in these states.

Principles of Good Social Policies

The IsDB's contribution in developing good social policies can be seen through its role in the social sector. Social sector has always held an important position in operations of the Bank. Accordingly, a great deal of emphasis has been placed on development themes in the Strategic Agenda of the Bank which are meant to promote social sector development in member countries. To this end, poverty alleviation has been identified as one of the major priority development themes, and any project that has direct implications on poverty alleviation in general and for the Least Developed Member Countries (LDMCs) in particular is given a greater priority in the financing provided by the IsDB. Similarly, education and health have been particularly singled out in the Strategic Agenda of the Bank as priority sectors for the IsDB financing. In the education sector, the Bank focuses more on primary and secondary education with special emphasis on rural areas. Vocational training and technical education is also given greater priority. In the health sector, more attention is given to preventive health care projects that especially benefit the rural poor and disadvantaged groups in member countries.

Over the last 25 years (1975-1999), the average financing of the IsDB to social sectors accounted for 19 percent of the approved amounts. During the last five years, the allocation to social sectors has been even higher, accounting for 23 percent of the total financing approved by the IsDB during this time.

Collaboration with Regional Development Banks

Collaboration with other multilateral development financing institutions is one of the major principles followed in the IsDB's operations and other activities. Accordingly, the collaboration programs of the Bank have included consultative meetings, technical working groups, joint studies and missions, exchange visits, and co-financing of projects. Such programs have been undertaken with different regional and international development financing institutions including the World Bank Group. However, in the area of co-financing of projects, relatively greater collaboration has been with the Co-ordination Group, consisting of the IsDB, the Abu Dhabi Fund for Development, the OPEC Fund for International Development, the Saudi Fund for Development, the Arab Fund for Economic and Social Development, the Kuwait Fund for Arab Economic Development, and the Arab Bank for Economic Development in Africa (BADEA). The importance attached to co-financing activities by the Bank can be gauged from the fact that till the end of April 1998, the share of co-financing in projects and trade operations of the Bank stood around 19 percent. Of these, there were 46 projects co-financed with the World Bank Group. The total cost of those projects was US$ 1.716 billion, of which the IsDB share was around 23.6 percent. The other multilateral institutions with which the ISDB has collaborated in its co-financing operations include the Asian Development Bank, France Aid Agency, European Development Bank, West African Development Bank, European Investment Bank, African Development Bank, German Aid Agency, Canadian International Development Agency, European Development Fund, and the International Fund for Agricultural Development.

The IsDB has also continued to actively seek collaboration with other regional banks as it is conscious of the fact that the challenges of development are too numerous and widespread to be left to only national efforts or to any single institution. Moreover, since the financing needs of member countries have continued to increase particularly after the decline in bilateral assistance over time, this requires institutional collaboration at the multilateral level to meet some of the financial gap.

The IsDB's collaboration efforts have, however, been within the development priorities of its member countries and according to its modes of financing that include: Loan financing (without interest but carrying nominal administrative changes), Technical Assistance (which could be loan or grants) Leasing, Installment Sale, Equity Participation, Profit Sharing, Istisna, and Lines of Financing to National Development Financing Institutions.

These are some of the thoughts that I wanted to share with you on the agenda of our meeting. I am sure that, as in the past, the outcome of this meeting will further strengthen international cooperation for achieving sustainable economic development and social progress in our member countries.

Statement by Mr. Nitin Desai, Under Secretary-General, United Nations; and statement by Ms. K.A. Hagen, Deputy Director-General of ILO

United Nations global economic outlook

The UN's most recent estimates, to be formally released next week, forecast global growth of 2 per cent for 1999, compared to 1.7 per cent in 1998. The steep decline of output in several countries in South East Asia has been halted and growth in that region is forecast to exceed 3 per cent this year, compared with a decline of over 1 per cent last year. The recession in a number of these economies has moved to a handful in Latin America, notably Argentina, Brazil, Ecuador and Venezuela. As a result, output in Latin America is expected to decline by 0.5 per cent this year but growth of over 3.5 per cent is expected in 2000. Growth in Africa will remain weak this year, but could improve next year, barring a renewed fall in commodity prices. The turnaround in oil prices, if sustained, will help exporting countries, both this year and next.

It appears that, at least for the time-being, a global financial meltdown and worldwide economic recession have been avoided. Nevertheless, the short-term prospects for growth in the developing and transition economies remain poor. Moreover, many of the downside risks that were the focus of attention six months ago remain pertinent and could still disrupt the limited recovery. We still do not understand fully the forces behind our earlier financial difficulties and we remain ill-equipped to confront them if they recur, though the past two years of turmoil have provided several lessons on the functioning of the international monetary and financial system, the measures required to strengthen it and the need for complementary measures in other areas. As order returns to financial markets and the afflicted economies begin their recoveries, it is paramount that the impetus for proposals to improve the system be sustained.

Measures to address financial crises

It is universally agreed that, in order to be effective in today's integrated financial markets, national financial institutions (including transparency, supervision and regulation) need to be strengthened in all countries, albeit in different ways and to varying extents. At the international level, consensus is evolving on such cooperative actions as the need for the industrialized countries to pursue supportive policies in times of financial uncertainty elsewhere**;** the need to enhance the contingency financing available to countries in difficulties; and the need to improve the institutional framework in which financial markets operate. In these areas, it is necessary to build upon the progress that has been made. Differences remain on other questions, such as the means of providing liquidity to crisis-stricken countries and the related issue of conditionality; the principles to be adopted regarding capital account convertibility; and the role of regional institutions in the new architecture.

