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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RECORD OF DISCUSSION OF THE SIXTIETH MEETING OF THE DEVELOPMENT COMMITTEE

Chairman: Tarrin Nimmanahaeminda, Thailand

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RECORD OF DISCUSSION OF THE SIXTIETH 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 sixtieth meeting on September 27, 1999, in Washington D.C. The meeting comprised a short plenary session, a restricted session and the Chairman's lunch for Members. The members circulated their statements in advance. The plenary session started at 9:16 a.m. and ended at 10:10 a.m.

A joint meeting of the Interim and Development Committee was held on September 25, 1999. The Joint Statement by the Chairmen of the Interim and Development Committees is attached as Annex D.

Introductory Remarks by the Chairman

The Chairman made the following introductory comments:

Distinguished members of the Committee, Mr. Moore, Mr. Wolfensohn, Mr. Camdessus, ladies and gentlemen, it is my privilege to call to order the 60th meeting of the Development Committee. I would like to welcome the Members and their delegations, and extend my greetings to our new Members, to the distinguished Chairman of the G-24, and to the Observers of the Committee. Let me offer a special welcome to the Committee's newest Observer organization, the International Labor Organization, and its new Director-General, Mr. Juan Somavía. We are happy to have you with us today.

This has already been a busy time for Development Committee members and associates, as we had a very informative and interesting joint session yesterday with the Interim Committee. We discussed HIPC, but there is still more to do on the subject today, and so I think we should get right down to business.

The revised provisional agenda for the meeting has already been circulated. I assume that we can take that agenda as adopted.

So the agenda is adopted.

Let me summarize briefly the arrangements for our meeting today. In a moment, I will ask Mr. Moore to address us. We shall then hear from Mr. Camdessus, Mr. Wolfensohn, and President Kumaratunga, the Chairman of the Group of 24. After that, I will report the main points from the members' prepared statements, which have already been circulated to your delegation

The restricted session will follow, from about 10:15 to 12:30, in the World Bank Board Room on the 13th floor; there we shall focus on Agenda item 1.A – The HIPC Debt Initiative, and 1.B – IBRD Capital Adequacy.

The luncheon for members will be held on the thirteenth floor in Room MC 13-121, from about 12:45 to 2.30 PM.

The Press Conference will be in the Fund, Room B-702 at 3:45 PM. Interested members of delegations are welcome to attend.

We are honored today to welcome the new Director-General of the World Trade Organization, Mr. Mike Moore. The WTO will soon be launching a new round of trade negotiations. Mr. Moore has said this should be a “Development Round” in which developing countries should, of course, be active participants. We are thus especially pleased that he has joined us today at the Development Committee. Mr. Moore, congratulations on your selection to head WTO. We look forward to your comments.

Statement by Mr. Mike Moore, Director General of the World Trade Organization

This meeting could not be timelier. It gives me an opportunity to pay my respects to our sister organizations, to report to Finance and Development Ministers, share our ambitions and seek Ministerial assistance in capitals. Two months from now, in Seattle, the United States Government will host the Third Ministerial Conference of the WTO. Trade Ministers will launch new multilateral trade negotiations, and set the WTO's work program and priorities for the next few years. Development must be – and will be - at the very center of this agenda: we must use it to bring developing countries into the mainstream of the world economy so they can share more fairly in its benefits. In this we will need the active support of finance and development ministers, and of the World Bank and the IMF, as well as UNCTAD and UNDP not only to make Seattle a success, but to help keep trade on the agenda in the months ahead and to ensure nations can engage throughout the round.

We have an opportunity at Seattle to put practical substance to the instructions of our leaders and ministers who want us to act in a more coherent manner and who have told us development can’t wait. We will be judged at the launch of the new round, not by what we say, but by what we do. After years of analysis, the very poor and indebted nations want more than reports. We have suffered from a paralysis of analysis.

What would be the real cost to the wealthiest nations if all barriers to exports from the poorest nations were lifted? That would represent just 0.5 percent of world trade. For example, Africa has seen major declines in its share of trade since the launch of the Uruguay Round. This is not entirely the fault of the trading system. Sovereign governments have responsibilities here, but when they develop export potential based on the advice and exhortations of people like us, the door is slammed firmly shut.

Improved market access gives the gift of opportunity. Reductions in tariffs in sectors such as textiles, clothing, and agricultural products are of primary interest to developing countries, and a key to achieving a balanced outcome in Seattle. Put this alongside action on debt relief, extending the benefits of E-commerce, more on good governance including ‘win-win’ agreements on transparency in government procurement and trade facilitation - then we see the makings of a coherent package that means something. We could do this at Seattle, then move to wider needs.

Developing countries need better access to modern technology and services, such as telecommunications, financial services, information technologies, and electronic commerce.

Some have portrayed these as developed country trade issues. Nothing could be further from the truth. Liberalization in these sectors is about access to the building blocks of modern economies. Instead of seeing technology as a barrier between North and South, we should see it as a bridge – and we must work together, not only in the name of social justice, but because we are all, in the end, each other's customers.

Developing countries, and particularly the poorest among them, need access to the trading system itself, and to the WTO's institutional machinery. We don't have a world trade system until the thirty developing countries and transition economies seeking accession are inside the system. We need to make the system work for them.

We need to improve participation in the WTO, particularly for the least developed countries who currently feel marginalized and lack a sense of ownership of the system. They need assistance in implementing existing commitments, dispute settlement, and developing trade policy expertise, the better to promote their legitimate self-interest. A Seattle achievable will be to enhance and improve the delivery of technical assistance, especially through the Integrated Framework for Trade-Related Technical Assistance for Least-Developed Countries.

We need to make explicit the link between demand and supply – between access to markets and the capacity to benefit from this access. I believe Jim Wolfensohn's Comprehensive Development Framework is an ideal vehicle for integrating trade-related capacity building more closely into development, and helping to make trade work for human development and poverty alleviation. We need to see the WTO's technical assistance and World Bank capacity-building as two sides of the same coin -- an integrated strategy to give developing countries the productive resources they need to be full partners in the global economy.

Our work with the Bank on a new coordinated program of trade support and capacity building for developing countries is advancing well, and I am in a position to report in Seattle that developing countries have the full backing of the WTO, the World Bank, and the IMF as they engage in new trade negotiations. I thank the Bank and the Fund for renewing that pledge at recent meetings. We know this requires new resources. No one wants the trade agenda competing for funds with other development priorities, but we cannot advance in Seattle with an unfunded mandate for development assistance.

I will be asking Trade Ministers in Seattle to find the funds we need to support more effective trade-related technical assistance for developing countries, particularly to help them meet their resource needs for financing implementation of their WTO obligations. It is in the interest of all that agreements are better understood, and therefore more quickly implemented.

A new round is an opportunity to encourage developing countries themselves to continue using openness and liberalization as tools for their own economic growth. This means engaging confidently and readily in further liberalization of their own trade regimes, correcting structural weaknesses and market distortions in their own economies, and locking in their reforms under WTO rules. Good governance, which can be improved through trade facilitation and transparency in government procurement, can also play an important role in securing the right environment for growth by reassuring investors and taxpayers.

Our task in the WTO this year is to secure a successful Seattle Conference and to launch a balanced new round of trade negotiations. But our goal is not freer trade for trade's sake. It is about better living standards for all countries – developing and developed alike. Because only with higher living standards can we achieve better health care and education, the eradication of hunger, a cleaner environment, a more peaceful and just world. This is our common objective. I'm looking forward to working with you. You will have my total co-operation.

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

I am happy to report that yesterday the Interim Committee had an excellent swan song before becoming the International Monetary and Financial Committee. Yes, it was an excellent swan song as it endorsed a funding package for the Fund's contribution to the HIPC Initiative and for the continuation of the ESAF, which allows me to say that, at least for the Fund, full funding of the HIPC Initiative has been identified.

This is important. But even more important, in my judgment, is the way in which the package was completed. Of course, the IMF will triple its initial contribution through off-market gold transactions. But more importantly, we have the bilateral support of 87 of our 182 members, among them 54 developing countries and 10 transition economies. Even more relevant, I am happy to count among the contributing countries some of the poorest developing countries which, having benefited from our old ESAF, considered that it was such a good thing that they wanted countries poorer than themselves to benefit from the new initiatives.

Let me thank you all, these 87 countries you represent, ladies and gentlemen, for this outstanding demonstration of the fact that there is such solidarity in our world. I hope, and am certain, that this spirit will spill over to help meet the funding challenges of the World Bank and other multilateral development banks, so that we can begin to implement the enhanced HIPC soon without compromising their financial integrity.

Let me now say a few words about the enhanced HIPC Initiative. Its heart is indeed a strengthened focus on a comprehensive framework for poverty reduction. You already noted yesterday that this is the product of the excellent cooperation of the Bank and the Fund, and I can tell you that I am unable, and I suspect even Jim Wolfensohn is unable, to identify the source of these ideas. They come from both sides of the street. They are there, they are good, and we endorse them. And we believe that this is an extraordinary new opening for a common fight against poverty. The heart of it is a set of measures supported by our respective Executive Boards, nationally owned, and incorporated in outcome-oriented Poverty Reduction Strategy Papers. I would stress that we talk about a process, not about bureaucracy. The Poverty Reduction Strategy Paper will be prepared by the countries with the technical support of the Bank and the Fund, and will be the central piece of our joint efforts in these countries. In line with the Comprehensive Development Framework, this approach seeks to better focus our work on the critical goal of international development, namely, poverty reduction.

The Interim Committee has also endorsed my proposal to transform our old ESAF into a Poverty Reduction and Growth Facility. At this juncture, I want to thank you for helping us to create the ESAF 12 years ago.

Let me tell you one word about what growth means in this context. Growth means, of course, high-quality growth. It also means growth for poverty reduction because we all know there is no poverty reduction without growth. But it also means something that sounds possibly a little bit new, namely, it means the opposite. It means no sustainable growth if poverty reduction actions are not at the heart of the growth strategy to ensure its sustainability.

The PRSPs should be prepared through a process of outreach to civil society in the country concerned. Donors should also be actively involved and use the PRSP to guide their aid flows. The PRSPs represent an extraordinary opportunity and a major challenge to HIPC countries and to all ESAF and IDA countries to take full charge of their development and poverty reduction strategy. I hope they will all respond to this challenge.

We in the Fund stand ready to assist country authorities in this process, together with our colleagues from the Bank. But please note, and remember with a full sense of responsibility, that the PRSPs also represent a daunting challenge for the Bank and the Fund. The process will require a change in the way both institutions work, and to be effective it must be a top priority with the needed resources provided for both institutions. In this regard, I am particularly conscious of the burden that it will place on Jim Wolfensohn's staff where the expertise on poverty reduction lies.

The challenge is magnified by the wish of the international community to accelerate debt reduction and achieve the goal that three-quarters of eligible HIPC countries are brought into the process by the year 2000. This is a superb objective. But I will not disguise my concern about the dangers of this timetable.

The process of ownership outreach and participation takes time. There is a tension between these goals and accelerating debt relief, and we must solve this tension by a formidable effort on all sides to meet this challenge. Hopefully we can successfully marry these ambitious goals. But if we have to choose, we should choose substance over timing.

Our primary aim should be, I repeat, to use debt relief under the HIPC Initiative to help achieve faster, higher-quality growth, combined with effective poverty reduction. We do the HIPC no favor if we put at risk these objectives for the sake of achieving this or any timetable.

There is a second issue related to the timing of the completion point. We, along with the Bank and the Paris Club, will be providing significant debt relief during the interim period to the completion point. This, along with the calculation of debt relief at the decision point, has, of course, reduced the importance of the completion point. As debt relief is provided irrevocably under the initiative, it is particularly important that by the completion point the process of poverty reduction is well established, the policies elaborated and brought to implementation, the needed institutions developed, and initial results becoming evident. We must send a clear and coherent message that poverty reduction, and ultimately eradication, is the goal of the international community, and that on this goal we should not, and will not, compromise.

We must also show the world in the future that debt relief was put to effective use and that it was a valuable instrument to achieve what I call the seven pledges to promote human development. These pledges, which all of us have undertaken in various international gatherings over the past decade, and which are summarized on this grey card (see box) that will be distributed to you tomorrow at the Annual Meeting’s inaugural session, should be taken seriously. Central among them are reducing extreme poverty by half by the year 2015, and eliminating gender disparity in primary and secondary education by the year 2005—the most powerful instrument for women's empowerment.

This effort we have here, with the serious implementation of the new HIPC, is the instrument for that. Let's do it.

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

I am thrilled to hear Mr. Camdessus's remarks, which I must say I know are heartfelt and which indicate a remarkable opportunity for all of us in terms of grasping these new programs which he described. This is particularly so of the Poverty Reduction Strategy Paper and the methodologies that go with it to work with your governments and to work with our colleagues that I see as observers here, the members of the international community, in dealing with the seven pledges and with the poverty issues that Mr. Camdessus has so admirably described.

I feel a little bit like one of the countries in the HIPC Initiative. Now that you have dealt with the poverty case of the Monetary Fund and met their needs, I hope you will now come and help the World Bank and the other institutions. And I am delighted that the requirements of the Fund were so generously filled, and I know that their generosity will continue in terms of the HIPC funding which is required for the other institutions. On this I am happy to tell you that it appears to be launched in a very effective way.

We had, as Michel Camdessus said to you, a very good meeting between the Interim and Development Committees, and as a consequence of work at that meeting and work around the meeting, it now looks as though the funding package is all but complete. We need to put the final touches to it, but since that time we have been able to bridge, in significant measure, the gap that we thought we had. Having been in the business of raising money for 35 years, I at least, believe that we have soft-circled the underwriting, and I look with great confidence at our ability to complete the package for the regional banks that have needs for HIPC 1 and HIPC 2, the sort of post-Cologne period, and for IDA. And I must say that I thank all of you who have made contributions, and I look forward to receiving the additional contributions that have been indicated. And for those that have not yet pledged, this is a real moment to get recognition, not just from Mr. Camdessus but from the World Bank, and we are very hopeful that you will join in completing this task. But my report to you is very positive. I believe that we have been able to fulfill the undertakings of additionality, and I would say that it looks very good at the moment.

I want to thank also Mike Moore for his intervention this morning. It is a great pleasure to hear English spoken again in these places. Australians and New Zealanders, as you will understand, have a special understanding with each other, and so to hear those sweet tones coming out at the beginning of the meeting was something that I appreciate very much. And this link between Australia and New Zealand is bound to bring good results. I am looking forward, Mike, to working with you in your endeavors. It is very clear that the Fund and we are anxious to be supportive. The issue of trade is totally central to the issue of development and poverty. There is no sense in bringing about development and repositioning countries in terms of their potentialities if markets are closed to them. It just is madness. And so the need to open markets and to have a Development Round is just transparently clear. And it must be clear to the community of nations that putting countries into development and then stopping market access makes no sense at all. And so it is my hope that you will succeed in Seattle, and I know that Michel and I are there to support you fully, as I know many others are.

On other subjects I thought I might cover, one of them relates to the comprehensive development approach that we have spoken of before. As Michel said in another context, it does not matter where the ideas come from; the simple fact is that our community is, I think, focused on several things: first, that we need to cooperate better, and by cooperation I do not just mean the donor community, I mean donors and recipients, the governments themselves and those that are seeking to focus on the problem together; and, secondly, that we need to have a framework where we look at the whole picture, not just bits and not just projects.

And so a comprehensive approach is something that is very important, linking the macroeconomic and financial with the social and structural and poverty aspects. And it is in this context that this move to the Poverty Reduction Strategy Paper which I think is really a capstone. It brings together the social and structural with the macroeconomic and financial, and gives us a unique opportunity in the international community to really take a comprehensive look, to move from projects to looking at programs that are effective, and then to judge ourselves on that effectiveness against either the DAC goals or the seven pledges.

I have covered, I think, Mr. Chairman, in my distributed paper, other issues relating to post-conflict in which we have, of course, been sadly very active. Also the issue of Bank financial capacity, on which there have been a large number of papers and where, as I have indicated before, we are in good shape today but on which we have to be vigilant in terms of the capital structure of our institution. But on that, too, I can report positively.

I also mention in the paper some initial work we are doing in commodity risk management. We had a very, very successful meeting here just a few days ago to address the question of how one can protect the farmers and the small producers in the mining area against not price fluctuations in the broader sense, but to give them the opportunity to hedge and to determine their price at the moment that they are making decisions on either growing or mining.

The reason that I raise this is that it is such a significant issue for developing in which so many of the people that are poor rely on primary production. The ability to protect them or to give them cover is quite essential. We approach it with some sense of modesty, because it as a tough area. But with new technology and the ability to get information to the field and the ability to distribute information and develop systems, we may now be in a position where we can offer the farmer advanced protection and a link with credit schemes. I think this is something worth a mention here because it is so significant to the whole issue of poverty; we will be pursuing it vigorously.

So, Mr. Chairman, I think with those few remarks and with my own paper which has been distributed, I want to express my thanks to all of you for the support we have had in this last year and join with my colleague, Michel Camdessus, in saying that we look forward very much to your support in the coming year, particularly as we approach this new joint activity on the HIPC countries with the Poverty Reduction Strategy.

Statement by the President and Finance Minister of Sri Lanka, Mrs. Chandrika Kumaratunga, Chairman of the Intergovernmental Group of Twenty-Four on International Monetary Affairs.

I am indeed honored to address you as Chairman of the Intergovernmental Group of Twenty-Four. As we all know, we are in a somewhat better position today regarding the global economic prospects than was predicted in April 1999. The risks and uncertainties in the external environment for developing countries remain high, despite recent improvements in global economic prospects and financial market conditions. We are particularly concerned about possible implications of the persistence of macroeconomic imbalances in industrial countries, inadequate net capital flows to difficult and their high costs, depressed non-fuel commodity prices, and continuing protectionist tendencies in the industrial countries. It is also clear that the adverse impact of these uncertainties are disproportionately higher on developing countries.