The industrial economies' policies of lower interest rates have contributed to the improvement in the economic outlook for the crisis countries. This highlights the need for a more systematic and inclusive approach to the solution of financial crises in future. It is not only the most affected, nor even just the potentially vulnerable, countries that need to take action: the industrialized countries have to contribute by taking pre-emptive action to break the chain of contagion and similar processes that characterize globalized financial markets.

The management of international liquidity has a special role in preventing contagion and lessening the adverse developmental effects of financial crises. The principle of contingency financing is accepted but there is no clear agreement on how to ensure that adequate funds are available at short notice. Ad hoc, case-by-case approaches involving bilateral financing and IMF credits are unlikely to be sufficient. One of the possible solutions would be to create liquidity when required by allowing the issuance of additional SDRs under critical financial conditions. These funds could be destroyed once normal financial conditions are restored. This procedure would introduce an anti-cyclical element into the management of world liquidity, in addition to giving SDRs an increasing role in world finance. A second-best solution would be to allow the IMF to use the market to mobilize the resources required to enable it to provide adequate contingency financing.

Several countries' recent financial difficulties were exacerbated, and some precipitated, by international contagion. When the source of an imbalance is such an international shock, contingency financing should be subject to low conditionality. This principle has been recognized in the Compensatory and Contingency Financing Facility but should be extended to the case of contagion. There are concerns that the conditionality attached to the financing provided in such cases has been excessive; this is undermining its legitimacy and weakening the IMF. In order to restore full confidence in the principle of conditionality, it is necessary to reach a renewed global agreement on how it should be used.

It is now generally agreed that capital account liberalization should be gradual, should be applied primarily to longer-term flows, should be cautious with regard to shorter-term and more volatile funds (such as bank credits and portfolio flows), and should be preceded by the development of sound financial institutions (including regulatory and supervisory arrangements). International agreement in this area should include safeguard mechanisms that would allow developing and transition economies to impose temporary disincentives or controls on inflows, particularly in times of capital surges, and on outflows during severe crises.

Most of the burden of the economic upheavals of the past two years has been borne by the peoples of the developing and transition economies. Their voice must be more effectively heard and their circumstances more fully taken into account in the collective effort to improve the management of the world economy**. T**he international financial system needs sound and democratic governance and it should accommodate and reflect the diversity among countries - in their cultures, in their development aspirations and in their levels of development. The role of the developing and transition economies in the relevant international organizations should be increased and the potential of regional and sub-regional organizations involving these countries should be more fully exploited.

The common element in all the foregoing suggestions is that the response to financial crises should not be addressed just from a narrow technical point of view but from a broader and longer-term development perspective - one that gives priority to the present and future well-being of all individuals, rather than only to short-term financial concerns.

Revitalizing the HIPC Initiative

For many developing countries, but particularly the poorest among them, the sudden adverse effects of the global economic downturn are being superimposed on their unsustainable external debt burden. Thanks to the HIPC Initiative launched by the Bank and the Fund almost three years ago, some progress has been made in addressing the debt difficulties of a number of the poorest countries. Nevertheless, it is now universally recognized that more has to be done. A first improvement would be to broaden the group of those eligible. Secondly, it is necessary to be more flexible in the criteria that are applied in individual cases, notably by reducing the qualifying periods. Thirdly, creditor governments that have not done so should cancel all remaining ODA debt and substantially reduce, even eliminate in certain cases, other bilateral debt. A number of world leaders have made proposals embracing these ideas to varying degrees. We look forward to a positive outcome and rapid implementation of the agreed course of action.

Addressing social needs

For far too many people in developing countries (and not only in the immediate crisis-affected countries) have been pushed back into poverty by the global economic slowdown of the past two years. Economic and social improvements that had taken decades to achieve have been destroyed or seriously undermined as a result of the crisis.

One of the principal conclusions of the UN World Summit for Social Development held in Copenhagen in March 1995 was that the extensive overlap between social and economic policies should be recognized and embedded in national development strategies. One of the more recent lessons is that the social as well as the economic dimensions need to be addressed in times of economic crisis. Measures to avoid or to cope with the associated social disruptions caused by either the crisis itself or the necessary corrective measures must be built into policy from the outset, not incorporated as an "add-on" as adjustment proceeds. The need for such emergency actions in times of crisis would be reduced if longer-term social programmes were made less vulnerable to financial and economic instability.

In the light of the need to address these questions, the Development Committee's request to the World Bank to prepare a paper on 'Principles and good practice in social policy' is most welcome. The UN also welcomes the proposal that further work on principles of social policy be undertaken within the UN system. One possibility would be for this matter to be taken up in the course of the General Assembly's preparations for its Special Session on follow-up to the Copenhagen Summit. This Special Session is to be held in Geneva from 26 to 30 June 2000, but a Preparatory Committee is to convene next month and this matter could be added to its agenda. The complexity of reaching international agreement on principles of social policy is not to be under-estimated but success would assist both governments and international organizations in addressing critical social issues, including handling financial crises more effectively.

General Assembly's discussions on financing for development

The General Assembly is also preparing for a high-level international event on financing for development, to be held before the end of 2001. The Assembly is currently in the process of deciding on the "form, scope and agenda" of this proposed event. The Bank and the Fund have participated actively and positively in these discussions and Member States have made it clear that they wish both organizations to be fully and actively involved in the preparations for this event, as well as in the event itself. Governments on all sides appear to share the recognition that multilateral decisions on financial matters are largely taken in these and other related institutions. At the same time, Governments also share the view that the United Nations can serve as a forum for developing a political consensus on some broad principles that underlie these decisions taken elsewhere. There is therefore optimism that the event in 2001 will be able to make a positive contribution to enhancing multilateral cooperation in the area of international finance. It is hoped that the Fund and the Bank will continue to participate to the fullest extent throughout this process.