Ministers have noted the adjustment efforts made by developing countries under difficult conditions and have emphasized the importance of efforts by industrial countries to strengthen global economic recovery. We are of the view that enhanced macroeconomic policy coordination among industrial countries is crucial in order to minimize existing systemic risks and improve exchange rate stability among major currencies. They stress the necessity of improving access to markets in industrial countries for developing country exports by reducing selective tariff and non-tariff barriers.

The Ministers welcome the World Bank's increasing efforts together with other international organizations to provide necessary assistance to developing countries to strengthen their institutional capabilities in handling trade-related issues. These efforts could be useful in the implementation of agreements reached under the Uruguay Round and to prepare for the next round of multilateral trade negotiations. We look forward to the outcome of the ongoing work of the task force led by the World Bank to formulate a new initiative for stabilizing and hedging commodity prices.

We commend the World Bank for its involvement in the process of enhancing the HIPC Initiative to provide deeper, broader and faster debt relief to the world's poorest countries. Similarly, we welcome the increased emphasis being placed on social policies and strengthening the link between debt relief and poverty alleviation. While noting the challenge in mobilizing resources for the enhanced HIPC Initiative, the Ministers call for an equitable burden-sharing among all creditors, without creating an undue burden on developing countries. Ministers reiterated the need for more pledges from industrial countries.

We commend the successful accomplishment of IDA-12 and emphasize once again the necessity of ensuring proper burden-sharing in the mobilization of resources. However, the Ministers expressed their concern about the persistent decline in official development assistance and urge the OECD countries to increase their contributions towards the UN-agreed target.

The Ministers recognize the important role played by the World Bank in recent financial crisis lending activities but express concern about their potential impact on the Bank's normal development lending operations. They consider that it is essential to explore all equitable options, including a general capital increase, to find new resources to meet the increasing demand for development financing by the World Bank. Resources required for the enhanced HIPC Initiative, however, should be obtained through enhanced bilateral contributions from the industrial countries.

We welcome the World Bank Group's innovative approaches to help mobilize resources for private sector investment in developing countries and their efforts to strengthen financial sector reforms.

The Ministers welcome the World Bank's Comprehensive Development Framework as it incorporates a number of useful elements and provides more opportunities for developing countries to formulate their own development strategy in consultation, of course, with international and domestic stakeholders. Its implementation calls for a systematic approach based on experience culled from ongoing pilot projects.

On behalf of the Group of Twenty Four I would like to take this opportunity to express our gratitude to the President and the staff of the World Bank and assure the fullest cooperation of our group for World Bank efforts for the promotion of economic growth and the alleviation of poverty in developing countries.

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

HIPC and Enhanced Poverty Focus

The Joint Statement by Co-Chairmen of the Interim and Development Committees issued on September 26, 1999 (Annex D) gives a very good flavor of the strong support reflected in ministers’ statements for the enhanced framework and the strengthened poverty links.

There was a rich array of comments on the design of the poverty reduction framework, including the emphasis on a Government-Bank-Fund partnership, the participatory process, country ownership, and outcome indicators. There were also voices of caution to be realistic about what can be achieved by 2015 and not to attempt to cover too much ground, given the significant operational changes the framework entails.

There was concern about the increased conditionality that might emerge, especially as poverty reduction was a long-term process. Others, however, stressed the need for concrete demonstrated performance ahead of the completion date.

Financial issues were addressed by many ministers, and the full range of views was evident: some stressed the great amount of debt relief bilateral donors have already done, and the need for the MDBs to do more – especially the World Bank; the special needs of other MDBs were highlighted; many emphasized the need for additionality, fair and equitable burden sharing (including significant additional contributions from donors), and the critical importance of preserving the financial integrity of the IFIs and IDA resources.

Bank and Fund were encouraged to speed the implementation of the enhanced HIPC framework to increase the number of countries reaching their decision point by end-2000.

IBRD Capital Adequacy

Several ministers emphasized the need to reach a common understanding about the long-term role of the Bank, particularly on whether the Bank should in future be involved in crisis lending, while others cautioned that it would be difficult to project the future international environment and loan demands.

With regard to the short-term, ministers emphasized different aspects of the Bank's report. Many expressed concerns about overly tight limits of risk-bearing capacity and about continued ability to provide net income transfers. Others highlighted that the Bank's finances remained sound and there was no immediate need for rebuilding capacity, and suggesting the Bank could create room through more selective lending based on country performance.

Most agreed that the Bank's financial capacity should be kept under close review. Some made it explicit that a general capital increase remained an option, or should be initiated soon, even without crises. Several ministers also stressed that any solution needed to be balanced – specifically, a further increase in borrowing costs would not be acceptable.

International Trade Agenda

Ministers underlined the importance of Bank activities to help developing countries and transition countries realize the benefits of the multilateral trading system.

Most agreed with an emphasis on capacity building in the Bank's work, noting in particular the institutional challenges resulting from Uruguay Round commitments and those likely to result from the new round of trade negotiations.

Many ministers highlighted the importance of a pro-active participation of developing and transition countries in the new round and strongly encouraged the Bank to provide analytical support to those countries in preparing for the upcoming negotiations.

Wide support was given to the Bank's participation in the WTO Integrated Framework, while some noted as well that cooperation between international organizations on supporting trade integration could be further improved.

There was strong encouragement for the Bank to integrate the trade agenda into a comprehensive framework for sustainable development, including systematic reflection in the Bank's country assistance strategies and the Comprehensive Development Framework.

Several ministers urged the Bank to do more research on the trade policies of industrialized countries and their adverse effect on developing and transition countries.

Some ministers voiced concerns about the possibility that new trade issues – and commitments for developing countries – were being contemplated while developing countries had yet to reap gains from previous trade rounds.

International Architecture

Many ministers expressed appreciation for the Bank's work on international architecture, including Bank support during the financial crisis, analytical work on the causes of the crisis, and contributions to the formulation of best practices. Some encouraged the Bank to work with the IMF on the assessment of the implementation of standards and best practices.

Others stressed that the Bank needed to be more selective, and focus on poverty reduction. Several ministers noted that the Bank was not a standard-setting body. Others stressed that financial resources, not standards were most needed by poor countries. Several said the Bank should focus more on capacity building, domestic financial sector reform and disseminating cross-country experience.

The Bank's work on good practice in social policy and on the social dimensions of crisis was welcomed, and the Bank was urged to put these into operational effect. In doing so the Bank was cautioned not to seek a single model to apply everywhere. The important role of the United Nations, and especially the ILO, in the social policy area was also noted, and the Bank was encouraged to strengthen further its efforts at partnerships.

Several ministers looked forward to the Bank's contribution in developing best practices on public debt management, insolvency regimes and dealing with social issues during crises.

A number of ministers noted with satisfaction the strong improvement in Bank-Fund cooperation in the financial sector, including through the Financial Sector Liaison Committee and the Financial Sector Assessment Program.

Several ministers expressed concern at the lack of participation of developing countries in discussions on international architecture, and some expressed a preference for the Bretton Woods Institutions remaining the central fora for such discussions.

Other

There was a strong plea from our African colleagues for greater attention to HIV/AIDS, which they said should be at the center of the World Bank Group's development agenda for Africa.

Prepared Statements Circulated by Members

Statement by Mr. Ibrahim Al-Assaf, Minister of Finance and National Economy (Saudi Arabia)

Since our last meeting five months ago, developments in the global economy raise hopes that the recent economic and financial crisis may soon be behind us. Asia is on a rebound; the economic downturn in Brazil and Russia appears to have bottomed out; and the major industrial countries continue to perform strongly and better than expected. International trade is picking up, and the financial markets appear to have calmed down. Despite the encouraging news in the real economy, capital flows to developing countries remain low.

This nascent recovery in the global economy is the result of the efforts of the governments of developing countries in crisis, and the international community, including the World Bank.

Given the special circumstances triggered by the crisis, the World Bank was called upon to undertake a large number of tasks. The Bank did rise to the occasion. For this, it deserves our commendations. However, in doing so, the Bank undertook activities that overlapped with others already under the mandate of the IMF or other institutions. In the post crisis period, there are additional demands on the Bank to expand programs in several areas and do even more.

The challenge for the World Bank is to recognize the special circumstances of the crisis and refocus its resources and energies on what it was mandated to do. In this respect, the Bank's first priority should be to assist developing countries adopt social and structural policies that are conducive to poverty reduction, and to build institutional capacities that will enable them to benefit from the global economy while reducing their vulnerability to economic shocks. The Bank will also need to manage the remaining areas of overlap with the IMF in ways that benefit member countries. Given the Bank's limited financial resources, strategic selectivity needs to be applied.

The World Bank's contribution to strengthening the international financial architecture goes beyond its limited financial capacity. For example, the Bank's analytical work has helped understand better the causes of the Asian crisis, and its impact on households and firms. It has also helped identify the main development policy lessons for managing the challenges of global integration, and distill best practice in preventing and responding to economic and social crises. The value of best practice is to illustrate policy options available to policy makers, which could be adapted to varying country circumstances. The Bank's efforts in this area are indeed welcome. In this context, I strongly endorse Mr. Wolfensohn's statement in his note to the Development Committee that the Bank is not a standard-setting body. The Bank should resist the temptation to become one. It should, however, continue to promote better understanding of the limitations of setting international norms and standards to countries at varying degrees of development and institutional capacities.

Improved World Bank collaboration with the IMF in the financial sector also contributes to further strengthen the international financial architecture. The establishment of the Financial Sector Liaison Committee to facilitate early and continuous agreement on the allocation of work between the Bank and the Fund will help the two institutions to deliver sound, consistent and timely advice and support to developing countries. It will also help them engage the limited expert resources in the most effective way. Nonetheless, issues of confidentiality, information sharing and disclosure need to be handled carefully and sensitively.

While the recent recovery in the global economy is indeed encouraging, the fact that this year developing countries will grow at half the rate they grew at before the crisis, and that many developing regions will experience a fall in per capita incomes and an increase in poverty, should not escape us. Indeed, given that the international community has failed to make a meaningful dent in world poverty over the last decade, a new approach is needed. We can, therefore, support the new framework for reducing poverty as proposed by the Bank.

The International Development Goals for 2015 that the new poverty reduction framework is designed to achieve are very ambitious. While it is perhaps better to set one's sight in fighting poverty too high than too low, the Bank, as well as other donors, needs to be modest and realistic in applying the framework. The proposed new framework needs to be applied flexibly and be tailored to the country circumstances. How we proceed in an individual country will depend on the initial conditions. The goals reached by 2015 will also depend on government ownership, resource availability, and institutional capacity, as well as the external environment.

Implementation of the framework puts pressure on the Bank to deliver. There are at least two challenges for the Bank. First, there is the challenge within the Bank to move from sectoral-based analysis and interventions to an overall framework centered on poverty outcomes. Second, there is the challenge of defining the role of the Bank and its comparative advantage vis-à-vis other institutions including the IMF and other UN agencies, as well as the private sector. There is a large task to be done if the International Development Targets are to be achieved by 2015. Clearly, this task is not just for the Bank.

While the latest news on international trade is encouraging, the fact is that commodity prices, especially for agriculture, are still falling. Moreover, current expectations are for a decline this year of over 11 percent in the World Bank's index of non-energy commodities. Unless reversed, incomes in many developing countries dependent on few commodities for exports will continue to fall and poverty will continue to rise.

Managing risks in highly volatile commodity markets continues to be a major challenge of development for many countries. In this context, I welcome the World Bank's efforts, as underscored by the recent report of the International Task Force on Commodity Risk Management in Developing Countries, to explore new market-based approaches that could assist developing countries manage their vulnerability to commodity price fluctuations. The suggestion to create a new international intermediary that would help bridge the gap between providers of risk management instruments and potential users who lack access to these instruments has merit and deserves further exploration.

The long trend of lower commodity prices could well be the result of policies pursued in industrial countries. This is clearly the case in agriculture where farm support policies encourage overproduction in the developed countries, which in turn results in depressed international prices. The World Bank needs to add to its research agenda an analysis of the impact of developed country farm policies on developing countries.

The benefits of open trade to developing countries are clear, and many developing countries have taken strong measures to reduce tariffs and eliminate non-tariff barriers in the hope of benefiting from their increased integration in the global economy. At the same time, however, the multilateral trade agenda has become complex and has expanded to include issues that were previously considered outside the mainstream of trade policy. It is important that in future rounds the list of issues be kept manageable, and encompass the concerns of developing countries.

It is also important that the multilateral institutions, especially the Bank, provide capacity building as well as research support for developing country negotiators. The developed countries should also facilitate the accession of countries that have already applied to join the World Trade Organization, before the commencement of the new round in Seattle.

Despite the encouraging news on the real economy, capital flows to developing countries have remained very low by the standards of recent history. In fact, gross flows from the international capital markets to developing countries this year are down by about 40 percent from the same period in 1998. In this context we note the new capital adequacy framework currently being considered with the aim of strengthening the safety and soundness of the global financial system. While we broadly support the main objectives of the framework, we are concerned about the possible increase in the cost of borrowing for developing countries, which may result in further slow-down in capital flows to them. We urge the World Bank to study the potential impact of such proposals on developing countries.

Finally, on strengthening the role of the Development and Interim Committees, the recent efforts to streamline the work of the two Committees and avoid overlap is encouraging. In this context, the special joint meeting of the two Committees to discuss the enhanced HIPC initiative, which is an issue common to the two institutions, is a welcome development.

Statement by Mr. Eduardo Aninat, Minister of Finance (Chile)

International Financial Architecture

We very much welcome the way in which the financial architecture and the role of the World Bank in this endeavor is being strengthened. We welcome the fact that we are not creating new international institutions by merger or by any other mean. We are not changing the financial architecture from the top down. What we see is a real concern on *basic issues* that eventually may change the financial architecture from the bottom up.

Those basic and very important issues are related to:

- Strengthening property rights. Better legal protection for investors including proper enforcement of laws and regulations.
- Equality under regulations to complement the accepted principle of equality under the law.
- Protection of minority shareholding by strengthening corporate laws.
- Acceptance and use of proper standards of accountancy and auditing.
- Transparency and public information on a timely basis.
- Strict ethical standards for public officials and proper enforcement of those standards.

- Bankruptcy procedures that are fraud proof and carry fast resolution.
- Corruption should be fought through more competitive markets and less unnecessary regulations.
- Information is a valuable economic activity. Public resources should be allocated to create and disseminate it.
- Public expenditure reviews should concentrate on the efficiency in the expenditure of public funds (which are in fact funds from the private sector).
- Mergers and acquisitions laws and regulations should be enhanced as a way to improve corporate governance and with safeguards that prevent excessive market concentration.

We also welcome the IMF's Special Data Dissemination Standard, the code of good practices on fiscal transparency and the code of good practices on transparency of monetary and financial policies. In this terrain we think that Bank involvement in leading the development of best practice on insolvency regimes and the social dimensions of crises is very important. Once we have set up those principles a major challenge remains. The challenge is first how to set measurable benchmarks for each of those general principles and second how to make them operational in the context of Bank operations. We feel that those two issues should be the subjects of future Bank reports.

However it is important to emphasize that the Bank should not become a general standard setting agency nor a surveillance agency for borrowing countries. The Bank should only become involved in these issues in the context of specific lending operations.

The Bank is also doing important work to understand the roadblocks to poverty alleviation at the present stage of world development. It seems to us that the Bank should distinguish clearly between absolute poverty and relative poverty, as the strategy to face those two types of situations ought to be different. In fighting absolute poverty short run transfers and heavy up-front investment in health and basic training may be the most rewarding, while in reducing income inequality (reducing relative poverty) investment in education and strengthening social institutions may be the most appropriate instruments. We still feel that the Bank in this attempt to cover a lot of ground loses some leverage.

International Commerce

We support the World Bank's intention to launch an ample program to cover new trade issues and activities related to international trade. Most countries have significantly reduced their trade barriers and, in the last decade, world trade has exploded. However, opening markets by reducing price barriers is not enough, there are still important challenges regarding the implementation of the Uruguay Round Agreements on Agriculture, Customs Valuations, Anti-Dumping and Trade Related Intellectual Property Rights.

We agree with the Bank's agenda regarding trade in services. In this regard, institutions should be strengthened and supervisory bodies should avoid regulatory failures. The trade administration should also be revamped in many countries, streamlining processes, avoiding false dumping claims, reducing burdensome bureaucratic procedures that foster corruption, particularly in cross-border operations. In the same vein we support the effort to increase transparency and competition in public purchasing and the strengthening of procurement guidelines. We welcome the effort to generate information on the quantitative significance of standards and regulations as a barrier to trade.

We think that the partnership of multilateral agencies (WTO, WB, IMF, UNCTAD, and ITC) under the Integrated Development Framework for least developed countries is an important initiative to avoid costly duplication and to promote institution building. The presentation of a large number of country programs is an excellent indicator of the importance of the initiative. Surely, the CDF as an adequate management tool could be integrated in the overall strategy. We are also pleased that the Bank is finally taking a look at the impact of trade policies of industrial countries on developing countries. Subsidies made by governments of rich countries to encourage the production of agricultural goods have an inextricable link to poverty in developing nations. Some types of support programs for their nation's farmers, as carried today by developed countries, alter international market signals, interfere with the efficient allocation of world resources, generate deadweight losses for themselves and, most important, affect income in developing countries. It is necessary to promote diagnosis, analysis and action addressing this.

In our opinion, the World Bank needs to increase its contribution in this area, alongside the work being done by other multilateral institutions (World Trade Organization, UNCTAD, etc.). We think the Bank should take this subject head-on and substantially strengthen its research agenda on this key matter. After all, it is the heart of the mission of the Bank to enhance world welfare via the correct allocation of resources.