Statement by Ms. Katherine A. Hagen, Deputy Director General, International Labour Office

Principles of Good Social Policies

On behalf of the International Labour Office, I should like to express our appreciation for being invited, together with the representative of the Secretary-General of the United Nations, to this closed session of the Development Committee, to address in particular the issue of a set of principles and good practice in social policy.

The financial crisis in Asia, the situation in the Russian Federation, and the effects felt in countries in Latin America and other regions of the World have dramatically confirmed the importance of addressing social considerations in an integrated manner with economic and financial considerations. This applies in the short-term context of responding to the crisis, as well as in the long-term context of promoting sustainable development and avoiding future crises. The ILO considers this to be of fundamental importance. We need to ensure that economic efficiency and social efficiency are pursued as simultaneous and complementary processes, and the inclusion of Item 1.B on the Development Committee's Agenda is demonstrative of the awareness and, we hope, acceptance in the multilateral financial and economic fora of the importance of addressing social issues on an equal footing with economic and financial issues.

The ILO welcomes the decision of the Development Committee to consider a first proposal from the World Bank to address the issue of how to define a set of principles and good practice in social policy, which will stand alongside other similar sets of principles applying to fiscal and monetary policy and to corporate governance, along with other measures being taken to strengthen the international financial system. We see the World Bank's paper as a positive initial step in achieving the goal of defining such a set of principles, which will be accepted by national governments, civil society and multilateral institutions alike. It can help the international community to develop and agree on a set of generally accepted universal principles to ensure that national policies maximize the social benefits to all their citizens. Such a set of principles will provide an agreed measure against which all the multilateral institutions can formulate and assess their policy advice and operational programs. In this process, the needs of developing countries, in particular the least developed ones, need to be given particular attention.

Much of the basis for such a set of principles exists already. What is needed now is for these to be set out so that they are acknowledged and accepted and brought to the fore by national authorities and multilateral institutions in the process of defining, promoting and implementing economic, financial and social policies together in a mutually supportive effort to achieve national, regional or global objectives.

The ILO believes, as suggested in the Bank's paper, that the ten commitments and the Program of Action of the 1995 World Summit for Social Development, constitute a major reference point, and welcomes the Bank's references to the goal of full employment and core labor standards. These central ILO concerns were endorsed by the Social Summit, which drew attention to the special role of the ILO in the field of employment and social development, based on its mandate, tripartite structure and expertise.

We also believe that sound policies which promote employment and enterprise creation are key elements of stable social development. Obtaining decent work is a priority of individuals and their families worldwide. It should also become a policy priority of the multilateral system as a whole. Adjustment and development policies have profound implications for employment and living standards. Social policies have to be essential elements of adjustment and development policies in order to promote quality employment and provide adequate protection for workers and their families. Such policies are necessarily values-oriented, and depend on a normative framework and a process of social dialogue. The ILO's body of international labor standards will contribute in a very significant way to such a framework and process. For these reasons, we strongly support the Bank's proposal that it address this through a two-track approach. The first track will provide the Bank with the opportunity to define its own contribution to the process and to address its implementation concerns. The second track, which in effect must be treated as the underpinning for the Bank's first track, will enable responsibility for further work on the definition of a universal set of principles to be moved so as to become a broader United Nations responsibility. The ILO will work closely with the United Nations, and cooperate with other partners in the multilateral system, in carrying this effort forward.

As a direct contribution, the ILO has under preparation, and will make available, a statement of principles and good practice in the areas of its competence, including workers' rights employment, social protection, tripartism and social dialogue. It will be based on the values and fundamental principles enshrined in the ILO Constitution and the Declaration of Philadelphia, which all the ILO's 174 Member states have endorsed on freely joining the Organization and to which they have renewed their commitment, through the 1998 ILO Declaration on Fundamental Principles and Rights at Work and its Follow-Up. These fundamental rights and principles which are contained in the ILO's seven core conventions include:

- freedom of association and the effective recognition of the right to collective bargaining;
- the elimination of all forms of forced or compulsory labor;
- the effective abolition of child labor; and
- the elimination of discrimination in respect of employment and occupation.

The ILO's new Declaration is a dynamic part of the ILO's follow-up to the Social Summit where support for core labor standards was included in the articulation of the basic commitments. The Declaration is a promotional instrument that provides the opportunity to translate these universal values into programs of integrated development. It entails no conditionality and is built on the premise that universal values do not in and of themselves require universal solutions. As such, the Declaration could be accepted as a common objective of the multilateral system as a whole.

Drawing upon this core framework and its wide array of well-established instruments on social policy, the ILO expects to play an important role in the elaboration of the set of principles on good social policy. We will continue to work with the United Nations, the World Bank and the International Monetary Fund, as well as other multilateral development banks and institutions, in a harmonious and cooperative effort to address implementation issues and ultimately to promote the set of principles and encourage good practice in social policy, in line with the ILO's own areas of competence and mandate.

Statement by Mr. Rubens Ricupero, Secretary-General, UNCTAD

It has become commonplace, indeed almost obligatory, to preface statements to such eminent gatherings as this one with a call to policy makers to prepare for the new global challenges of the next millennium. There is a glibness in many of these remarks which ignores simple economic realities. The world economy has at the close of the century become a more deeply divided, unstable and insecure place with serious setbacks to development prospects. An excessive attachment to conventional policy nostrums has done little to alter this situation and, indeed, bears some responsibility for the worsening of conditions over the past two years.