Statement by Mr. Peter Costello, Treasurer (Australia)

The World Bank has achieved a great deal since last year's Development Committee meeting. The Bank responded well and appropriately to the demands placed upon it by the financial crisis. These new pressures have, nevertheless, further constrained our ability to meet all the demands placed upon us. However, while the Asian crisis underlined the need to continually focus on defining an appropriate role for the Bank Group, it did not itself create that need.

Significant progress has also been made on internal reforms. The quality and cost effectiveness of Bank operations have improved, and the Bank is giving increased attention to enhancing its relations with clients, donors, the non-governmental sector and other stakeholders.

The Bank has much to be proud of, but much yet to do. The number of people in poverty continues to grow while bilateral and multilateral aid budgets remain highly constrained. While private capital flows will play an increasingly important role in fostering growth and development, the past two years have clearly demonstrated the vital importance of the role of the international financial institutions. In particular, the volatility of private capital flows and their concentration in just a few developing countries indicate a need for both ongoing MDB investment and for increased focus on structural and governance reforms. Without these things economic and financial stability will remain elusive.

Over the course of the next few days, there will be much discussion about the appropriate role for the Bank in the international financial architecture. In my view, the Bank should concentrate its efforts on its core mandate for poverty reduction. At the heart of this task is action to promote an environment conducive to growth of the private sector, and to provide the institutional capacity for effective government social programs. In particular, the Bank should help its members to ensure that their commercial and legal systems, as well as their financial markets, are well designed, regulated and administered, that the basic machinery of government can operate effectively and that corruption is curtailed. Action along these lines that improves the efficiency and stability of domestic financial markets will also contribute to the efficiency and stability of international financial markets. As a by-product of its expertise and experience with reforming domestic financial markets and institutions, the Bank has much to contribute to international discussions, but its prime objective should remain poverty alleviation and development.

Clarification of the Bank's role with respect to the international financial architecture is but one part of the wider task of redefining the Bank's mandate for the current environment. In the face of new and growing demands, and a growing appreciation of the need to approach development in a comprehensive and integrated way, this is no easy matter. But recognition of the links between the different parts of the development agenda does not mean the Bank should attempt to cover the field itself. It needs to be selective in using its own resources to best advantage and co-ordinate effectively with other development agencies.

Fortunately, the Bank's prudent financial management over recent months has provided us the breathing room to give the question of a General Capital Increase the consideration it deserves. This chair is not closed to the possibility of a capital increase. The demands being placed on the Bank are very great. At the same time, we are realists. The Bank has large resources available to it and much can be done to improve effectiveness. Garnering greater administrative efficiencies, being more selective in the choice of activity, improving effectiveness, better cooperation with borrowers to ensure their ownership of programs and enhanced coordination with other agencies, all have a role to play.

What is true generally is equally true of the proposal for an enhanced HIPC initiative. The plight of the very poorest nations is appropriately the main issue for discussion at these meetings. Removing or significantly reducing the impossible debt burden faced by these countries is of enormous importance. It makes sense in simple human terms. And, provided it is accompanied by the appropriate structural and policy reforms, debt relief can help create the climate within which the private investment these countries so desperately need can start to flow.

However, the initiative cannot proceed without funding. It is incumbent on all of us to resolve the HIPC funding issues at this meeting. I am hopeful that we will be able to do so.

As we move towards a new century and a new millennium, another key concern in our efforts to create jobs and reduce poverty is to maintain momentum on trade liberalization**,** and resist tendencies towards protectionism.

The World Bank has an important role in supporting the transition to a more open trading environment void of distortion. One way the Bank can help is by strengthening developing countries' institutional capacity so as to assist their involvement in, and implementation of, trade agreements. More generally, the Bank is well placed to help developing countries realize the benefits and better manage the risks associated with more integrated and open markets. These issues are particularly relevant to the smaller states with their heavy reliance on agricultural exports and associated high level of exposure to commodity price movements. We look forward to discussing the work of the taskforce on small states and the opportunity to explore how best the Bank and other development agencies can help small states make the necessary transition.

Efforts to promote open international markets are particularly vulnerable to protectionist actions by the largest economies. Such actions are not only directly damaging to developing countries but also, equally significant, serve to undermine support for liberalization more generally.

Statement by Mr. Pascal Couchepin, Federal Councillor, Ministry of Economy (Switzerland)[1]

The HIPC Initiative

The submitted proposal for an enhanced HIPC framework provides a solid basis to achieve a true debt exit strategy for those heavily indebted poor countries which have pursued consistent efforts in adjusting their economies. The new modalities proposed for the enhanced HIPC Initiative are consistent with deeper and faster debt relief, in respect of crucial factors such as a strict link to good performance and minimized moral hazard. However, careful attention is still required to preserve fair and equitable treatment of all HIPC eligible countries. This applies in particular to the terms and conditions in the treatment of the "retroactive cases", as well as to the implementation modalities of the so-called "floating completion points". The conditions to reach the “floating completion points” must be realistic and objectively measurable. They should not become stricter to delay completion if there are difficulties in financing HIPC.

The enhanced HIPC framework proposes a closer link between debt reduction and poverty reduction: this could become the source of a strengthened focus on poverty in all World Bank operations and for better coordination among the Bretton Woods Institutions. In this context, I welcome the current discussions to better integrate HIPC Initiative decisions into comprehensive anti-poverty national strategies: I encourage the Bank and the Fund to test this new approach as soon as possible in order to introduce it gradually. Debt relief is indeed a necessary - but not sufficient - condition in the fight against poverty. But the effectiveness of the financial resources freed up by debt relief and the mobilization of additional resources for poverty reduction depends on an effective and transparent budget management and the strengthening of institutions within a national poverty reduction strategy.

Securing the necessary financing remains therefore the key challenge before we can formally endorse the enhanced HIPC framework. The huge amounts involved, and the high expectations raised, do indeed call for a careful approach and analysis to assure that the international community effectively can deliver its promises. In my view, there are two points we have to look at carefully: (i) we have to make available funds for countries and institutions who are not in a position to put up funds on their own; and (ii) we have to avoid solutions which are at the cost of other low income countries.

Switzerland has already contributed some 30 million USD to the HIPC Trust Fund of the Bank, and has pledged a more than proportional amount to the ESAF/HIPC Fund of the IMF. Switzerland is determined to contribute further and significantly to efforts that represent a truly common, equitable and global solution to the financing of the enhanced HIPC Initiative.

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

IBRD's Capital Adequacy

The IBRD's risk bearing capacity has been negatively affected as a consequence of the massive emergency lending in response to the recent financial crisis and of the increased portfolio risk. A weakening of the Bank's financial standing is unacceptable, and the AAA-rating is crucial for the Bank's ability to fulfil its mission. It is therefore appropriate for the Bank to initiate an in-depth review and analysis of the long-term structural sustainability of its finances, and of all possible responses. I note the work already conducted, and I encourage the Bank to continue these efforts.

The global economic environment has grown more volatile, particularly during the past two years: we cannot look at the issue of the Bank's capital adequacy only on the basis of historical steady trends and a business-as-usual perspective. At the same time, I consider it a serious mistake to simply extrapolate future trends, based on the most recent events and factors. We have to look carefully at the fundamentals, before defining a clear and coherent line of action. The role of the Bank in the recent financial crisis resolution cannot be established as a standard for future lines of operation. While the possible involvement of the Bank in time of crisis is not in question as such, the nature and scope of the financial support should be clarified and better defined. In all circumstances, the Bank has to focus primarily on its developmental core mandate. Increasing substantially the Bank's ability to react to financial shocks may lead to unhealthy situations, by raising undue expectations. Any such effort to anticipate the need of the multilateral system to cushion future crises could send the wrong signals to the markets, and increase moral hazard.

We require a substantial preliminary discussion on the future development strategies and priority agendas of the Bank. Such scenarios cannot be based on the sole assumption of a permanent (more or less rapid) expansion of the Bank's lending volumes. The Knowledge Bank is not necessarily an ever-expanding lender. Recent developments could restrain, in a medium-term perspective, the lending volume of the Bank, for example the expansion of private flows towards developing countries, the expected massive debt reduction under the HIPC Initiative, or efforts to improve the mobilization of local resources in the developing and transition countries. I therefore request the Bank to present as soon as possible some concrete proposals on how to tackle all the related strategic, policy and financial issues.

The Role of the Bank in the Strengthening of the Financial Architecture

Substantial work is being carried out within various institutions and forums on the new financial architecture. Several months after the financial crisis in East Asia has receded, it is comforting to see that the international community remains seriously committed and focused on looking at effective ways and means to better prevent and resolve such crisis. I appreciate the Bank's continuing efforts to play a prominent and constructive role in this process.

There is wide recognition of the importance and relevance of the Bank's involvement in the strengthening of the national financial systems, and in the promotion of corporate governance and good practices in social policy. In addition, the Bank brings a unique development perspective to the international standard-setting bodies, and provides a significant input to the establishment of a credible set of international standards and norms. The current discussion on the reorientation of the Bank's strategy in the private sector development, as well as the role of IFC, is an essential part of defining the corporate agenda of preventing and mitigating crisis, i.e.

making countries less vulnerable to them. In this context, the role of the World Bank Group in providing counter-cyclical finance to the private sector should be clearly identified. We ask the Bank to present a strategy paper on this issue in the near future.

At this stage, I encourage the Bank in pursuing its efforts to define more clearly what should be its future role in the context of financial crisis. We need to pay special attention to the experience made and the lessons learned. The Development Committee should be periodically informed of the best practices and guidelines coming out of these lessons, in a similar way as is already established for the social practices.

I strongly believe that the Bank should firmly resist from being drawn into massive general liquidity support during financial crises. Its involvement should be targeted towards advice on structural issues, and its financial assistance should be restricted to clearly defined social programs, aimed at mitigating the human cost of crisis. More importantly, the Bank has to focus on its regular lending and capacity-building programs, to help countries to reduce their vulnerability. Transparent and efficient public management will underpin these reforms. I expect that the Bank will present a paper outlining a roadmap regarding its future strategic orientation for sustained efforts towards prevention and mitigation of financial crises. This contribution should be clearly integrated in the overall corporate development agenda of the Bank.

What is the role of the Development Committee in the international financial architecture? There is a severe risk that it is about to diminish when we look at the strengthening of the Interim Committee, the creation of the G-X, and the institution of Joint Sessions. We need to reaffirm our core business – the poverty focus, and the mobilization of resources for development – and assure that our voice is heard.

Developing Countries and the International Trade Agenda

Our main objective on trade/development issues must be targeted towards further integration of developing countries and countries in transition into the multilateral trading system. This objective can only be attained if these countries can make real use of the opportunities the world trading system is offering. In this debate, improved market access is a necessary condition but this does not suffice. Two further problem areas must be addressed: (i) the weak supply base in most developing countries and countries in transition, and (ii) the weak institutional and human capacities for addressing trade related issues in many developing countries and countries in transition.

Many developing countries and countries in transition import more than they export. Therefore, the present or potential usefulness of trade liberalization is less visible to them than to countries with a strong export base. Trade liberalization is an engine of growth, but left alone it will not move a country on the development path. Trade does not exist without production. Promotion of trade is closely linked to promotion of investments, to the increase of value added, to the improvement of competitiveness of the trade and investment environment in a given country.

Today, investment is an essential element of international trade, and there is tough competition to attract direct foreign investment. It is in the better interest of developing countries to have strong rules on locational subsidies and investment incentives than to impose domestic content, joint venture and technology transfer requirements, which discourage companies from transferring their best “know-how”.

I support suggestions for a new action agenda aiming *inter alia* at an evaluation of current technical assistance delivery mechanisms before July 2000, improvement of cooperation among intergovernmental organizations, stronger incorporation of bilateral donors and technical assistance providers into an expanded Integrated Framework for Trade-Related Technical Assistance.

The World Bank should not be another agency for trade related technical assistance. Its role is much broader. The Bank should help developing countries (i) to analyze their offensive interests in a new trade round; and (ii) to define what is needed to take advantage of the opportunities provided by a new round.

Globalization and liberalization are forces that exist and benefit all countries. These forces can only be maintained when the world community sees to it that all countries realize the benefits. The new round will only succeed if it provides all countries with the means to benefit from global liberalization. The World Bank has a crucial role to determine what additional actions have to be undertaken to assure that developing countries profit from liberalization. Obligations resulting from liberalization and their implementation should be linked to obligations to help countries, which might have difficulties to profit from them.

Other Business: Issues for the 21st Century - A New and Broad Pragmatism

At this point in time, we are looking back on fifty years of development experience. What have we learned? First, to assure broad based growth, macroeconomic stability is an essential prerequisite for development. Second, growth does not trickle down; development must address human needs directly. Third, there is not one policy or theory that will bring about development; we need a comprehensive approach. And fourth, stable and effective institutions are key to development; sustained development should be rooted in processes that are participatory, socially inclusive and responsive to changing circumstances. These insights are crucial when we go about defining future development policy. In addition to reducing poverty, other challenges include scarcity of resources, in particular water, food security, cultural loss and environmental degradation. Development thinking is moving away from the search for a single, overarching policy prescription towards a new and broad pragmatism. Despite this more pragmatic view, let me mention a few key issues.

Institution Building: Effective development requires a functioning dialogue of different players, i.e. government, the private sector, donor groups, and civil society. It cannot be reached without a solid foundation of effective organizations and institutions. Development cooperation must therefore contribute to the building of sound and effective organizations and institutions. This requires efforts for continuous Capacity Building as a crucial prerequisite for development. Globalization requires governments to find new institutional responses. Governments should be able to seek and to profit from agreements with partners, i.e. other national governments, international organizations, NGOs, and multinational corporations. But it also means that national governments should increasingly reach agreements with regions and cities through sub-national institutions on issues such as sharing responsibility for raising revenues. Building institutions and enhancing capacities is therefore also a prerequisite for decentralization. In its development cooperation, Switzerland is contributing to institutional strengthening, capacity building, and assisting governments in decentralization.

Good Governance: Over the last few years, the issue of good governance has gained importance. I note with satisfaction that multilateral institutions such as the World Bank are also about to adopt its principles. I am particularly glad that IDA-12 has developed a framework for applying the principles of good governance and empowerment. Countries need institutions that strengthen organizations to promote good governance, e. g. through laws. Rule based processes are key to increased transparency, which in turn enhances accountability, responsibility, and therefore good governance.

Private Sector Development: It is urgent for the World Bank to create synergies in private sector development. It should take a closer look at the respective functions of the Bank, IFC and MIGA. Unfortunately, not much has been done so far in joining forces. Recent proposals presented by Bank Management resemble more a bureaucratic compromise than a clear-cut operational strategy. We would like to encourage the Bank to be more determined and more effective in this area: privatization (particularly in the transition countries), support to SMEs and micro-enterprises, private investment in utilities and linkages between the productive and the financial sectors are essential elements for the future Bank. There is no time to wait.

Statement by Mr. Antonio Fazio, Governor of the Bank of Italy

A year ago our annual meetings took place at a time of widespread fears that the crisis in many important emerging economies would reach systemic dimensions. Today global prospects have greatly improved. Growth forecasts for the world economy have been revised upwards; trade is picking up and the threat of protectionism has not materialized. Crisis-hit Asian economies are rebounding. The sources of instability have been circumscribed by a joint response of the international community and by prompt corrections of domestic imbalances. Financial markets worldwide have proved resilient, and monetary policy actions to forestall the crisis were highly effective.

As the immediate concerns for worldwide financial instability subside, it is crucial to consolidate the progress made in strengthening the instruments available for the international financial institutions and their collaboration in preventing and curing crises. At the same time it is urgent to address the problems of the poorest countries. In recent years, progress in the fight against poverty has stalled, because of setbacks in growth, rising inequalities, conflicts, marginalization and social unrest. In a deteriorated international environment, the debt problem of some of the poorest countries has deteriorated. We therefore appreciate that this year's meetings, besides addressing issues of international financial architecture, focus on the initiative to alleviate the debt of the poorest countries. Also the other item on the agenda of this committee, that of trade and development deserves great attention. The forthcoming round of trade talks that is going to take place in Seattle will offer an important opportunity for further integrating the world economy and for removing obstacles to growth for many developing countries.

Financing the HIPC Initiative: the role of the World Bank and other MDBs.

In the joint meeting of the Interim and Development Committees held yesterday, a broad agreement was reached on the main features of the enhanced HIPC framework and on the principles concerning the financing of the initiative. The adoption of the enhanced framework will imply additional financing needs for all the MDBs of $ 5 billion, raising the total cost of the initiative for these institutions to $ 11 billion. The World Bank has estimated that its own share of the additional financing costs will amount to $ 2.4 billion.

As Minister Amato stated yesterday, Italy strongly supports the principles of additionality, financial integrity of the international institutions and equitable burden sharing (see attached statement by Mr. Amato). We stand ready to do our part by making a contribution to the HIPC Trust Fund of a magnitude of about $ 70 million in the expectation that the financing of the overall initiative is successfully completed.

Enhancing IBRD Financial Capacity

We appreciate the extensive work that the Bank has done to thoroughly assess its overall financial capacity. The conclusion that the “Bank barely meets its capital adequacy test under the present global environment” needs to be evaluated with great attention, given the deterioration of some indicators upon which judgments on the credit standing of the Bank are based. We will look carefully at the proposals to enhance the Bank’s capacity that its Board will discuss.

Three broad trends in the environment in which the Bank operates make this issue relevant and pressing. First, a range of new development objectives generates growing demands on the Bank’s net income. Besides HIPC, the Bank has been involved in post conflict situations, in disaster relief and in other initiatives that are crucial to ensure development effectiveness. Second, financial markets show evidence of increased contagion and covariance risk reflecting greater integration worldwide. Private capital flows have often accentuated these problems due to high volatility and pro-cyclical behavior. In the past years, the Bank has stepped in and played an important role in responding to crises. Lending volumes have reached record levels. New instruments have been devised to enable the Bank to cope with the new activity. The need for stronger Bank support in social sector and financial structure issues related to the crisis has also become apparent. Third, the issue of concentration risk will have to be reviewed in the near future since some of the largest borrowers, where the majority of the world poor live, are close to their lending limit.

There can be a risk of inconsistency between the mandate of the Bank as it is being reshaped by its shareholders in response to external developments and the financial capacity to support its activity. While we do not see any immediate need to open a negotiation on a generalized capital increase, we believe that a comprehensive effort is necessary by all stakeholders involved. The issue of the capital adequacy of the institution could be addressed in the context of a comprehensive review of the involvement of the Bank in liquidity provision, a reconsideration of the loan charges, a reassessment of the lending limits for largest borrowers.

Developing Countries and the International Trade Agenda

In November a new round of multilateral trade talks will open in Seattle with the objective of strengthening the multilateral trade system, improving the infrastructures supporting trade, facilitating the implementation of trade reforms by developing countries. The negotiations provide an opportunity to extend the benefit of increased market access to a large number of countries and over several areas.

The international community should provide assistance to developing countries in their efforts to build up the institutional capacity necessary to implement trade reforms and thus benefit fully from greater integration with the world economy. The World Bank has a key role to play in helping countries reform tariffs, develop trade-related infrastructures, improve competition, and increase access to insurance and credit. The Bank can also contribute by assisting countries in strengthening their capacity to conduct negotiations.

In addressing trade issues within the broader development agenda, greater attention needs to be paid to the link between trade liberalization and poverty alleviation. A gradualist approach to liberalization allows countries to set up adequate safety nets to shelter the weaker segment of the population from the cost of the adjustment. Appropriate institutions need to be developed to make sure that the gains from trade are widely and equitably distributed among the population. The Bank can make a key contribution also by ensuring that the links with the poverty reduction strategy are adequately accounted for in the design of trade reforms.

The New International Financial Architecture and the Role of the World Bank

It is important that the international community continues to seek ways to improve the effectiveness of the international financial institutions in dealing with crises. Numerous small but highly effective initiatives have been or are being taken that could greatly improve the way international financial markets operate.

First of all it is worth repeating that the main responsibility for averting or coping with crises lies with the countries themselves. Undoubtedly, modern global financial markets overreact to news and events, excessively penalizing countries for their policy mistakes. However in most cases financial crises have originated in countries with some internal policy or structural imbalance. It is therefore important that the countries promptly identify and correct these imbalances. The international financial institutions can support this effort by helping countries identify their weaknesses in the financial sector. The Financial Sector Assessment Programs conducted jointly by the IMF and the World Bank can become a useful tool in the timely identification of potential sources of instability.

International norms and standards is another important instrument to create incentives and constraints for individual countries to improve their own policy-making. An efficient division of labor requires that the definition of rules and good practices be assigned to technical standard-setting bodies, while the Bank takes on a role in the implementation and verification areas and on support for capacity building. This latter aspect is crucial to allow countries to actually implement standards and practices.

An effort should be made to find an appropriate balance between rigid compliance with norms and standards and ample flexibility. While excessive rigidity can at times exacerbate instability problems, a generalized plea for flexibility can be inconsistent with the very notion of standards. Developing countries should participate in the process of elaboration of norms and standards and in adapting them to their reality, for instance through regional groups such as the Regional Committees for banking supervision, whose activity the Bank should encourage.

The Bank's role in helping countries to deal with the longer term consequences of crises includes expanding activity in three areas: capacity building; mitigation of the social cost of crises; financial and corporate restructuring.

With regard to capacity building, we welcome the expanded use of Public Expenditure Reviews. We also think that the Bank should pay more attention to the issue of public debt management, especially in large countries where public debt can become a source of vulnerability. We believe that the Bank has a comparative advantage in this field, since it requires developing not only the regulatory framework but also appropriate infrastructures, which could be included in projects financed with Bank resources. The Bank can also play a significant role in payment systems, which represent a crucial infrastructure for the operation of a market economy.

As for social issues, we appreciate the link between policies to mitigate the social cost of crises and the longer-term strategies for poverty alleviation. An aspect that deserves great attention is that of pension reforms. The Bank has played and can play an important role in this field.

The experience made with financial and corporate restructuring programs is also important. The complexity of the restructuring processes indicates that we may need to be more cautious, particularly in bank restructuring. More attention should also be paid to governance issues both in banking and in corporate sector rehabilitation programs.

We do not think that the Bank needs to develop new instruments to help countries deal with financial crises. The range of available instruments appears broadly sufficient and the focus should be placed on effectiveness, on safeguards, on conditions of sustainability. Some of the new instruments (for instance SSALs and the policy-based guarantees) have the potential for the Bank to take on a greater role in crisis management. The implications for the financial capacity of the Bank need, however, to be carefully examined.

Let me conclude by welcoming the progress made in implementing the better coordination mechanisms between the Bretton Woods institutions, with the Bank concentrating on structural and social issues and the Fund focusing on policy stability.

Statement by Mr. Jose Angel Gurría Treviño, Minister of Finance and Public Credit (Mexico)

I am pleased to participate in the Sixtieth Meeting of the Development Committee. I wish to take this opportunity to express my appreciation to the World Bank Group for the strong support it has provided to a number of member countries to help them overcome recent financial crises.

This is a timely opportunity to review the role of multilateral financial institutions in general, and the World Bank in particular, as entities which promote development in a world characterized above all by the globalization of economic relations, even as poverty, inequality, and environmental degradation continue to affect many countries.

It is fitting to ask whether the activities of the World Bank and the instruments at its disposal are best suited to meet the needs of its developing members, given their highly diverse economic and social structures.

Although the manner in which Mexico has cooperated with the World Bank has changed over time, its essential features have remained the same for 30 or 40 years. The relationship has generally been a very fruitful one throughout this period.

The relationship has evolved as the structure of the Mexican economy has undergone significant change. For example, the government has grown much more selective regarding its involvement in economic activity, for a number of reasons.

To begin with, fiscal discipline requires more transparent and effective expenditures, the objective being to focus government efforts on sectors capable of improving the standard of living of the population, particularly its most vulnerable members. Bearing in mind this objective of enhancing the effectiveness of public expenditures, the Government of Mexico has decentralized such expenditures considerably, transferring to local governments increased power and responsibility for distributing and allocating public funds to projects of their own.

A far-reaching economic reform program has also been launched. Mexico is now implementing second-generation reforms whose primary objective is to strengthen the institutional framework for economic activity, a step which is also having a positive impact on the efficiency and productivity of the productive base and is instilling greater confidence and certainty in economic agents.

In this context, the traditional instruments of the World Bank – including loans for investment projects and reform programs – cannot sustain an adequate flow of resources to Mexico, particularly since it is a mature debtor.

Although the Comprehensive Development Framework may make a valuable contribution in some countries, in others with a more fully developed socioeconomic fabric the framework proposals have already been in effect for many years. It would be more helpful if the World Bank could provide the latter countries with the means to promote more stable access to voluntary capital markets, particularly when international financial markets are highly volatile. These markets constitute the primary source of financing for many middle-income countries, and are therefore crucial for their macroeconomic stability and for ensuring continuity of the development process, which in the long run will facilitate normal participation by countries in voluntary capital markets.

Given this situation, we encourage the World Bank to make greater use of its guarantee program, and we welcome the recent operation in Argentina in this regard.

Similarly, we encourage the Bank to participate in financing standby credits, which are a better way to utilize the Bank's balance sheet. This modality will ease the financial pressures the Bank is currently experiencing as it is called upon to meet the needs of an increasing number of member countries.

On this last point, I wish to note that the current weakening the Bank is experiencing may be explained in part by its use of net revenue transfers to finance a series of what are unquestionably deserving initiatives. This situation should prompt us to consider whether we have pushed the Bank to participate to an extent exceeding prudent limits.

It is essential that we answer this question, given the financing requirements of the enhanced HIPC Initiative. Considerable resources will be needed to fund this new initiative, whose objectives and merits we all support. However, using the net income of multilateral institutions to finance the initiative is definitely not the appropriate solution. The solution lies in equitable multilateral cooperation on the part of the international financial community. As we all know, the cost of drawing on net revenue is borne by middle-income debtors, an option that is therefore neither fair nor multilateral. Transferring resources among developing countries must not finance the enhanced HIPC Initiative. Its introduction and success – which we all support – require the determined participation of the industrialized countries, who should provide more financial support than they have pledged to date.

Furthermore, although it is true that debt reduction will enable beneficiary countries to free up resources to combat poverty, the resulting resources will not be sufficient. These countries, like all developing nations, need markets for their products. We therefore encourage the World Bank to provide assistance to developing countries on trade issues within the framework of the new round of trade talks. The Bank should focus its efforts in this regard on issues such as agricultural subsidies and non-tariff barriers, which have a major impact on developing countries.

World Bank participation continues to be a major factor in support of the efforts of developing countries to improve the standard of living of their people and achieve greater social equity. Mexico will continue to cooperate with the Bank in the search for imaginative solutions, which will enable the institution to adapt its instruments and activities to requirements arising from the economic and social development of the developing countries.

Statement by Mrs. Eveline Herfkens, Minister for Development Cooperation (The Netherlands)

Partnership for Poverty Reduction

This year's DC document on Capital Adequacy refers to "losing the war against poverty", illustrating this with the fact that today more people live in absolute poverty than ever before. The message is clear: we still have a long road to travel, and a lot to learn. One of the most important lessons we are learning is that we should not travel down that road by ourselves. There is an urgent awareness that ownership, supported by international coordination, should be more than a mantra.

I therefore have welcomed initiatives that take partnership in development forward: CDF, HIPC, UNDAF. This time the DC agenda also offers concrete examples of partnership between the players in the development field: in the area of trade assistance and in the field of social policies.

These improved partnerships coincide happily with the changes we in the Netherlands make in our development cooperation practice. First of all we want to make a serious effort to put our development partners in the driving seat, setting their priorities for cooperation.

Furthermore we are promoting donor coordination on the ground, again with a prominent role for our partners. Thirdly we made concrete progress on the path towards the sector wide approach, i.e. moving from financing individual projects to, ultimately, budget support. In this endeavor we seek partnership with the best performing organizations - be they bilateral, multilateral or international - to engage in joint sectoral efforts.

Poverty Reduction and Economic Growth in Bank and Fund programs

ESAF and HIPC

Debt reduction is of course just an instrument for achieving sustainable poverty reduction. It is of central importance to develop a concept of economic growth that is centered around durable and sustainable poverty reduction. The IMF now acknowledges that growth by itself does not lead to poverty reduction, although it is an indispensable ingredient. It should work on better internalizing the fact that in the end the only growth that is sustainable is poverty reducing growth. For this we are rightly reorienting structural adjustment and traditional macro-economic operations like debt reduction. These are to no developmental avail unless they produce first and foremost results in poverty reduction. We therefore welcome integration of these objectives in the definition of HIPC decision and completion points. I also welcome the progress that is made with regard to integrating objectives of poverty reduction in ESAF - which is congruent with the fact that ESAF is financially supported by ODA.

Management and staff of the IMF clearly picked up the messages of the external ESAF evaluation of 1998, which strongly focused on the social aspects of ESAF. It is clear that the IMF will have to rely on the World Bank's expertise, if the new approach to ESAF is to be put into practice. Improved cooperation between the World Bank and the IMF seems to finally come off the ground. We welcome that, especially since mention of this closer cooperation has been a panacea for every ill.

Not only should poverty-reducing public expenditure be protected and its quality and targeting improved, emphasis should also be put on the sequencing and fine-tuning of macroeconomic stabilization policies, in order to maximize the benefits and opportunities and minimize the negative impact on low-income vulnerable groups. To enable the Fund to do so, the quality and depth of the Bank's poverty analysis - as a basis for the IMF's policies - should be enhanced. The IMF should draw on the high quality work done in the context of the World Bank's Special Program for Africa. We envisage a new, modified ESAF, which will be more effective in combating poverty in program countries, with the assistance and partnership of the World Bank.

Poverty Reduction Strategy Paper

We also warmly welcome the concept of a Poverty Reduction Strategy Paper (PRSP), to guide operations of both IMF and World Bank in relevant countries, with ownership by the recipient country. A process of consultation with a broad range of governmental and non-governmental actors is instrumental for building real ownership. This new paper should be the foundation for the work of the Bretton Woods sisters. To make this new document central to our development strategy in the wider sense, we should reorganize our present system of documentation around it. The PFP will be a paper of the past, and the present CAS will be an operational World Bank business plan in response to the PRSP. Ideally, and thinking also in the framework of the CDF, the paper should place poverty reduction at the core of our approach, and be an analytical starting point for policy makers and all operations of all CDF-partners (IFIs, UN, bilaterals and others).

Poverty Reduction and Development Effectiveness

I would like to utter a word of caution here as well. We all know that the development business has a tendency to run away with certain fads; we can identify almost entire decades by buzzwords that were fashionable at the time. Often good intentions fall flat in the face of the harsh reality of implementation. I do not want this to be the case with the direction the poverty debate is currently taking in both IMF and World Bank.

We invite the Bank in particular, but also the Fund, to introduce changes in operational practices and guidelines that reflect the new thinking. I know that this is one of the hardest parts of the business, but then again, the most important things unfortunately often are. We applaud the Fund's efforts to reach consensus between Management and Board on the new approach to poverty. The challenge is now to implement the essence of this consensus in the field. Unfortunately our field trips reveal that a lot remains to be done. Our representative in the Bank Board will continue to actively use this platform and that of the Committee on Development Effectiveness to monitor progress of the Bank particularly in this respect. Embassies of the Netherlands in selected countries will report back specifically on the extent to which Bank and Fund operations reflect the changes. The proof of this - hopefully delicious - pudding is as always only in the eating.

HIPC

Over the years the Netherlands has been a strong supporter of debt relief for the poorest countries and we have always backed our support financially. We have in most cases forgiven our outstanding bilateral ODA-debt to these countries, and by providing only grants since the end of the seventies we have tried not to be the cause of the mounting debt problems of the poorest countries. Since the early nineties, the Netherlands has provided at least US$ 6 billion in aid to HIPC countries. Recently, we have made substantial donations to the HIPC trust funds of several multilateral institutions, including the Bank and the Fund.

We endorse the enhancement of the HIPC framework as proposed. But this endorsement has to be conditional. Enhancement can only be achieved if there is full financing for multilateral debt relief which IFIs cannot finance themselves. And this full financing should be based on fair burden sharing in which all donor countries participate.

Securing Full Financing for All Participating Multilateral Institutions

It is very important to realize that the success of the enhanced HIPC initiative depends on securing full financing for all participating multilateral institutions.

As for the IMF, the Fund should be certain of the financial backing of its commitments to debt relief and for the continuation of ESAF. Resources should be provided in such a way that they do not compromise the resource transfer to other poor countries, nor affect negatively the financial position of the Fund. Securing an agreement on funding that meets these two conditions must have absolute priority.

As part of the proposals to secure financing of the Fund's share in the HIPC Initiative and for the continuation of ESAF, the proposal for increased contributions by the Fund through non-reimbursement of the General Resources Account for the costs of administering ESAF can be accepted.

The World Bank, IDB and AfDB have already made a major effort to secure internal resources for HIPC. They cannot do much more without either endangering their financial integrity or raising prices, which would mean that borrowing members would foot the bill. This is clearly unacceptable to my constituency. Another financing option, namely using concessional MDB funds for the poorest countries - IDA and AfDF - is equally unacceptable. This would simply redirect funds destined for one group of poor countries to another. The starting point of the relief effort was additionality. To retreat from this would be an embarrassment for all potential donors.

The Way Forward

We are under a time pressure, since 85 percent of the irrevocable commitments for HIPC debt relief are needed before the end of the year 2000. IFIs can only give these irrevocable commitments if financing is secured. We still consider an inclusive approach to be the most constructive; i.e., a financing plan that deals with the necessary contributions to all IFIs that are in need of supplementary finance. The Netherlands would be prepared to deliver its part of the necessary funds, provided that fair burden sharing is agreed. Let me be concrete: so far major shareholders have tended not only to wait for each other but to hide behind each other and behind the World Bank before coming up with amounts commensurate with their size. Small surprise that there is little to show so far. I do want to wait but not to hide - the offer the Netherlands makes is to equal any contribution Italy or Canada makes.

If all donor countries would reserve 0.35 percent of their GNP annually for ODA (only half of the UN-agreed 0.7 percent) all HIPC financing problems could be solved easily.

All bilateral and commercial debt outstanding to HIPCs should be subject to equal treatment, in accordance with debt reduction granted by the Paris Club. In the event borrowing members of the Bank or Fund experience difficulties in financing this specific type of debt relief, we feel that these countries should be eligible for additional assistance.

It is of the greatest importance that we maintain the focus on good policies in the modified HIPC Initiative and secure full and equitable financing for debt relief quickly, so that the road to sustained growth and poverty reduction in highly indebted poor nations is cleared.

Capital Adequacy

Unfortunately, progress to strengthening the financial position of the World Bank Group has been limited since the Spring Meetings. This is worrisome, since a negative shock to the Bank or the world economy could still seriously affect the ability of the Bank to fulfill its development mandate and serve its clients.

Of course, the need for and size of an increase in the risk-bearing capacity of the IBRD are directly related to its strategy and instruments. We are not in favor of a strategy asking the

Bank to go beyond its mandated role by providing vast liquidity support in case of a global financial crises. Excessive lending volumes as seen in the recent past should not be a point of reference. But I would sympathetically consider proposals for additional capital in support of a World Bank Group - including the International Finance Corporation - with a mandate for long term structural development and poverty alleviation.