The brief optimism which accompanied stronger growth in 1996 and the first half of 1997 has been dashed by the financial tidal wave which hit Thailand in the summer of 1997, sending, in its wake, global growth sharply downwards. The crisis has not been linked to a single country or region. After devastating East Asia and Russia, it has just prostrated Latin America. And no one can tell whether it has run its course or will turn its destructive potential on other countries and regions. The resulting economic and social hardships and potential political damage are undisputed. What must now be honestly confronted is a crisis of development which has arisen out of this financial turmoil. I define it as such for three main reasons.

First, the crisis not only started in a developing country, but also so far, has reserved its malignant force for the developing or transition regions of the world. The industrial countries have been largely spared from the vicious contagion. Indeed, on balance they have probably benefited. They have gained from the unprecedented collapse in commodity prices and cheap manufactured imports from countries forced to devalue their currencies. For the OECD area, declines in commodity prices have resulted in some 5 per cent improvement in its terms of trade which greatly helped to maintain its income levels, reduce inflation and lower interest rates. They have also gained from the flight to safety which has followed financial turmoil in emerging markets, helping boost stock markets in the North and shoring up consumption spending.

These forces have been strongest in the United States, extending the recovery into an unprecedented eighth year. Its consumers have indeed been on a shopping spree since the crisis hit East Asia. Private consumption in the United States has risen by around $370 billion between the second quarter of 1997 and the final quarter of 1998, more than the total annual income of the low-income countries (excluding China and India).

In contrast, significant parts of the developing world have seen the fruits of decades of economic growth and poverty reduction evaporate in a matter of weeks. Practically all the developing countries have been touched. And those like China or in South Asia, which were relatively unscathed in the early stages, are already feeling the pinch of the slow-down elsewhere in the world economy.

The net result is that in 1998 growth in the developed world exceeded that in developing countries for the first time for many years, at 2.3 per cent against 1.5 per cent, including China. If China is excluded, average growth in developing countries was down to 0.4 per cent.

For the developing world, prospects for 1999 are even bleaker. Welcome signs of an Asian recovery in 1999 have coincided with a deep shock to the Latin American economies following in the wake of the Brazilian currency crisis and subsequent financial problems. Recession still seems the likely outcome for the region this year. This stands in stark contrast to Latin American growth performance in 1997, the highest for a quarter of a century. The failure of transition countries in

Eastern Europe to shrug off the Russian crisis had a significant impact on growth in that region in 1998 and appears to be holding down prospects even in the most successful transition economies this year.

If the hope of development lies in the possibility of growing more rapidly, thus narrowing the gap that separates rich and poor countries, this reversal of the trend represents a defeat for the entire international community. It also raises serious questions about the current global approach to development.

The second reason to call this a crisis of development is that paradoxically events have shaken some of the most advanced among the developing world. There can be little doubt that in the commodity dependent economies, notably in sub-Saharan Africa, a short-lived revival in growth has been undermined by the very price dynamics that have helped the North. What is perhaps more surprising is the risks now faced by the more successful and resilient, the so-called emerging markets. If development is a process that steadily reduces the degree of vulnerability to external shocks, how then can one explain that some of the worst-affected have been precisely those countries that were so advanced that they were generally regarded as having graduated to OECD ranks, or being close to doing so? Are the national policies of financial regulation and supervision to blame? If so, how could one explain that contagion through trade and finance have created large current account deficits and sharply reduced growth in others with sound financial systems and macroeconomic fundamentals? Does the explanation lie in close integration with an inherently unstable global financial system? Certainly, fundamentals will reassert themselves over the longer run, but the experience shows just how vulnerable are a large majority of countries to the vagaries of international financial markets.

The third reason for this being a crisis of development derives from the fact that, far from being an exception, the “stop-go” performance of developing countries is becoming more frequent and widespread. The current problems have nothing to do with the downward phase of a business cycle that regularly befalls market economies, usually generating short-lived recessions followed by upswings. They are, in fact, more similar to the structural crisis that deeply destabilized the world economy in the inter-war period when years of recession or depression were as frequent as those of recovery and growth.

Historical parallels are never perfect, but the similarities do offer a reminder of what can go wrong. What is certainly true is that complacency that the crisis is over could, under the present conditions, generate a backlash in the North as well as the South which would push global economic prospects back a very long way.

Neither a return to stability in the buffeted Asian economies, nor the apparent containment of the Brazilian crisis to its Latin American neighbors should hide the immediate downside risks facing the global economy in 1999. Such risks are as much produced by policy actions as they are the inevitable consequences of global economic forces. Conventional opinion has advocated a series of measures to offset declining capital flows in many developing countries which may actually make matters worse. High interest rates, for instance, designed to offset increased risk premia and sustain foreign investment also reduce economic activity, worsen the fiscal position and weaken corporate and bank balance sheets.

However, it is not only the developing countries that are still at risk. A sharp correction in equity prices, a consumer retrenchment to restore savings rates, fall-outs from trade frictions, exchange rate gyrations arising from investor concerns about the large and rising current-account deficits of the

United States, and worsening economic and financial difficulties in Japan can all be possible catalysts for a further round of volatility on global financial markets and additional downward pressure on economic growth.

The responsibility and possibility to act lies with policy makers in the North. Monetary policy could play a role but this would be quite limited in most cases. However, unlike in previous downturns, there would be substantial leeway to allow public spending to play its traditional role as a stabilizer for aggregate demand.

Given the reality of those downside risks, it is perhaps time to give serious consideration to bolder options. Since there is limited scope in developing countries to pursue expansionary policies, a possible response in the face of a stronger than anticipated downturn in growth could be a direct injection of liquidity into developing countries through official channels to raise demand, imports and growth. Given the developing countries' propensity to spend and import, such schemes could have a strongly positive impact on global economic demand and growth.