Strengthening International Architecture

Managing Social Dimensions of Economic Crises. Having an adequate social, economic and governance system in place is key when it comes to responding to a sudden economic or financial crisis. The lesson therefore is to reinforce efforts for developing sustainable poverty reduction strategies that include but are not limited to a well operating system for social protection. In the absence of such a system, the document shows which steps can be taken. One novel idea reflected - a bit tentatively - in this paper, concerns the role macro-economic policy advice plays in deteriorating social situations. I would welcome further study on the subject, and refer to other important strides that are being made in this area, especially in the context of ESAF and HIPC.

While the Bank may indeed be in a good position to assemble a good policy response on the basis of lessons learned, I would once again like to stress that social policy standards and principles have been and should be developed by the relevant specialized UN organizations, while implemented by all, including the Bank.

Developing Countries and the International Trade Agenda

International trade is an important and timely topic, as the world will be gathered in only two months' time in Seattle hopefully to launch a new round of multilateral trade negotiations. I welcome the Bank's paper and the clear understanding it shows of the links between trade and development, and the need for the Bank to help developing countries in benefiting from future trade rounds. Unfortunately, the paper and to an extent the Bank's work on trade in the last few years suffers from many weaknesses and imbalances.

Trade Related Bank Lending. The paper tries to suggest that the Bank gives high priority to trade issues by citing that over two-thirds of its policy based loans and a quarter of its investment activities are related to trade and foreign exchange reform. I am not impressed. Practically all policy based loans the Bank gives are linked to IMF stabilization programs, which are directly or indirectly linked to exchange reform. And the investment total includes all of the Bank's lending to private sector development. It could be argued that since exports in many developing countries are supply constrained, anything the Bank does to increase production and productivity - e.g. through human resource development and improvement of infrastructure is linked to trade.

Focus for Bank Trade Related Activities. Frankly, I would have not minded if the Bank showed significantly declining total lending focusing on trade, except for trade-related infrastructure, provided the remaining was properly focused on the countries and areas which need it. After all, many developing countries have made giant strides in improving their trade policies and institutions. They do not need the Bank's research economists to tell them what to do. If their trade policies are imperfect, and many are, it is because they have been hijacked - just as in our own developed countries - by lobbies and interest groups.

The Bank's efforts need to focus on two groups of countries which are not effectively integrated into the world trading system: the least developed and other low income developing countries whose capacity to trade is seriously affected by institutional weaknesses; and the transition economies, many of which are not even members of the WTO.

Trade and Institutional Development. I welcome the paper and the Bank's focus on institutional development. Unfortunately the results to date have been meager: two years after the launching of the Integrated Framework for the LDCs in only one country, Uganda, there has been a CG focusing on this issue. I understand several more are projected for the coming year. This is good news, but I urge the Bank to do what it says it will -- mainstreaming trade issues in its operations especially in LDC and countries in transition. The Integrated Framework should furthermore be extended to include IDA recipients. In doing so, the Bank should also take into account revenue loss and adjustment costs of trade liberalization in its lending scenarios.

Trade and Transition. Regarding transition economies, the paper is curiously silent. It says nothing about the work the Bank has been doing in support of WTO's accession in some of these countries - and which I encouraged when I served as Executive Director on the Bank's Board. More support for WTO acceding countries is needed, especially for the transition countries. The paper also says nothing about the work the Bank has been doing to help in the EU accession of a number of countries in Central and Eastern Europe - work that I appreciate.

Trade Barriers for Developing Countries. Finally, and most importantly, the paper and the Bank's work is unbalanced because it focuses only on trade policies and institutions of developing countries. It is completely silent on what the developed countries can do to decrease their own barriers to trade in goods and services which can help the integration of developing countries in to the world trading system. It says nothing about tariff peaks on developing countries exports and developed country agricultural export subsidies - which adversely affect developing countries.

Let us face it: developing countries are often suspicious of the World Bank's offer of assistance in their trade negotiations because they feel an asymmetry in the Bank's influence. This is because the Bank can affect developing country policies through the conditionality of its operations - but it can not do the same for developed countries. The least the Bank can do is use all opportunities of analysis and research - including this paper, to present a balanced picture of what it takes to integrate developing countries in the world trading system. This paper missed an important opportunity in this respect.

Analytical Work on Trade. I recall we agreed at the Board, when we decided to debate CASs, that the Bank would enhance its work on the so called "external environment", the obstacles developing countries faced resulting from industrialized countries' policies, particularly in the field of trade. The Bank used to produce outstanding analytical work on this issue, e.g. the WDR in the 80's which launched the debate, at least in my country, on the negative impact of the European CAP on developing countries. Such analytical work is desperately needed today to assist developing countries in deciding on their positions and priorities in the coming round. In fact, some donors (among which The Netherlands) are financially supporting the Bank to work on such a "positive agenda". I am disappointed that the paper does not refer to any of this.

The Bank's credibility is also already affected when it does not allocate sufficient administrative resources to the task at hand. Only after four years of WTO's existence the decision has been taken to re-establish a Bank office in Geneva - finally. I urge speedy implementation, also in order for the Bank to actively participate in the WTO's Trade Policy Reviews.

I end on a positive note: I welcome the intention of the three institutions (the World Bank, the IMF and the WTO) to issue a joint declaration at the Seattle Ministerial. Strengthening policy coherence is very important and I would like to draw your attention to the recent paper of the European Commission outlining an approach on coherence. A small way in which we bilaterals can all contribute to this objective is the untying of our aid. Clearly a small but concrete step to making this round truly a Development Round.

Statement by Mrs. Hilde F. Johnson, Minister of International Development and Human Rights (Norway)[2]

HIPC

The enhanced HIPC Initiative, endorsed in principle during the Spring Meeting by the Development Committee, reconfirmed the need for debt relief providing a clear exit from unsustainable debt burdens. In Cologne, G7-countries made a number of specific suggestions to provide faster, deeper and broader debt relief for the poorest countries, demonstrating their commitment to economic and social reform and poverty reduction. The suggestions made are fully in line with principles for debt relief advocated by the Nordic and Baltic countries for a long time. Consequently, the Nordic and Baltic countries are fully behind the enhanced HIPC.

Great effort and considerable work is needed - by all actors - in order to avoid losing the promising momentum created by the G7-meeting in Cologne. An enhanced HIPC Initiative requires extensive new financing. The G7 proposals carry a price tag on multilateral debt relief, which requires funding of a magnitude that cannot be met without a reasonable burden-sharing formula. Thus we expect the G7 countries to follow up their recommendations with funding.

The multilateral institutions are unlikely to fully finance their part of the enhanced HIPC through internal resources without compromising their financial integrity. In the case of the World Bank, the use of internal resources implies a negative impact on the financing available through concessional windows such as IDA. This is unacceptable. Neither can we accept that the participation in such financing places a disproportional burden on borrowers through increased loan charges. Consequently, bilateral donors should provide additional financing where multilaterals are unable to finance themselves, according to a formula of fair burden-sharing.

The proposal put forward by the staffs of the Bank and the Fund for strengthening the link between debt relief and poverty reduction would be a very bold step towards reaching the international development targets set for the 21st century. What is envisaged is a major shift in the way not only debt relief but also ODA in general is provided. While debtor countries promote sound economic and social policies and poverty reduction based on broad participation

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[2] On behalf of the Nordic and Baltic Countries.

and support, the Bretton Woods institutions must commit themselves to increase their direct support for the achievement of the targets of these efforts. Such a partnership must rest on a long term commitment and joint review of progress, and has the full support of the Nordic and Baltic countries.

Bank Group Capital Adequacy

During recent years, the Bank's net income has decreased alarmingly while risks have increased. This is not least due to extensive lending following the Asian crisis. The decreasing strength of the Bank's financial base gives reason for concern, as does the Bank's decreasing ability to absorb shocks. The Nordic and Baltic countries attach great importance to maintaining the financial capacity of the Bank. In the present situation, the Bank needs to keep the Capital Adequacy issue under constant review.

The Bank needs to consider all potential measures to strengthen its financial position. In the first place, alternative options to a GCI should be explored, among them the issue of waivers should be included in the more long-term discussion on the Capital Adequacy of the Bank.

On the use of net income, reserves have first priority. However, the Nordic and Baltic countries attach great importance to providing funds for the poorest countries, such as allocations to the HIPC Initiative and the IDA, and wish to maintain a high level of transfers to these countries from the net income.

Development as a Multifaceted Process

The Nordic and Baltic countries are encouraged by the increased understanding, triggered by the Asian crisis, that development is a multifaceted process where financial and monetary issues cannot be seen as isolated from structural and social issues. Neither can development be promoted in isolation. All relevant actors must be involved in the strategic and analytic work that forms the basis for development. In this context, we especially welcome the steps taken towards enhanced cooperation between the Bank and the Fund, i.e., expressed in the proposed joint Poverty Reduction Strategy Paper.

The Poverty Reduction Strategy Paper should be seen in the context of the CDF. Within this framework, the World Bank has a central role in dealing with the structural and social dimensions not only of crisis but also in long term development. Such a response - with sustainable poverty reduction as the guiding principle - should ensure that the most vulnerable groups are protected and the process for longer-term development sustained. It is important to learn from the work done in preparing the forthcoming WDR on poverty and to draw on its conclusions when further developing the Bank's policies on how to address the social dimension of a crisis. The Social Protection Sector Strategy that is currently under preparation in the Bank should also be fed into the process of establishing sound social principles for addressing crisis situations.

The Nordic countries, in collaboration with the World Bank, recently organized a workshop on “Making Partnership Work on the Ground”. The Governments of Tanzania, Uganda and Vietnam participated as well as the private sector and the donor community in the three selected countries. There was a firm commitment to the process of building stronger partnerships, involving changes in attitudes as well as practices among both donors and recipients. The main conclusion was that recipient partners must own their development agendas and that the CDF could be helpful in this respect, but that donors must take a back seat and not push particular approaches. The workshop recommended better integration of development assistance into the host country's programs, participatory consultations with stakeholders, capacity building in the area of financial management and a move away from a traditional project approach to various forms of program support. A step was taken from “donorship” to “ownership”.

Financial Architecture

The Nordic and Baltic countries put great emphasis on maintaining the Bretton Woods institutions as the central fora for dialogue and discussion on the international financial system. The recent creation of a Group of 20 by the G-7 countries needs further clarification as to the mandate of the group. Informal grouping outside the Bretton Woods institutional framework reduces transparency and representation. Efforts to improve global discussion and decision-making concerning the international financial architecture should build on the Bretton Woods framework. Only in this way can transparency and global participation be secured.

In this context, it is more important than ever to increase the efficiency of the Interim and the Development Committees, thereby strengthening them. Certain measures have been taken in this respect, and several proposals for reorganization have been put forward. At this year's Annual Meetings, efforts have been made to avoid duplication of discussion in the two committees. Even so, it is important to maintain these Committees as separate fora for discussion. We welcome the steps taken to increase their efficiency (to wit the joint IC/DC session on HIPC) although we had hoped for more than incremental adjustments of the committees.

We would like to reiterate the view expressed by the Nordic Baltic countries at the Spring Meetings that the basic principle for reform is the need for symmetry between financial and monetary issues, and structural and social issues. Giving the Bank President privileged treatment in the Interim Committee, important as it is, is hardly sufficient to strike this balance. The Asia crisis provided a momentum for reforming the committees in such a way that they – together – cover the totality of development. This momentum has in our view not been fully utilized. We believe it is necessary to further strengthen the committees for them to deal with the increasingly complex issue of economic and social development. One of the reform proposals was the so-called “double hat” structure. We believe this option should have been further elaborated.

The two committees cover the financial, monetary, structural and social issues on the international agenda and in the development process of a country, be it in crisis or non-crisis situations. A clear understanding of the mandates of the two committees and how they are linked is the starting point for securing close and efficient cooperation between the IMF and the World Bank.

Developing Countries and the International Trade Agenda

The private sector plays an important part in creating sustainable development. This is not least the case as regards trade. As we enter a new round of trade negotiations, we will be focusing in particular on ensuring that developing countries participate actively and with strength in the upcoming round of WTO negotiations. It is especially important to address the needs of the LDCs in the new round of negotiations.

Trade should not be regarded as isolated from the development measures implemented by the World Bank and others. Coherence between development assistance and trade policies will help to promote development. This interaction is illustrated in the Comprehensive Development Framework as well as in the great need for capacity-building in the developing countries, as this will enable these countries to participate in the negotiations and implement the policies agreed upon in the WTO and other relevant bodies.

Coordination among all the six organizations under the Integrated Framework for trade related technical assistance to Least Developed Countries is crucial. The existing arrangements should therefore be further implemented by integrating the framework in the organizations current activities. It is important that the Integrated Framework have a practical impact on the way the institutions work together. In this respect, further elaboration from staff would be welcomed on what the framework implies – or could potentially imply – for the Bank.

Closing Remarks

The linkages between sound monetary, financial, social and structural issues, between trade and aid, between debt relief and development all show us the same thing. Not only must development take place in a concerted and coordinated way - it must also be part of a concerted and coordinated effort aimed at the same goal: creating sustainable development on a global level, with ownership on the country level.

Statement by Mr. Viktor Khristenko, First Deputy Chairman of the Government of the Russian Federation

Trends in the Transfer of Resources

The situation regarding the transfer of financial resources to developing and transition economies remains complicated. Excessive expectations about the emerging markets that were dominant on the eve of the East Asian and subsequent crises have given way to disproportionate skepticism. Inflows of portfolio investment and bank credits dropped to a much lower level as compared to the peak period of 1996-1997, and may be expected to remain there in the medium term. On the other hand, it is clear that the flows of foreign direct investment resources are relatively stable. Accordingly, developing countries and transition economies should revisit the structure of their preferences within the framework of the overall strategy for attracting foreign resources. Specifically, this means devoting greater attention to structural issues that are of particular importance for strategic investors. At the same time the emphasis on structural reforms must not undermine macroeconomic stability which is traditionally closely watched by portfolio investors.

After all, even after their sharp decline, portfolio and bank flows are an important source of funds for developing countries. In this context, we are pleased to note some decline in the average spreads on emerging markets debt, despite the fact that these spreads remain historically very high. We are also pleased with the fact that the alarmist expectations of impending economic decline prevalent at the start of the Russian and Brazilian financial crises are now widely recognized to have been exaggerated.

Therefore, the international community must do its best to facilitate adjustment to the new structure of financial flows and to reduce associated hardship. It has already been noted that international financial institutions have largely filled the gap in short-term financing required by the developing countries over the past few years. Accordingly, the issue of capital adequacy of these institutions is becoming increasingly urgent. We welcome the recent increase in official development assistance from the OECD countries, but we believe that the global public opinion has not yet fully realized the seriousness of the situation with regard to the overall transfer of financial resources. We must intensify and speed up the debate on this issue in order to reach a practical and mutually agreeable solution.

The HIPC Initiative

We support the initiative for radical debt burden reduction of the poorest developing countries and for the reallocation of resources that are now going toward external debt service to funding poverty reduction programs. We are convinced that the initiative can only achieve its goals if the magnitude and the speed of foreign debt relief allow the countries pursuing sound macroeconomic, structural and social policies to escape from the "debt trap" in the nearest future. We also support the enhanced link between debt service reduction and poverty reduction. We also think highly of the contribution made by the Bank and the Fund to the implementation of this initiative, as well as the efforts by creditors and donors who are seeking out and allocating additional resources for the noble purposes of the initiative. During this process we will continue to fully participate in operations to assist individual countries on the basis of the agreed principles of burden sharing.

At the same time, we are concerned that the proposed expansion of the initiative has not been bolstered with adequate resources. Our particular apprehensions as an IBRD shareholder and borrower are based on the fact that additional financial requirements the initiative imposes on the Bank substantially exceed its actual financial capabilities. In the immediate future, the IBRD/IDA must find $2.4 billion in NPV equivalent to cover the needs of supplementary funding for countries that are already participating in the initiative, including $800 million for countries to which the initiative may be extended in the period after the year 2000. Given the fragility of the economic and financial situation in most developing countries and consequent high demand for IBRD/IDA funds, coupled with the stretched risk-bearing capacity of the Bank, we believe that the substantial increase in initiative-related costs to the Bank may be detrimental both for this Institution and for its clients. In any case, this would lead to a violation of the basic principles underlying the Bank's participation in providing funding for the initiative, namely: additionality, preserving the Bank's financial integrity, and the adherence to the principle of fair burden sharing.

In this connection, we believe that the issue of financing the participation of the IBRD and other multilateral development banks in the initiative should be resolved by their shareholders on the basis of a universal and flexible yet realistic approach to burden sharing. Specifically, proposals to expand the initiative should be accompanied by a well elaborated financing plan and acceptable ways of sharing the incremental costs. At the same time, we would welcome a compromise solution that takes into account budgetary and domestic political problems of individual donors and creditors. Firm commitments from donors to finance the initiative can be combined with a more flexible schedule of actual payments. One attractive option is to use loans by official creditors secured by the IDA reflows and to allocate such funds for the immediate needs of the initiative. This solution could be one component of a broader menu that would include various options for mobilizing funds that provide a certain degree of flexibility to donors.

Among other issues of special concern to us are: possible negative impact of the initiative on the financial and economic situation of the developing countries that are creditors of the countries benefiting from the initiative; the financial position of regional development banks whose shareholders include poor developing countries; the interplay between the external and internal debt; and the relations between the beneficiary countries of the initiative and private creditors. The last issue has been touched upon during the debates, but only in the sense that private creditors must fully share the burden of participating in the initiative. At the same time, since we view the private sector as a major source of economic growth in the long term, we cannot ignore the question of how the measures proposed as part of the initiative would affect the prospects of securing external private financing necessary for economic growth while not leading to renewed debt overhang.

In conclusion, we would like to stress that we are not prepared to support the expanded framework of the initiative in the absence of its financing plan. In order to preserve the credibility of the enhanced HIPC framework its expanded goals should be matched by adequate resources. Only in this case the initiative will succeed in achieving debt sustainability for developing countries pursuing sound economic and social policies, and not lead to disruptions in development finance mechanisms.

Strengthening International Financial Architecture

Bank-Fund Cooperation in the Area of Financial Sector Reform:

The Bretton Woods institutions remain a major pillar of the international financial architecture. Their cooperation is paramount for effective international actions aimed at crisis prevention and resolution. I am pleased to note significant progress in this area. The contacts between the two institutions are continually expanding, and there is a fruitful exchange of knowledge and experience at every level.

Contacts of this kind are particularly important now when the international community is facing the complex problems typical of the 1990s, which encompassed issues of fiscal and monetary policy as well as structural and social problems. Thus we welcome the activities of the Bank-Fund Financial Sector Liaison Committee.

Careful consideration of the specific tasks of the two institutions would facilitate the division of labor between them and avoid unnecessary duplication. In this context the task of surveillance should remain the prerogative of the IMF. The reason for this comes from the specific nature of national fiscal and monetary policy — namely, that it tends to immediately affect economic developments in other countries. The World Bank should have no surveillance function, for it is not consistent with the principle of client orientation.

On the other hand, the complex nature of development requires that full consideration be given to structural and social factors in the assessment of monetary and fiscal policies when the relevant IMF recommendations are drawn up. We therefore believe that the IMF should rely more actively on the unique experience and expertise of the World Bank in this area. Specifically, support should be given to the idea of taking into account the Bank's poverty assessment and other structural reviews within Article IV consultation process.

We welcome the Bank's initiative to organize international fora on issues such as financial stability and corporate governance and to ensure widest stakeholder participation in them. However it is necessary to point out that recommendations worked out at such fora cannot and must not be in any way binding on the Bank or its shareholders. We should not forget that the Bank's main objective is lending for development purposes, not establishing standards of behavior. Therefore, conclusions and analytical observations of such fora should not be construed as another tier of conditionality. The task of defining lending conditions is vested in the Bank itself, its Management and the Board of Directors.

Social Consequences of Financial Crises

The financial crises of the 1990s have presented the international community with a host of new challenges. The World Bank whose mandate is to fight poverty must place special emphasis on overcoming the social consequences of these crises. In the early stages of a crisis, it is necessary to identify the most vulnerable groups and to give special attention to the prevention of irreversible social losses. Scarce budget resources ought to be reallocated to ensure maximum social effectiveness, in particular addressing the deterioration of human capital (decline in school attendance, worsening of neonatal care, unemployment and loss of work ethics). Finally, it is essential that targeted assistance be provided in the form of food, allowances and public works programs for those who especially need such help.

We believe that this approach fits well with the Comprehensive Development Framework. We wholeheartedly welcome the Bank's efforts to implement this initiative. As the Bank's documents correctly point out, the basic tool for eliminating poverty is sustainable economic growth. Thus, the post-crisis situation presents governments with a complex dilemma: how should growth-oriented policies (budgetary stability, low taxation, limiting government intervention in the economy) be balanced against the pressing tasks of dealing with the social consequences of the crisis? This trade-off must not be ignored. The choice of tools for economic and social policy, to be sure, is the prerogative of the government, which is the legitimate representative of the country's interests. The World Bank, however, as a knowledge institution, can and should help the governments in making an informed choice in this matter by analyzing possible policy options for post-crisis period and long-term implications of each alternative. This is where we see the essence of the Bank's evolving role in the new millennium, as unbiased adviser reacting not only to economic indicators but also to social, political and institutional needs of the countries.

However, it is important to note in this regard that best practice in social policy should be seen as good advice rather than as mandatory requirement. Furthermore, a distinction should be drawn between the goals of long-term development, which may call for profound structural reforms, and the short-term tasks of minimizing social damage caused by a crisis. Precisely because institutional and structural reforms require great effort, time and expenditure, they should not be pushed during a crisis.

Strengthening Corporate Governance

In the wake of the Asian crisis and following the massive privatization in transition economies, there has been a surge in interest to corporate governance issues. We welcome the participation of the Bretton Woods institutions in the analysis of these problems.

We should take special note of the participatory approach displayed by the Bank in dealing with these matters. The establishment of partnerships with international organizations, regulatory agencies and the private sector sets a valuable example on fruitful cooperation.

At the same time, it should be acknowledged that the organization and regulation of corporate activity is a completely new subject for the Bank. Therefore we should carefully consider possible consequences of this proliferation of interests, as well as possible mechanisms for the Bank's relations with the client countries on this issue. Specifically, we share the view that the structure of corporate governance should depend on the country's specificity, including the established types of economic activity and cultural and legal traditions. Such diversity has been documented in detail in the case of industrial countries. And, as the range of countries under review expands, we can also expect this diversity to increase. Therefore we must be extremely cautious in any attempts to formulate common standards for corporate governance, let alone in trying to impose them on member countries. In this regard, we hope that the Global Corporate Governance Forum will become a place for equitable and unbiased debate by all parties, rather than a tool for imposing specific views of a single country or a group of countries. Furthermore, it is essential that a direct connection be established between the reform of corporate governance and issues of deregulation. The lack of transparency in governance, violations of the rights of investors and creditors almost always prove to be related to inadequate deregulation and possibilities of collusion between bureaucrats empowered with broad discretionary rights on the one hand, and vested interests on the other.

Developing Countries and Issues of International Trade

We support the Bank's efforts to assist developing countries in preparing for a new round of WTO negotiations. These efforts are aimed at maximizing the benefits derived from the liberalization of international trade and at increasing their degree of integration into the world economy. In this context, we would like to stress that the ultimate success of developing countries in this area depends on two factors: their own efforts to establish an export-oriented regime and the actions of their trading partners. With regard to the first factor, the World Bank is a natural partner for developing countries, and especially for the group of the least developed countries, in devising an appropriate integrated economic strategy and institutions designed to carry it out. The experience of the 1990s shows that the liberalization of the trade regime by itself, without strengthening the state's regulatory functions and without an appropriate institutional framework, is fraught with negative consequences. This applies to the trade in traditional commodities, and even more to the services (finance, telecommunications, tourism, etc.) that have recently been added to the sphere of liberalization and are extremely sensitive to regulatory measures. The fundamental issue is the balance between the costs and benefits, especially in the short term when the potential benefits have not yet been realized and the costs are significant.

The Bank should not adopt any separate program to promote the development of trade. Nevertheless, it can provide a strong impetus for the efforts of borrowing countries in this area through country assistance strategies and structural adjustment lending. Particular attention in this regard should be given to the problem of maintaining the fiscal balance in countries where tariffs make up a considerable share of government revenues. As for the second factor, we must be conscious of continuing distortions in the world trade system, including various quantitative and other restrictions still prevailing precisely in the sectors where many developing countries have a comparative advantage. This includes, for example, agricultural commodities, textiles and clothing, steel and a number of other products. The principal efforts in this area should still be made through the WTO, and we call on the major trading powers to make every effort to eliminate this imbalance as soon as possible.

I would like to note in this regard that neither the international community as a whole nor the World Bank in particular seem to have fully appreciated the importance and the scale of the liberalization of foreign trade that has been carried out in transition economies. It would not be an exaggeration to say that modern history has not seen such fast, profound and comprehensive changes as when an entire group of countries moved from a total absence of freedom in foreign trade to a largely open economy. The circumstances and problems associated with this leap are still awaiting their researchers. At any rate, these countries have taken far more steps in the direction of free trade than their partners. I think many of these countries experience a certain disappointment when they see that their efforts in the area of trade liberalization have not met with matching response from a number of industrial countries. The latter continue to retain many old protectionist barriers including the non-tariff ones; moreover, there are cases when new barriers are erected against particularly efficient exporters from developing and transition economies. This myopic approach openly contradicts the policy of assisting the countries that have suffered from the crisis, slows down the pace of recovery and ultimately leads to additional demand for financial assistance from international institutions.

IBRD Capital Adequacy

A thorough analysis has shown that the World Bank is approaching the limits of its risk-bearing capacity consistent with its high credit rating. Analytical studies clearly demonstrate that future shocks can seriously affect the Bank's financial structure and its ability to provide development financing. The methodology used in this analysis and the basic conclusions that it yielded received high praise from leading independent experts. Continuing economic problems in the developing countries, their decreased access to private capital market and political instability in some important regions are likely to result in a high demand for loans as well as in increasing claims on the Bank's net income. Therefore the shareholders should take steps to protect the Bank against future shocks and maintain its high credit rating. The practical achievement of this objective implies some difficult decisions that can include areas such as more active balance sheet and risk management, income allocation and increasing the Bank's paid-in capital. A combination of these measures, based on the principle of fair burden sharing, seems to be an appropriate strategy consistent with the cooperative nature of this institution. Any asymmetrical solution of this problem that shifts the balance among shareholder groups is unacceptable. The 1998 increase in the cost of funds for borrowers led to a noticeable rise in the Bank's profitability. As a result of that, the borrowing countries have already made a substantial contribution to strengthening the Bank's financial capacity. At the same time, the recommendations regarding the establishment of an adequate mechanism for financing a number of programs of interest to a number of shareholders in the form of a Trust Fund that would reduce the burden on the Bank's net income have not yet been implemented.

That is why we disagree with any unbalanced approach to strengthening the Bank's financial condition through a further increase in the cost of borrowing. This approach is especially unacceptable during crises when the terms of access to international capital markets by developing countries are worsened and the problem of servicing the foreign debt becomes more acute. An increase in the Bank's paid-in capital and the adoption of other measures aimed at improving the institution's financial condition seem imperative in order to preserve its financial integrity and development role.

We support the idea of differential pricing for various types of financial products depending on the clients' demand for them and the impact of the relevant operations on the Bank's financial structure and its ability to provide support to all borrowers. We also believe that ongoing consultations between the shareholders and the Management of the Bank will result in a mutually acceptable and effective solution to the problem of strengthening the Bank's financial capacity and capital adequacy.

New Approaches to Development

The Bank is a living and complex organism. Like any organism, it never stops developing, without however losing its unique identity. We appreciate the extraordinary adaptability that the Bank has repeatedly displayed while always remaining at the forefront of assistance to developing countries and transition economies.

We welcome the Comprehensive Development Framework with great enthusiasm and believe that the Bank must strengthen its role as coordinator of bilateral and multilateral efforts to provide effective assistance to developing countries. The most important condition for implementing this framework is maintaining the Bank's leading and influential role within the international division of labor and financial architecture—the role of providing credit resources for development.

We cannot allow this key function of the Bank to erode or be pushed aside. For us the Bank is above all a lending institution, an instrument for the transfer of financial resources to developing countries, and only in that capacity can and should it perform its analytical, advisory and coordinating functions.

Statement by Mr. Haruhiko Kuroda, Vice Minister of Finance for International Affairs (Japan)

HIPC Initiative

At the last Development Committee meeting in April, a policy of providing "broader, deeper and faster" debt relief to the Heavily Indebted Poor Countries (HIPCs) was presented. A more concrete framework was proposed at the Cologne summit meeting in June. I welcome that the Boards of the World Bank and the IMF have recently endorsed an enhanced framework of the HIPC Initiative.

In implementing the enhanced initiative, there remain two key challenges: financing the enhanced HIPC framework for the Bank and other Multilateral Development Banks (MDBs), and linking the HIPC Initiative with poverty reduction.

A consensus on these issues needs to be swiftly formed at the Bank and the IMF.

MDBs Financing. In implementing the enhanced initiative, the MDBs should first make efforts to maximize the use of their internal resources to finance their incremental costs. Among the MDBs, the Bank is expected, given the size and the prospects of its net income, to finance the needed fund basically through IBRD net income transfers.

It has been pointed out that other MDBs, particularly the African Development Bank (AfDB) and the Inter-American Development Bank (IDB) would not have sufficient resources to cover their costs. After all possible efforts are made by the MDBs; bilateral contributions would be required to cover the shortage. It will be crucial to ensure fair burden sharing among countries in financing overall cost of the enhanced initiative including bilateral debt relief.

With the successful progress of the enhanced initiative, Japan would provide some $4 billion bilateral ODA debt relief in the near term, which is the largest-scale contribution among creditors. At the same time, Japan is one of the few countries that have pledged and have actually contributed to the ESAF-HIPC Trust Fund in the IMF as well as HIPC Trust Fund in IDA. We expect other countries to contribute towards securing the necessary funds based upon the principle of fair-burden sharing, taking into account both bilateral and multilateral debt relief.

Linking Debt Relief and Poverty Reduction. Japan expects, by using resources made available by debt relief for development purposes such as education, health, and other social investments and job-creation, the enhanced initiative would be identified as an integral part of broader efforts to implement poverty reduction strategies and a robust link between debt relief and poverty reduction would be ensured. To these ends, Japan supports the proposal that, in accordance with differing poverty and debt conditions, each of the HIPCs will prepare Poverty Reduction Strategy Papers (PRSPs) in cooperation with the Bank and the IMF by decision point, and that these will be reflected in the Country Assistance Strategies (CAS) and the IDA lending policies.

IBRD'S Capital Adequacy

The Bank and several regional development banks have provided a wide range of assistance by responding to the development of the recent crises in the emerging market economies. While such activities were beyond the traditional functions of MDBs, Japan has consistently supported their active response to the crises. This is because:

MDBs' assistance would protect the fruits from their previous efforts towards poverty reduction. MDBs' function of fundraising from the markets was necessary to respond to the crises caused by the private outflow, particularly when IMF's fund availability was limited.

The Bank supported the crisis-hit countries by mobilizing various facilities, such as the Special Structural Adjustment Loan (SSAL) and the Policy Based Guarantee (PBG). Consequently, while the Bank's capital structure is currently sound, the Bank's portfolio is deteriorating, and the Bank may be approaching the limits of its risk-bearing capacity.

Discussions over the options for enhancing the Bank's financial capacity have been discussed since the last Development Committee in the spring. While calling on the Bank to continue to make efforts for poverty reduction in various fields, we bear the responsibility as shareholders to maintain the Bank's capacity to carry out such activities. Hence, while asking improvements in selectivity and quality, we cannot support the option of limiting the amount of lending because of financial restraints. To deal with the Bank's increasing exposure to several borrowing countries as a result of the economic crises, and with the increasing risk of economic crises contagion within a region, we believe that deeper examinations of the various options for increasing the Bank's paid-in capital, which is essentially the Bank's capital base, should be pursued, including a general capital increase.

Bank Assistance to Developing Countries Related to International Trade Issues

Amid the rapid progress in the globalization of economic relations, it is expected that efforts will be made to ensure that the developing countries will not be left far behind, but will enjoy the benefits derived from international trade and achieve economic growth and poverty reduction. To date, the international community has endeavored to set international trade rules and achieved steady results, and the efforts toward setting new rules for the coming century are underway towards the upcoming round of WTO negotiations. While it goes without saying that the developing countries must actively participate in setting the new rules, the important challenges are how to implement the rules smoothly, and how to establish the foundation for its implementation. In other words, in order for each country to implement the rules, strengthening the implementation capacity in accordance with the conditions of each country will be indispensable, and international support for this purpose will be needed.

To date, in cooperation with the WTO and many other international organizations, the Bank has identified issues such as what are the barriers to implement the trade rules in developing countries and how can these barriers be removed, and has provided various forms of assistance such as capacity building. Based on this experience, the Bank should mainstream the trade issues into the Country Assistance Strategies (CAS), which set the development strategies for each country, place a high priority on trade issues, and carry out various types of assistance. In doing so, it is important that the Bank identify comparative advantage in this field, and implement assistance in coordination with other international organizations, while strengthening partnership with the civil society.

Bank Assistance for Strengthening the International Architecture

Managing the Social Dimension of Economic Crises: The economic crises in the emerging market economies in Asia and elsewhere induced a rise in unemployment and corporate bankruptcies, as well as price increases which particularly placed severe damage on the poor. In these economies which suffered from the crises, signs of recovery from the economic crises are now discernible. However, when we turn to the social dimension, the situation remains serious. One of the lessons to be learned from the Asian crises is the extreme importance of managing the social dimensions of crises in addition to the economic aspects. It will be crucial to study from the standpoint of social policy the effects of crises on the poor and vulnerable and the types of assistance which are needed.

When the crisis occurred, the Bank did not only provide assistance to secure liquidity and financial sector soundness, but also addressed the newly generated poverty in the social sector. We appreciate the Bank's efforts to organize the knowledge and its experience - lessons learned from its operations regarding short-term crisis response and the long-term prevention of crisis - and share this with other donors, international organizations and civil society.

In response to the new poverty generated by the crises, Japan will identify its support in coordination with MDBs, by making new contributions to the Bank and the Asian Development Bank.

Corporate Governance. For sound economic growth of developing countries, the development of the private sector as well as the public sector is important. The establishment of a fair and transparent corporate governance system is a necessary measure to promote autonomous economic activities of the private sector in developing countries.

As corporate governance systems are complex with organic linkages among various systems, the appropriate implementation of reforms needs to go through a time-consuming process. For the developing countries, one of the most urgent issues at present is to actively implement the reforms of the various systems including financial, legal, and accounting system that comprise the foundations of their economies. The Bank is encouraged to continue its effort for capacity building in developing countries based on its experience to date while referring to the "corporate governance principles" formulated by the OECD. Needless to say, the Bank must take a flexible rather than a uniform approach, reflecting the wide diversity of the social and economic systems in the developing countries.