Japan and the EU are in the strongest position to play an important role in this respect by recycling their trade surpluses. The Miyazawa Plan offers one such model. But other means of producing a direct increase in liquidity should be explored. One possibility would be to remove the debt overhang of highly indebted poor countries through a rapid write-off of their unpayable official and multilateral debt. An independent body to assess this matter, as suggested in last year's *Trade and Development Report* on Africa, could offer significant progress along these lines. Similarly, a substantial new SDR allocation to developing countries could provide support not only to those countries facing a threat of contagion, but equally to current account and trade financing, at a time when not even middle income developing countries have access to private finance at reasonable costs.

At our last meetings in September, the severity of the Asian crisis and its rapid spread to economies inside and outside the region with strong fundamentals seemed set to galvanize the international community into concerted actions. For a few weeks it appeared that the need for a new financial architecture would translate into concrete proposals, that a looming catastrophe would finally conquer inertia. This was wishful thinking. The bounce back on Wall Street in late 1998 has meant a return to business as usual.

So far the efforts to redesign the financial architecture have given rise to a proliferation of meetings, inflation of communiqués, multiplication of groups and fora. However, just when developing countries are becoming increasingly vulnerable to external financial pressures, there has been a reluctance to accommodate their concerns and interests. This is perhaps because what we have falls short of an optimum crisis- that is, a crisis grave enough to force the mighty to finally do something without being so serious as to render any action ineffective.

Delay and denial have thus come to dominate the issue. Some participants in this debate, perhaps heartened by the perverse selectivity of the crisis, do not shy away from stating that there is nothing wrong with the architecture. At most, there may be a small matter of improving the plumbing. However, if the crisis comes back with a greater force, a possibility which we do not exclude, the advocates of denial may find themselves absorbed, like the crew of the Titanic, in rearranging the furniture on the deck of a sinking ship or playing the Transparency Waltz for passengers drowning for lack of life boats.

DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
On the
Transfer of Real Resources to Developing Countries)

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DC/99-1
March 1, 1999

NOTICE OF MEETING

The 59th meeting of the Development Committee will be held on Wednesday, April 28, 1999, commencing at 9:00 a.m. in the Meeting Hall of the International Monetary Fund, Washington, D.C.

PROVISIONAL AGENDA[i]

1. **Topics for Discussion in the Restricted Session**

   A. HIPC[ii]
   B. Principles of Good Social Policies[iii]

2. **Topics for Discussion at the Chairman's Lunch**

   A. Bank Group Capital Adequacy[iv]
   B. Strengthening International Fora, including the Roles of the Development and Interim Committees[v]

3. **Items for Comment in Circulated Ministerial Statements**

   A. The Comprehensive Development Framework[vi]
   B. Assistance to Post-Conflict Countries[vii]
   C. Bank Group Cooperation with Regional Development Banks[viii]

4. **Other Business**

* * *

[i] The President of the Bank and the Managing Director of the Fund will each provide a brief statement, in advance of the meeting, focused on the agenda topics and other items. A Note on Recent Trends in the Transfer of Resources to Developing Countries will provide background information relevant to the Committee's work.

The tentative schedule for the meeting is as follows: Plenary Session 9:00-10:00 (IMF Meeting Hall); Restricted Session 10:00-12:30 (IMF Board Room); Chairman's Lunch 12:45-2:30 (IMF Room 2-530).

Main points (on any agenda items) included in Members' statements prepared for circulation before the meeting and received at least 24 hours in advance will be highlighted in the Chairman's statement to the plenary session. The plenary session will be limited to statements by the Chairman, the World Bank President, the IMF Managing Director, and the Chairman of the Group of 24.

[ii] A Joint Bank-Fund Progress Report on the Initiative for the Heavily Indebted Poor Countries (HIPC) will be prepared as background for this discussion**.**

[iii] The statement of Principles of Good Social Policies was requested in paragraph 8 of the Committee's October 5, 1998 Communiqué. The discussion will be based on a draft prepared by the World Bank, in consultation with other multilateral and bilateral agencies.

[iv] The October 5, 1998 Communiqué (para. 10) <u>inter alia</u> "asked the Executive Board to explore appropriate options to ensure that the Bank remains able to respond quickly and effectively to the development needs of its members". A report from the Bank will provide background on this subject.

[v] This topic refers to paragraph 12 of the October 5 Communiqué which stated "Ministers also encouraged the Executive Boards of the Fund and the Bank to review the roles of the Interim and Development Committees as part of the ongoing consideration of steps to strengthen the international financial architecture". Discussions are underway in the Executive Boards and elsewhere on this topic. If they have progressed sufficiently by the time of the meeting, this subject would be taken up at lunch based on a short progress report.

[vi] The <u>Comprehensive Development Framework</u>, President Wolfensohn's statement of a holistic and strategic approach to development based on country ownership and partnership, will be made available as a Development Committee document. Mr. Wolfensohn will address this subject in his President's Note to the Development Committee, and it may arise from time-to-time during the meeting as well.

[vii] A Progress Report will be prepared by the Bank and the Fund, responding to the request in para. 17 of the last Communiqué.

[viii] This Report from the President of the World Bank responds to requests in the communiqués of October 5, 1998 and April 17, 1998.