Statement by Mr. Pedro Malan, Minister of Finance (Brazil)

Highly Indebted Poor Countries - HIPC

The HIPC Initiative has been in the agenda of the Development and Interim Committees for some two years now. In this period, under the current framework only four countries were able to reach a completion point and qualify to receive effective assistance. This is a small number compared to the 29 countries which are potential candidates for assistance, or 36 countries if we consider the proposed enhanced initiative. Despite the HIPC Initiative, the debt problem for many poor developing countries, including those who already benefited from the current framework remains acute. Therefore, we have supported from the outset the ideas for making the initiative deeper, broader and faster.

At the same time, we have also stressed, since the beginning, that our support for the Enhanced HIPC was conditioned on reaching consensus on a financing plan that identifies the sources of funding before commitments are made to any country. In this respect, we are particularly concerned with the financial integrity of the multilateral financial institutions, especially the IBRD, the IDB and the smaller regional international organizations that operate in the Western Hemisphere. Finding internal sources of finance in these institutions at this juncture does not appear to be possible. The IBRD, in particular, has already committed to the initiative much more than its fair share and may be approaching its risk bearing capacity.

The principle of additionality in our view means, on the one hand, that resources for financing the new HIPC countries should not come at the expense of existing flows to other developing countries. On the other hand, it means that these resources cannot come from increases in loan charges for the borrowers of IBRD, the IDB and other multilateral financial institutions. This should be excluded as an alternative to generate resources to be used in HIPC financing, as it would imply asking the poor to help the poorest.

In our view, the major source of additional financing has to come from bilateral contributions from developed countries. In this respect, we are disappointed that countries that took the lead in pressing for changes in the HIPC have not been as generous in their financial pledges as one might have expected.

We agree with the management of the Bank which made clear in a recent study that calling on the IBRD to meet additional costs which refers to IDA would lead to a reduction in the institution's equity capital on the same amount. Its financial ratios would drop sharply, and the Bank would fail to meet the capital adequacy test. To regain those ratios would entail a halt to new loan commitments during two years or a prohibitive increase in loan prices. We agree also that this scenario is not acceptable, as it would prevent the Bank from carrying out its developmental mission.

Brazil is making very important efforts to contribute bilaterally with the HIPC process. So far our costs related to bilateral debt relief to the four countries that have already qualified for assistance, namely Uganda, Bolivia, Guyana and Mozambique amounted to US$ 323 million. In the overall context of support to the poorest countries, it should be noted that Brazil's contribution to IDA increased five-fold recently. Brazil also participates in the funding of the IMF additional HIPC costs. Moreover, Brazil participates in regional institutions that have also been asked to contribute.

Special attention must be paid to the case of small, vulnerable developing countries, such as Trinidad and Tobago, which are major creditors of Guyana. Trinidad and Tobago, which have a GDP of US$5 billion, has contributed around US$350 million to the debt relief of Guyana under the current framework, but may not have additional financial capacity to participate in further relief envisaged under the proposed retroactive scheme.

We also would like to reiterate our position stated during the last Developing Committee meeting regarding the need for IDA to be better prepared to face situation such as this one by creating a loan loss provision.

We are supportive of the proposal to strengthen the links between debt relief and poverty reduction. If the HIPC Initiative really succeeds in bringing debt burden to such a level so as to free up existing resources which are now being used for debt servicing and amortization, it seems appropriate that these resource be channeled to poverty alleviation programs in those countries. In order to achieve effective outcomes, programs of poverty alleviation must be carefully designed, taking into account each country's special circumstances. Structural benchmarks for selected indicators and quantitative performance criteria for social expenditures may be suitable for low-income countries that have low levels of social spending, if realistically determined. However, a study prepared by the IMF concludes that it is difficult to establish clear links between meeting these benchmarks, performance criteria and prior actions, on the one hand, and improving basic social services on the other. We have also to be mindful that the quality of expenditure may be more important than the level of expenditure and that sustainable results can only be secured over the medium and longer run. Instead of focusing mainly on inputs, such as volume of expenditure, poverty reduction programs in HIPC and low-income countries should pay attention to outcomes. In addition, we should be mindful that these targets could only be achieved in an environment of sustained per capita income growth, low inflation and political stability. The establishment of expenditure targets must be carried out within the budgetary procedures of those countries. The budget is the proper locus for those with political representation to take decisions on the allocation of scarce public resources for competing objectives. Doing otherwise would be a disservice to future governance of the countries concerned.

IBRD Capital Adequacy

We agree with management's evaluation that the Bank might be reaching its risk bearing capacity and that discussing the possibility of a General Capital Increase might be necessary. It is important to maintain the Bank's ability to increase levels of lending at least in line with growth in borrowing countries. The World Bank should also have the capacity to respond to new external shocks by increasing lending to borrowing countries.

The review of loan charges enacted last year already represented a major step to strengthen the finances of the Bank. Therefore this option should be excluded. The Strategic Compact has brought some positive outcomes in terms of maintaining administrative costs under control. Further administrative measures would not likely generate a significant volume of resources. This is however an area where the Bank, as any other financial institution, should maintain continuous efforts of improvement.

Developing Countries and the International Trade Agenda

International trade lies at the heart of the development process in any country. Over the years trade has been present in the agenda of the Bank in various ways. Given the substantial trade reform undertaken by many countries during the last decade, and the fact that we are approaching a new round of negotiations under the auspices of the WTO, the time seems ripe for the Bank to revisit the issue of how best to assist borrowing countries in this area. Economic openness is important for sustainable development and poverty alleviation by allowing countries to make better use of limited resources and take advantage of improving production techniques -- therefore fastening growth in productivity. The World Bank Group can provide support in many ways: to extend loans designed to improve trade-related infrastructure and to create an environment conducive to greater international competitiveness; to help countries build institutional capacity, which is required to implement current and future international trade agreements.

IFC could play a bigger role in strengthening the private sector competitiveness, in particular of small- and medium-size enterprises in order to allow them to engage in international trade.

The upcoming WTO Millennium Round Negotiations is a critical juncture. The real issue at this new round will be to what extent sectors and industries of particular interest to developing countries, such as agriculture, will become subject to multilateral disciplines. In agriculture, curbing the level of subsidies and trade barriers in advanced countries will be essential for many borrowing countries to be able to take advantage of their comparative advantage. More trade means a lesser need for aid. Better market access for products exported by developing countries is an important development goal.

The Bank must also be prepared to support countries in trade negotiations and to produce research and technical studies, including at the request of borrowing countries, on specific trade issues and trade barriers in industrialized countries that affect exports of borrowing countries.

World Bank Support for Strengthening International Financial Architecture

The World Bank can make important contributions to strengthening the international financial architecture by assisting borrowing countries in reforming their financial systems. It should be recognized, however, that the Bank does not have an international surveillance and monitoring mandate, nor is it a standard setting body. The Bank should focus on the areas where it could provide the greatest value added, namely support for capacity building and for policy design related to domestic financial sector reform and sharing cross-country experiences.

Statement by Hon. Kelebone A. Maope, Deputy Prime Minister and Minister of Finance and Development Planning (Lesotho)[3]

The Global Context

While the market turmoil that resulted from the recent financial crisis appears to have settled, the recovery in the developing world remains fragile and the sharp decline in international capital flows left in its wake has persisted into the first half of this year. All indications point to a continuation of this trend for at least the remainder of 1999. The fall in foreign direct investment (FDI) flows has been relatively modest, but has revealed the sensitivity of such flows to global crisis. Prospects for FDI are, therefore, not encouraging, especially in an environment of modest economic and trade growth. Moreover, FDI flows remain concentrated in a handful of countries, with very little of it finding its way to Sub-Saharan Africa.

Financing Africa's Development

In spite of substantial progress with economic reform, the economic revitalization enjoyed by most countries in the continent suffered a setback in 1998, resulting in a one percent fall in per capita income after several years of growth. Our countries are committed to maintaining the momentum of reform. However, if growth is to be sustained, adequate levels of external funding and significant debt relief must complement our reform efforts.

To achieve sustained growth, the African countries recognize that reform efforts must be redirected towards a greater focus on poverty reduction as a development objective. Sustainable development in the medium-to-long term will mean a greater reliance on self-help, including the mobilization of higher levels of domestic resources. The challenges of globalization and liberalization make it imperative that African countries modernize and adapt their productive, regulatory and administrative structures to be better integrated into the world economy.

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[3] On Behalf of Africa Group I Constituency.

Regional groupings offer an important means of enhancing this process, and we call upon the World Bank Group to increase its collaboration with African regional organizations through technical support and the development of financing mechanisms for funding the regional cooperation efforts of African countries.

The recent financial crises in East Asia, Latin America and Russia have highlighted the vulnerability of African countries to developments in the global financial system. The lesson for African countries is the need to develop and strengthen financial and banking systems through appropriate regulatory oversight that weighs the benefits of increased capital flows against the risk of financial contagion. The Bank and its development partners must assist in this effort by supporting our countries' financial sector reforms aimed at modernizing our financial systems and markets and strengthening the regulatory framework and governance in local capital markets. The IFC has been active in capital market development in Africa, and the current improved macroeconomic environment in most countries on the continent should permit a significant expansion in IFC activity in this important area. In particular, we would like to see greater activity in the area of micro-finance in view of the vibrant informal sector and the limited employment opportunities and financial resources available to this sector in most African countries.

Africa's growing recovery and its adherence to structural reform must indicate a basis for expansion, not contraction, of aid, if growth is to be sustained. African countries need continued support from the donor community in terms of concessional resource flows to help them address the long-term fundamentals of economic development. These include enhancing productive investment through basic infrastructure, creating an enabling environment for private sector activity, and strengthening human capital through efficient investments in primary health care and education. Therefore we would like to call upon the World Bank to increase its efforts to help mobilize concessional aid flows to Africa from the international donor community. The Special Program for Africa (SPA) has demonstrated its effectiveness in mobilizing concessional resources in support of the reform efforts of African countries. We trust that the forthcoming fifth cycle of the SPA will be fully funded so that it can continue to meet the growing poverty-reducing needs of its recipient countries.

Special attention needs to be given to increasing the efficiency and effectiveness of aid to Africa, and to avoiding an overdependence on aid. In this connection, we would like to stress the importance of improved partnership and African ownership and commitment to aid-funded projects and programs, the need for strengthening institutional aid delivery mechanisms, and the need to emphasize capacity building as a more suitable alternative to technical assistance in most cases. These are all ideals, which we expect to be incorporated in the Bank's Comprehensive Development Framework, in the context of a new donor-beneficiary relationship in which multi-donor programs will focus on an African-driven agenda.

The Heavily Indebted Poor Countries (HIPC) Debt Initiative

This brings me to an issue that is of particular importance to the highly indebted countries of Sub-Saharan Africa, and that will, no doubt, most exercise the minds of Governors at these Annual Meetings. Since the inception of the HIPC Initiative, the Sub-Saharan African countries have been among its strongest supporters. We have, however, led the call for a modification of the initiative to ensure that it provides faster, deeper and broader relief, if it is to make a material difference to the development prospects of HIPCs. This view is shared by a broad range of donors, recipients and NGOs, as confirmed through an extensive consultative process carried out in the last few months. We are pleased to endorse the proposals set forth in the Report of G-7 Finance Ministers at the Cologne summit last June. They have been useful in forming a basis for modifying the existing HIPC Initiative framework, as proposed at these meetings, in such a way as to enhance its effectiveness in meeting its stated objectives.

We also endorse the modifications proposed by the Boards of the Bank and Fund. In particular, we welcome the recommendation that the initiative be simplified and enhanced through lower debt sustainability targets, and an earlier assessment date for the determination of assistance. Further, we endorse the proposals to speed up delivery of assistance under the initiative through interim assistance from multilateral institutions, floating completion points, and front-loading of debt relief after the completion point. We very much welcome the prospect of a much larger number of HIPC countries qualifying for assistance under the initiative as a result of the proposed modifications. Finally, we strongly support the recommendation that those countries that have already reached their decision and completion points should be able to benefit retroactively from additional assistance resulting from any modifications to the HIPC Initiative.

Undoubtedly, the proposed modifications will entail significant additional costs to be borne by bilateral, commercial and multilateral creditors. We would strongly urge that these costs be borne equitably amongst all creditors in such a way as to preserve the principle of additionality. In particular, in seeking means of securing additional funding from the World Bank, we would hope that IDA's commitment authority would not be compromised in any way.

We are of the firm belief that a strong link must be established between debt relief and poverty reduction. This link must operate within an appropriate macroeconomic framework consistent with poverty reduction, and on the basis of a broad-based poverty reduction strategy with strong country ownership and widespread participation of civil society. Debt relief must thus be integrated into a country's general anti-poverty framework, with expenditure made possible by debt relief savings incorporated into the overall national budget. Improvements in transparency and accountability are important in ensuring that social expenditures are effective and reach the poor. This implies a capacity building role for the World Bank in strengthening the debt management capacity of HIPC countries.

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

The HIV/AIDS epidemic has spread with phenomenal speed over much of Africa in the last few years. Today it presents the greatest threat to the region's development. More than 11 million Africans have already died of AIDS, and another 22 million Africans — nearly two-thirds of all cases in the world — are living with HIV/AIDS today. Twenty-one countries with the highest HIV prevalence are all in Africa, with prevalence rates exceeding 10 percent in at least ten of these countries. In some countries, one in four adults are infected. By the year 2020, AIDS will account for more than 37 percent of adult deaths from infectious diseases in the developing world. And in the worst affected countries in Africa, life expectancy in the next ten years will be 17 years shorter than it would otherwise have been — 47 instead of 64.

AIDS is clearly a problem, which must be addressed urgently. While other diseases, such as malaria and other childhood diseases continue to claim as many lives, AIDS has a particularly devastating impact on development. By claiming the lives of the most productive segments in society, it robs African countries of their already modest supply of productive human capacity to stimulate development. As such, AIDS is not just a health issue, it is a development issue, with important implications for every sector of the African economy.

Any effective response to the AIDS crisis must begin with the African countries themselves, and government commitment at the highest level must be assured if the spread of the disease is to be contained. We also recognize the importance of effective government cooperation and collaboration with civil society and the private sector, making as much use of community participation as possible. Already, a number of African countries have embarked on aggressive prevention campaigns, but their efforts are not adequate to contain the scourge of HIV/AIDS.

We would like to call upon the World Bank Group to place the HIV/AIDS epidemic at the center of its development agenda for Africa, and to continue to work in partnership with other international and regional organizations to design an effective, coordinated and intensified response to the crisis. Such a response should include, but not be limited to, the following features:

- The Bank should support the efforts of African leaders to mobilize the participation of civil society and the private sector in an intensified action plan to combat the spread of HIV/AIDS through educational campaigns, conferences and workshops to help raise local awareness about the disease and how to control its spread.
- HIV/AIDS must become one of the central priorities for the Bank in its cooperation with Sub-Saharan Africa. This will mean raising awareness among Bank staff, and building staff capacity to respond to the need for intensified action on HIV/AIDS. It will also mean incorporating HIV/AIDS activities into the entire Bank's work in Africa through a multi-sectoral approach, and incorporating HIV/AIDS concerns in all country assistance strategy papers for Sub-Saharan African countries.
- The level of Bank funding directed to HIV/AIDS prevention, care and treatment in Africa should be increased appreciably and take the form of specific HIV/AIDS operations. The Bank should also help to mobilize grant and concessional resources from bilateral and multilateral donors for addressing HIV/AIDS in Africa, through redirection of ongoing project funds, as well as additional funding. Such funding can be leveraged through greater collaboration among international donors, and through private sector funding.
- The Bank, in collaboration with the international donor community and the private sector should help fund ongoing and new research towards the development of an HIV/AIDS vaccine and the discovery of a cure for AIDS. Appropriate attention should also be given to cost-effective treatment options, counseling programs, care of orphans, economic support to affected families, and the provision of humane care to infected patients. The IFC can also play a role in stimulating domestic private sector participation in the provision of health care facilities, the establishment of blood-screening centers, and the local manufacture of condoms.

Ultimately, the greatest contribution that the Bank and its development partners can make to contain the spread of HIV/AIDS in Africa is to reduce poverty in the region. By reforming health care, increasing access to education, building capacity and empowering women, the Bank and its partners would be addressing the socioeconomic factors fundamental to the spread of HIV/AIDS -- and indeed a host of other communicable diseases that continue to plague our countries today.

We welcome the "Intensifying Action Against HIV/AIDS in Africa" Strategic Action Plan, recently launched by the World Bank's Africa Region. The Action Plan, reflects a strong commitment by the Bank to act decisively in addressing what is perhaps one of Africa's greatest development crises. We trust that the Action Plan will benefit from strong support from the Bank's leadership, and from Africa's development partners. We also hope that it will be widely disseminated, and will be enriched by the on-the-ground experience that many African policymakers have acquired as they have sought to confront the epidemic's devastating consequences in their countries.

The Partnership for Capacity Building in Africa

It was almost exactly four years ago that the African Governors highlighted the importance of capacity building to the economic development of our countries. At that time we proposed the establishment of a Partnership for Capacity Building in Africa (PACT) whose most important distinction from earlier efforts would be its African ownership and inclusiveness within a context of partnership with Africa's development partners, civil society and the private sector.

We are gratified to note that PACT has received the endorsement of the World Bank Board, following an exhaustive process of preparation and consultation. We fully recognize that Mr. Wolfensohn's own special efforts were crucial in bringing the initiative to this stage, and would like to express our sincere gratitude for the strong support he has provided to PACT since its conception. We are particularly grateful for the establishment of the PACT Trust Fund, and for the Bank's commitment to ensuring that additional financing will be forthcoming. We urge the Bank to support our efforts to mobilize multilateral, bilateral and private sector financing for the Trust Fund, so that our countries can quickly begin to reap the economic benefits of an enhanced work force. On our part, we pledge to ensure that the initiative continues to benefit from strong government ownership and commitment, and that our civil societies play a key role in the implementation of the initiative in our countries. We look forward to an early review of the initiative so that we can ensure that it results in tangible progress towards our human development objectives and a reduction in the need for costly technical assistance.