FOR IMMEDIATE RELEASE

DEVELOPMENT COMMITTEE

JOINT MINISTERIAL COMMITTEE
OF THE
BOARDS OF GOVERNORS OF THE BANK AND THE FUND
ON THE
TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

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April 28, 1999

COMMUNIQUE

1. The 59th meeting of the Development Committee was held in Washington, D.C., on April 28, 1999 under the chairmanship of Mr. Tarrin Nimmanahaeminda, Minister of Finance of Thailand.[1]

2. **Debt Initiative for Heavily Indebted Poor Countries (HIPC):** Encouraged by the progress made over the last two-and-a-half years, Ministers expressed their continued strong support for the Initiative and reaffirmed its overarching objective of poverty reduction. They discussed ways to strengthen the Initiative and welcomed the results of the extensive external consultation process in this regard. The Committee endorsed the current review and examination of options designed to enable HIPC Initiative debt relief to be broader, deeper and faster. Ministers reiterated the importance of ensuring a clear link between debt relief and the goals of sustainable development and poverty reduction and looked forward to the results of ongoing consultations in this area. From the outset, the underlying reform programs should have an integral pro-poor growth focus. Programs for HIPC should fully reflect social concerns by protecting social expenditures.

3. Ministers endorsed a set of principles that should be used in considering changes to the current HIPC framework. These guiding principles include recommendations that debt relief should: (i) reinforce the wider tools of the international community to promote sustainable development and poverty reduction; (ii) strengthen the incentives for debtor countries to adopt and implement economic and social reform programs; (iii) provide a clear exit from an

[1] Mr. Renato Ruggiero, Director-General of the World Trade Organization, Mr. James D. Wolfensohn, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, and Mr. G.L. Peiris, Minister of Justice and Constitutional and Ethnic Affairs and Deputy Minister of Finance of Sri Lanka, Chairman of the Group of Twenty-Four, addressed the plenary session. Observers from a number of international and regional organizations also attended.

unsustainable debt burden—taking into account external vulnerabilities of each eligible country; and (iv) be consistent with the need to preserve the financial integrity of the IFIs. Moreover, any changes should simplify implementation of the Initiative.

4. Ministers took note of the updated and higher cost estimates of the current framework, as well as the alternative costs of potential enhancements to the Initiative and the importance of early debt service reduction. They emphasized that the review of options for change should continue to be based on cost estimates provided by the Bank and the IMF which take into account those countries likely to qualify for relief, and an estimate of total resources required as well as the likely time period of expenditures. The review would need to be matched by a broad-based effort to find appropriate and equitable financing solutions. In particular, there is a need for increased bilateral contributions—with fair burden sharing—to the HIPC Trust Fund to help those multilateral creditors unable to meet additional costs from their own resources. In addition, ministers stressed the need to secure financing for the IMF ESAF/HIPC Trust. While acknowledging the financial constraints facing multilateral creditors, ministers encouraged them to examine further the funding they can provide for the HIPC Initiative. Ministers requested that changes to the HIPC Initiative framework and financing plans be presented for their consideration at the Committee's next meeting, including specific proposals for multilateral institutions to provide cash flow relief between the decision and completion points.

5. Ministers also welcomed the proposals from bilateral creditors to consider enhanced debt relief, including more relief of the eligible HIPCs' ODA debts. The Committee supported a better coordinated effort to ensure that new financing to HIPCs be in the form of grants or on highly concessional terms. Ministers urged an intensification of efforts on both the aid and trade fronts, emphasizing that HIPC Initiative debt relief alone would be insufficient to reach the overarching International Development Goal of halving the proportion of people living in absolute poverty by 2015.

6. **Assistance to Post-Conflict Countries:** Ministers noted the progress achieved by the Bank and the Fund in enhancing their capacity to assist post-conflict countries. They welcomed the recent agreement by the IMF Executive Board to enhance post-conflict emergency financial assistance and to take into account, on a case-by-case basis, the special circumstances of post-conflict countries with arrears to the Fund. The Committee also welcomed the Bank's progress in designing financial instruments aimed at providing positive net transfers to post-conflict countries implementing policies conducive to stabilization, growth and poverty reduction. Ministers stressed the need, where relevant, to link such efforts to preparing countries for participation in the HIPC Initiative. They encouraged the two institutions to continue to work together, and with U.N. agencies, bilateral partners, and other institutions, to strengthen their assistance to post-conflict countries and to implement enhanced assistance in individual countries as soon as possible, in the context of appropriate macroeconomic and structural policies. They stressed that these initiatives would need to complement strengthened efforts by the international community to assist in the early and orderly transition from conflict to stabilization and economic growth. They emphasized the need for demonstrated commitment to lasting peace by the previously conflicting parties to enable donors and creditors to provide exceptional support.

7. **Bank Group Financial Capacity:** The Committee welcomed the successful conclusion of the IDA12 replenishment agreement and the MIGA general capital increase which will provide essential resources for two key parts of the World Bank Group. Ministers also welcomed the attention being devoted by the Bank's Executive Board and management to the financial strength of the IBRD and IFC. Ministers reaffirmed their strong commitment to preserve the IBRD's and IFC's financial integrity. They recognized that the institutions must respect appropriate financial limits in the conduct of their operations. Ministers accordingly asked that the Executive Board review IBRD and IFC priorities, particularly in light of recent global economic and financial developments, and report back to the Committee at its next meeting with balanced options for maintaining and supporting the institutions' financial capacity to help them meet the future development needs of borrowing member countries.

8. **Comprehensive Development Framework (CDF):** The Committee welcomed the holistic approach to sustainable development envisaged in the CDF. Ministers appreciated that the CDF emphasizes the ultimate importance of country ownership of decision-making as well as partnership and coordination between governments, civil society, the private sector and other multilateral and bilateral actors-in pursuit of poverty reduction—the Bank's central goal. They underscored the importance, within the CDF, of each partner sharpening its focus. They noted that many governments had expressed interest in working as partners with the Bank in helping to develop the CDF. Ministers recognized that the ultimate test of the CDF would be in its implementation, and they called on the Executive Board to monitor and evaluate progress in the pilot country cases as they evolve over the next eighteen months.

9. **Multilateral Development Bank (MDB) Cooperation:** Ministers welcomed the President's report on strengthened World Bank cooperation with regional development banks, an important set of development partners. They underscored the importance of continuing to strengthen cooperation between the World Bank, regional development banks, and the IMF. Ministers believe such enhanced collaboration, while respecting each institution's unique mandate, can improve lending efficiency and effectiveness; they urged further concrete steps be taken by the MDBs as, for example, in developing comparable methods for evaluating development effectiveness and in establishing best-practice MDB procurement rules.

10. **Principles and Good Practice in Social Policy:** Ministers noted the important contributions of the Bank and the Fund in current efforts to strengthen the architecture of the international financial system through their participation in the formulation of international standards, principles and best practices. Reflecting on the lessons of the recent financial crisis, Ministers reiterated the importance of concerted action to help countries bolster their social policies and institutions. They considered a draft note on principles and good practice in social policy, prepared at the Committee's request by the World Bank in cooperation with the UN and others. Ministers agreed that further development of these basic social principles was best pursued within the framework of the United Nations, as part of the international community's follow-up on the Copenhagen Declaration of the World Summit for Social Development. Ministers encouraged the Bank to help countries mobilize the necessary domestic and external resources to implement these principles and to share best practice on the effective use of such resources. Ministers emphasized the importance of the Bank concentrating on strengthening its support for member countries in translating broad principles into practical country-specific

results, based on the Bank's extensive operational role in promoting broad-based poverty-reducing development—experience of best-practice which should be an important part of the Bank's contribution to the United Nations discussion of principles. They emphasized the importance and urgency of work by the Bank and the Fund to help countries be better prepared for crisis situations, and to ensure that when crisis strikes, the most vulnerable groups are protected and the process of longer term development is sustained; ministers asked the World Bank to report back to the Committee at the Annual Meetings on associated policies and practices that could support national and international implementation of these objectives.

11. **Strengthening International Fora:** Ministers discussed a number of options for strengthening the Development and Interim Committees. They recognized the importance of reaching agreement as soon as possible and asked the two Executive Boards to develop proposals for consideration by the Committees at their next meetings.

12. **The Balkan Crisis.** Ministers were informed of the results of the special high-level meeting of governments and international agencies held on April 27. Convened by the World Bank and the International Monetary Fund, the meeting focussed on the economic impact of the Kosovo crisis on neighboring countries in the Balkan region. The Committee welcomed the attention being paid to the region's short-term financial needs, as well as a medium-term approach to economic stability in these countries. They emphasized that conflict and post-conflict situations elsewhere also required a high level of attention by the international community. Ministers welcomed the request that the World Bank and the European Union coordinate these efforts for the Balkan crisis. Ministers looked forward to being informed of follow-up actions in due course.

13. **Next Meeting.** The Committee's next meeting is scheduled for September 27, 1999 in Washington D.C.

DEVELOPMENT COMMITTEE

April 28, 1999

Tarrin Nimmanahaeminda, Chairman

James D. Wolfensohn, President, World Bank

Michel Camdessus, Managing Director, International Monetary Fund

Alexander Shakow, Executive Secretary

Members	Executive Directors	Countries	Group
Ibrahim Abdul-Karim Minister of Finance and National Economy Bahrain	Khalid M. Al-Saad (Bank) A. Shakour Shaalan (Fund)	Bahrain, Arab Republic of Egypt, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Republic of Yemen	1
Ibrahim Al-Assaf Minister of Finance And National Economy Saudi Arabia	Khalid H. Alyahya (Bank) Abdulrahman A. Al-Tuwaijri (Fund)	Saudi Arabia	2
Eduardo Aninat Minister of Finance Chile	Valeriano F. Garcia (Bank) Nicolas Eyzaguirre (Fund)	Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay	3
Carlo A. Ciampi Minister of the Treasury Italy *Alternate Member* *Antonio Fazio* *Governor of the Bank of Italy* *Italy*	Franco Passacantando (Bank) Ricardo Faini (Fund)	Albania, Greece, Italy, Malta, Portugal	4

Peter Costello Treasurer Australia <u>*Alternate Member*</u> *E. A. Evans* *Australian Secretary of the Treasury* *Australia*	Young-Hoi Lee (Bank) Gregory F. Taylor (Fund)	Australia, Cambodia, Kiribati, Republic of Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Papua New Guinea, Republic of Palau, Samoa, Solomon Islands, Vanuatu	5
Hilde Frafjord Johnson Minister of International Development and Human Rights Norway	Ilkka Niemi (Bank) Kai Aaen Hansen (Fund)	Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden	6
Jose Angel Gurria-Treviño Minister of Finance and Public Credit Mexico	Federico Ferrer (Bank) Javier Guzman-Calafell (Fund)	Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, Venezuela	7
Nicolas Imboden Delegate for Trade Agreements Federal Office for Foreign Economic Affairs Switzerland	Matthias Meyer (Bank) Roberto F. Cippa (Fund)	Azerbaijan, Kyrgyz Republic, Poland, Switzerland, Tajikistan, Turkmenistan, Uzbekistan	8
Pedro Sampaio Malan Minister of Finance Brazil	Murilo Portugal (Bank and Fund)	Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Panama, Philippines, Suriname, Trinidad and Tobago	9
Leketekete Victor Ketso Minister of Finance and Planning Lesotho <u>*Alternate Member*</u>*:* *Mpho M. Malie* *Minister of Trade, Industry and Marketing* *Lesotho*	Godfrey Gaoseb (Bank) Jose Pedro de Morais (Fund)	Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Seychelles, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe	10
Paul Martin Minister of Finance Canada	Terrie O’Leary (Bank) Thomas A. Bernes (Fund)	Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines	11

Yuri Maslyukov First Deputy Chairman of the Government of the Russian Federation	Andrei Bugrov (Bank) Aleksei V. Mozhin (Fund)	Russian Federation	12
Kiichi Miyazawa Minister of Finance Japan <u>*Alternate Member*</u> *Haruhiko Kuroda* *Director-General* *International Bureau* *Ministry of Finance* *Japan*	Satoru Miyamura (Bank) Yukio Yoshimura (Fund)	Japan	13
N'Goran Niamien Minister of Economy And Finance Côte d'Ivoire	Bassary Toure (Bank) Alexandre Barro Chambrier (Fund)	Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Côte d'Ivoire, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Republic of Congo, Rwanda, São Tomé and Príncipe, Senegal, Somalia (informally), Togo	14
Fathallah Oualalou Minister of Economy And Finance Morocco	Inaamul Haque (Bank) Abbas Mirakhor (Fund)	Islamic State of Afghanistan (informally), Algeria, Ghana, Islamic Republic of Iran, Iraq, Morocco, Pakistan, Tunisia	15
Robert E. Rubin Secretary of the Treasury United States <u>*Alternate Members*</u> *Lawrence Summers* *Deputy Secretary of the Treasury* *United States* *Timothy Gaithner* *Under-Secretary for International Affairs* *Department of the Treasury* *United States*	Jan Piercy (Bank) Karin Lissakers (Fund)	United States	16

Clare Short Secretary of State for International Development United Kingdom <u>*Alternate Member*</u> *Gordon Brown* *Chancellor of the Exchequer* *United Kingdom*	Stephen Pickford (Bank and Fund)	United Kingdom	17
Yashwant Sinha Minister of Finance India <u>*Alternate Member*</u> *Bimal Jalan* *Governor* *Reserve Bank of India* *India*	Surendra Singh (Bank) M.R. Sivaraman (Fund)	Bangladesh, Bhutan, India, Sri Lanka	18
Dominique Strauss-Kahn Minister of Economy, Finance and Industry France <u>*Alternate Member*</u> *Charles Josselin* *Minister of Cooperation and* *Francophone Affairs* *Ministry of Foreign Affairs* *France*	Jean-Claude Milleron (Bank and Fund)	France	19
Tarrin Nimmanahaeminda Minister of Finance Thailand **- CHAIRMAN** <u>*Alternate Member*</u> *Aris Othman* *Secretary-General* *Ministry of Finance* *Malaysia*	Jannes Hutagalung (Bank) Kleo-Thong Hetrakul (Fund)	Brunei Darussalam, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Vietnam	20

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Heidemarie Wieczorek-Zeul Federal Minister for Economic Cooperation And Development Germany	Helmut Schaffer (Bank) Bernd Esdar (Fund)	Germany	22
Xiang Huaicheng Minister of Finance China *<u>Alternate Member</u>* *Jin Liqun* *Vice-Minister of Finance* *China*	ZHU Xian (Bank) Wei Benhua (Fund)	China	23
Gerrit Zalm Minister of Finance Netherlands *<u>Alternate Member</u>:* *Eveline Herfkens* *Minister for Development Cooperation* *Netherlands*	Pieter Stek (Bank) J. de Beaufort Wijnholds (Fund)	Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, former Yugoslav Republic of Macedonia, Moldova, Netherlands, Romania, Ukraine	24

Observers

African Development Bank	Omar Kabbaj President
Arab Bank for Economic Development in Africa	Medhat Sami Lotfy Director General
Arab Fund for Economic and Social Development	Representing AFESD: Mr. Abdul-Karim Sadik Advisor to Mr. Khalid Al-Saad Executive Director
Arab Monetary Fund	(not attending)
Asian Development Bank	Ronda Bresnick Sr. Liaison Officer
Commonwealth Secretariat	Rumman Faruqi Director Economic Affairs Division
Cooperation Council for the Arab States Of the Gulf	Ajlan A. Al-Kuwari Assistant Secretary-General For Economic Affairs
Council of Europe Social Development Fund	(not attending)
Development Assistance Committee	Jean-Claude Faure Chairman
European Bank for Reconstruction and Development	(not attending)
European Commission	Yves Thibault de Silguy Member of the European Commission
European Investment Bank	(not attending)
Inter-American Development Bank	Enrique Iglesias President
International Fund for Agricultural Development	Vera P. Weill-Halle Representative Washington Liaison Office
Islamic Development Bank	Ousmane Seck

	Vice-President, Operations
Nordic Development Fund	(not attending)
Nordic Investment Bank	Jon Sigurdsson President and CEO
OPEC Fund for International Development	Saleh Al-Omair Chairman of the Governing Board
Organisation for Economic Co-operation and Development	Donald J. Johnson Secretary-General
United Nations	Nitin Desai Under Secretary-General for Economic and Social Affairs
United Nations Conference on Trade and Development	Yilmaz Akyuz Chief Macro-Economics and Development Policies Branch
United Nations Development Programme	Eimi Watanabe Assistant Administrator and Director, Bureau for Development Policy
West African Development Bank	Boni Yayi President
World Trade Organization Director-General	Renato Ruggiero Director-General