Developing Countries and the International Trade Agenda

A holistic approach to development will necessarily imply a central role for the World Bank on international trade issues in developing countries. Besides being key to development, it is also a source of social, economic and political stability for many countries. In a globalized world, attention to trade issues must move beyond a preoccupation with the elimination of tariffs and form part of an overall development strategy for countries. Within such a strategic context, a supporting cast of characters — efficient infrastructure, adequate human and institutional capacity, appropriate legal and regulatory framework, trade-friendly labor codes and efficient financial markets — must complement a country's efforts to eliminate trade barriers, if sustained development and poverty reduction are to be catalyzed.

The Bank is well placed to play an important supplementary role in this area which properly lies within the domain of the World Trade Organization's activities. We welcome the substantial program of work currently underway at the World Bank, including operational support and dissemination of best practice information; participation in the Integrated

Framework for the Least Developed Countries; research and capacity building focussed on the trade negotiations; and research on the new trade agenda. We trust that special attention will be given to the geographical disadvantages that marginalize many Sub-Saharan African countries in the global industrialization process. We would also like to see the integration of trade issues into the country assistance strategy process.

We look forward to the new round of multilateral negotiations to be launched in Seattle in November. We hope the negotiations will not be overburdened by non-trade issues, which could represent a further disadvantage to the trade prospects of developing countries. We hope the new round will take into account the severely restricted access that developing countries continue to encounter with respect to industrial country markets despite commitments made by these industrial countries under the current round.

Africa's nascent economic recovery remains fragile, and our government's continuing efforts to expand and diversify exports and create an environment more conducive to investment and trade will need to be supported by the Bank and its development partners if they are to succeed. Bearing in mind our commitment to the World Trade Organization (WTO), and in particular, the forthcoming Third Ministerial Conference of the WTO in Seattle next November/December, we call upon the international community to help our countries diversify their export bases so as to minimize the external shocks that result from commodity price collapses and increased competition from other commodity exporting regions.

Furthermore, the Bank and its development partners should assist African countries by enhancing their access to market-based hedging mechanisms that reduce their vulnerability to commodity price fluctuations and increase the predictability of export revenue flows. In this connection, we very much welcome the International Task Force on Commodity Risk Management in Developing Countries, recently established by the Bank, and made up of international experts, working in partnership and dedicated to the search for a more effective solution to managing commodity price risk in developing countries. We hope its deliberations will result in outcomes that will make a real difference to the African smallholder farmer who ultimately bears the greatest risk to his or her livelihood. In this regard, we would like to call for the establishment of capacity building programs, targeted at both the public and private sectors, to ensure that the proposed risk-management instruments are used effectively.

IBRD Capital Adequacy

The recent financial crises and the very heavy demand they placed on the Bank's resources have given cause for concern about the IBRD's capacity to respond to future crises of similar magnitude. External reviews have given credibility to these concerns by cautioning that the Bank may be approaching the limits of its risk-bearing capacity. While we are comforted by the Board's conclusion that the current capital structure of the Bank remains sound, we are troubled by the recognition that it may place limits on the Bank's effectiveness, especially in the event of a deterioration in the external global environment.

While welcoming further Board discussion of various options for enhancing the Bank's capacity, it would seem to us that it may now be appropriate to begin consideration of a possible capital increase for the Bank, if it is to continue to meet the growing demand for its services. Given the lead-time required to complete the process of a capital increase for the Bank, we would like to propose that this important matter be taken up at the next meeting of the Development Committee.

World Bank Support for Strengthening the International Financial Architecture

We welcome the role the World Bank Group is playing to help strengthen the global financial infrastructure and thus reduce the vulnerability of developing countries to financial upheavals. At the country level, the Bank should primarily focus on helping developing countries integrate with the global financial system. We would urge the Bank and Fund to focus on their areas of comparative strength, while leaving other areas to their development partners.

Conclusion

The new millennium offers much opportunity for the African continent, and our countries must begin to consolidate the modest growth that our economic and political reform efforts are yielding. For such growth to be sustained, however, our reform endeavors must be supported with debt relief and additional flows of concessional and private capital, and our efforts to safeguard our human capital must be supported through effective HIV/AIDS prevention and care programs. In a globalized world, our countries must be able to continue the financial sector reforms and build the human and institutional capacity that enables us to take our own place as equal partners in the global community. Ultimately, the World Bank Group's success as the world's premier development institution will be judged by its achievements in Africa, specifically by the extent to which poverty levels diminish in the continent. This will call for a true partnership between our countries and our development partners — especially the World Bank Group. This is an ideal to which we are committed. We trust that we can count on the continued support of the Bank and the Fund in this endeavor.

Statement by Mr. Paul Martin, Minister of Finance (Canada)

Yesterday, in the Interim Committee, we discussed how we might prevent future financial crises through reform of the international financial architecture while introducing a greater sense of priority for the advancement of the most vulnerable in society. Economic growth, nurtured by more stable markets, is critical, but not alone sufficient, to achieving the reduction in poverty worldwide that is the Development Committee's and the international community's overriding priority. The challenge of global poverty reduction needs to be built into the heart of a reformed international financial architecture.

Growing Global Rift between Rich and Poor

The unprecedented liberalization of international trade and capital markets over the last 20 years has generated tremendous economic benefits and higher living standards. However, many throughout the developing world have not reaped the benefits of this growth.

On the threshold of the new millennium the ever present gap caused by knowledge and technology threatens to increase existing income disparities. Knowledge based industries are accounting for an ever increasing share of global commerce, and technology is playing a vital role in improving productivity.

As we have now come to understand poverty is not just an issue of lack of income, or even of knowledge. Even more fundamentally, it is a product of social and human exclusion, insecurity and inequality. In more prescriptive terms, to overcome poverty we need greater participation, social empowerment and expanded opportunity. For, as we all know, poverty is about people – bettering their lives is what our efforts are all about.

The Challenges for Small States

Canada views with particular concern the development challenges faced by the world's small states. At our meeting in April, we welcomed the World Bank's joint involvement with the Commonwealth Secretariat in research and policy work to assist small states in a rapidly changing world environment.

The small states in the Caribbean are clearly facing a difficult transition period with the changes to existing trade preferences, the decline in development assistance and the need for increased participation in the global economy.

These changes would be a formidable challenge for any developing economy. But for the small states in the Caribbean, many of whom are highly dependant on a single agricultural commodity and all of whom are at the mercy of potentially devastating hurricanes, these changes can appear overwhelming at times. Their vulnerability to a single event, which can have disastrous economic and social effects, magnifies the adjustment challenge they face. Small states have a vulnerability that large states do not have. External trade shocks and natural disasters can easily eliminate hard won gains in economic and social development. Their vulnerability is a fundamental differential that must be acknowledged.

Development, trade and finance institutions must recognize the impact of the phase-out of the Lomé preferences on small states and help smooth the transition. Financial and technical assistance and time are needed in support of small states' efforts at restructuring their economies to the new external environment. Changes in global trade have made unsustainable some sectors that once accounted for a large portion of small states' gross domestic product.

A fundamental and comprehensive review of the challenges and opportunities facing small states in this New World environment would be an essential tool for assisting these countries. In fact, such research and policy work would also be helpful to ensure that World Bank involvement in these countries is appropriate, effective and responsive.

The importance of this issue cannot be over emphasized. The research conclusions and policy prescriptions laid out in the small states paper will be used by international development players to sharpen their interactions in small states over the years to come. Furthermore, and potentially most important, this research will set the stage for small state participation and treatment within the next round of World Trade Organization (WTO) trade negotiations. As such, it is incumbent on the Bank to undertake a comprehensive and robust economic analysis and ensure that the small states themselves have an active and early role to play in small state policy development. The small states themselves, after all, are the true experts.

While it is unfortunate that difficulty has been experienced in getting this project off the ground, we are pleased, however, that the Bank is now in the process of putting new arrangements in place to ensure that a comprehensive review of the situation and prospects for small states is completed. We expect that, based on the analysis undertaken in this review, there will be recommendations for appropriate policy responses on the part of the international development and trade communities and the small states themselves.

We look forward to seeing the results of this review by the time of the spring meetings next year. While it is important to move quickly, it is especially important that the Bank and the Commonwealth Secretariat ensure that comprehensive work is done and that adequate consultations take place with small states. This is consistent with the World Bank's overall approach to an inclusive and participatory development debate in line with the Comprehensive Development Framework.

Heavily Indebted Poor Countries: Poverty Reduction – The Aim

In the heavily indebted poor countries (HIPCs), excessive debt has aggravated economic and social problems, preventing them from making significant inroads on poverty reduction. Crushing debt service burdens have left precious few spare resources to devote to health and education targeted to better the lives of their citizens.

Ireland has strongly supported both the initial HIPC Initiative and, particularly, its recently announced enhancement. Ireland has stressed that the underlying aim of the initiative – that of freeing the most heavily indebted poorest countries from the burden of the unpayable element of their debt – must never be lost sight of in its implementation. These countries must be offered a definitive exit from the debt treadmill that is seriously undermining their development. Moreover, all the resources available to the countries concerned should be directed towards improving growth and reducing poverty. In this context, the enhanced initiative must be fully financed and the funding should be fully additional. The impact of the initiative should be carefully monitored and we should not balk at any further enhancements that may be required for these aims to be achieved.

At the Group of Seven (G-7) Summit this year, Canada pressed for faster and more generous debt relief for more countries and further action on poverty reduction. Canada fully endorses the two significant outcomes of the Summit: enhanced debt relief and an enhanced framework for poverty reduction. Debt relief under the new initiative will more than double. Combined with relief under current mechanisms and forgiveness of aid-related claims, this could release significant resources for poverty reduction programs.

To achieve this goal we support developing a clear and implementable poverty action framework. The enhanced framework for poverty reduction must fully use the resources made available by debt relief. It will require a sustained and committed operational collaboration between the Bretton Woods Institutions in working with borrower governments. We recognize that this will fundamentally challenge many old habits and attitudes.

We believe this new partnership should be rooted in four key elements: 1) a broad-based participatory process; 2) improved transparency and accountability for government; 3) an understanding that poverty is multidimensional; and 4) not least, a reminder that sustained poverty reduction is impossible without "quality" economic growth where benefits are widely shared.

The new Poverty Reduction Strategies, in bringing together various strains of development best practices, and engaging wide civil society involvement, hold the promise of faster poverty reduction and sustainable and equitable growth. Inside the Bretton Woods Institutions, we must have a new synergy around this tripartite agenda by mainstreaming poverty reduction with Country Assistance Strategies, Policy Framework Papers and the Enhanced Structural Adjustment Facility.

We agree this strategy should not become a moving set of goalposts. We should see poverty reduction as replacing, not adding, old conditionalities. Specifically, we would hope to see future fiscal frameworks that seek to create and expand the opportunity for increased social expenditures.

Ensuring that the HIPC Initiative is adequately financed is an important priority. While significant progress has been made to date in identifying financing, much more needs to be done. We would urge the international financial institutions to redouble their efforts to identify resources for this purpose. For its part, Canada has fully paid in the $40 million it committed to the HIPC Trust Fund and has also pledged some $24 million from its refund on the International Monetary Fund’s Second Special Contingent Account (SCA-2). Furthermore, Canada will continue to explore options for additional contributions to the HIPC trust funds.

Canada recognized the burden that new debt would represent for HIPCs and so, in addition to forgiving all its Official Development Assistance (ODA) loans from HIPCs, Canada now provides all its bilateral ODA on a grant-only basis. To prevent debt crises from becoming a recurring problem for developing countries, Canada also calls on lenders to adopt more transparent lending practices.

Canada’s Export Development Corporation has already taken steps to increase the transparency of its lending operations in developing countries, including making available a country by country breakdown of its loans. Canada calls on other creditors to join in developing common standards in this regard to help prevent future debt crisis.

Need for a Change in the Culture of Development

Expanding the HIPC Initiative by itself, however, will not be sufficient to meet the challenge of poverty reduction. The HIPC Initiative can only form one element of what must be a much broader attack on global poverty.

Collectively, we have a good sense of the key causes of poverty and where our efforts should be directed. Investment in people and basic social services such as health and education underpins our poverty reduction strategies, and rightly so. In this regard the education of women, in particular girls, is important. Because educating women means educating families. This should form the cornerstone of our efforts in education—expanding opportunity to all segments of our societies.

We need to recognize as well that all too often families and individuals are poor because they are ill. Relatively modest investments in healthcare and pharmaceutical research targeted at the diseases of the poor could potentially yield enormous dividends.

An important step in improving development assistance performance is to overcome a prevailing view in the developed world that its own path to development can be easily transferred to the world's poorest countries. As has been argued recently, developing countries cannot be seen as simply poor rich countries. Developing countries have their own unique sets of challenges, and many approaches tried and tested in the developed world do not travel well to countries with much different socio-economic conditions and cultural backgrounds.

At a time when resources are limited, more thought has to be given to how we can make development assistance funds work better. Building capacity to develop and use knowledge and technology is part of the solution, and the Canadian International Development Agency (CIDA) and other Official Development Assistance agencies are increasingly pursuing this goal by focusing their efforts on pairing the skills and expertise of their partners in both developing and developed countries. For their part, the multilateral development banks need to carefully consider how technical cooperation funding might be best leveraged to build on local strengths.

There is also a strong consensus that effective economic policies on the ground, reinforced by transparent and committed governance and institutional structures, are key to efforts to implement poverty-reducing programs. In countries where governance is strong a radical shift is needed in the culture of development. One that places the developing country – its government and its people – in the driver's seat. Under this approach, donors, both multilateral and bilateral, will work with them in a more equal and open partnership with governments and local stakeholders. Multilateral development banks would play more of a project facilitation and financing coordination role. This will require a real shift in the attitudes of development assistance professionals.

We are encouraged that various players are taking steps in this direction, with leadership emanating from the World Bank through its proposal for a more holistic approach to development under a Comprehensive Development Framework (CDF). The CDF is designed to put developing country borrowers at the center of defining a socially attuned, sustainable development path. Donors – multilateral and bilateral – will work with them in a new, more equal and open partnership. We are particularly encouraged that the Bank's new enhanced poverty reduction framework is seen as central to the CDF approach.

However, the shift in development thinking must go further. Experience has shown that to be truly effective, development assistance needs to be targeted to countries whose governments pursue good policies and which are committed to developing and maintaining strong institutions. With proper policies underpinning a good economic and political environment, development assistance can translate into poverty reduction and an improvement in social conditions. Governance has been a dominant theme of development assistance work over the last few years and it must remain at the top of the policy agenda. In fact, good governance has become the essential building block for solid gains in poverty reduction and effective development assistance. Continued stress on better civil and corporate governance is key to consolidating the sound institutions that are necessary not only to make development cooperation more effective, but to promote a better environment for the private sector entrepreneurial initiative that underpins growth.

Effective multilateral institutions must be a strong pillar of our development assistance efforts. We, as shareholders, have looked to the Bank to play a significant role in addressing the emerging markets financial crises over the last two years and we, therefore, have to acknowledge that this has created pressures on the institution. Canada remains open to supporting a capital increase for the International Bank for Reconstruction and Development as an option for reinforcing the institution's lending capacity. However, our support for this option would be predicated on a strong link between Bank lending and development effectiveness as well as performance on governance issues.

Enhancing Small States and Developing Country Participation in the Multilateral Trading System

Small states and developing countries account for roughly one-fifth of world trade. However, many still lack the institutional capacity to be effective participants in international trade negotiations or even to meet their commitments under existing multilateral arrangements. We welcome, therefore, the Bank's efforts to assist them in overcoming the institutional constraints that hinder realization of the enormous gains from participating in the multilateral trading system. In particular, we commend the Bank for its work under the WTO 2000 program and the Integrated Framework for Least Developed Countries. These initiatives, which help build institutional capacity and train policy makers involved in trade negotiations, will strengthen the voice of developing countries. We would encourage the Bank to develop a much closer partnership with the WTO, as their collaboration will be instrumental in achieving the integration of developing countries into the multilateral trading system.

Let there be no doubt, globalization is here to stay. However, its continued success rests on an ever expanding group of winners. The global trading environment must encompass the dreams and aspirations of all nations – including the small developing nations. The agenda must provide scope that increases opportunity and growth for all. Effective transition, pacing and sequencing for smaller and less developed nations will be imperative for the success of achieving further trade liberalization. It is in our interest to not only see that this happens, but to ensure that the global agenda going forward fully takes into account the need for all countries to see free trade as a benefit, not a cost, to their people.

Development Challenges for the New Millennium

We enter the new millennium with disturbingly high levels of poverty. The shift in development assistance culture to a locally based approach, reinforced by strong commitment on the part of both governments and development assistance providers, has great potential to improve the performance of poverty reduction programs. Governments, multilateral institutions, non-governmental organizations and the private sector need to work together to build an enabling socio-economic environment, including a supportive physical and human infrastructure that will provide the poor with the ability to better their lives.

We need to focus our collective efforts on:

- Improving Governance. More technical assistance and investment is needed to support the strengthening of the social, legal and financial infrastructure in poor countries; this is not only critical for improving the effectiveness of development assistance, it is essential to attract investment. However, we must promote state and civil institutions that give greater voice and responsibility to those governed. It is effective public participation that will ultimately guarantee success by fostering a collective culture of good governance.

- Building Human Capital. Investment in education and health is perhaps the most important factor in overcoming poverty. Educating women and girls, and investing in research to address illnesses of the poor should be our priorities.
- Ensuring Social Stability. Poverty reduction is both good economics and good politics and must be at the heart of economic and social development strategies. It is essential that the poor be protected during cyclical economic downturns through the development and maintenance of adequate social safety nets. While this may well require transfers from multilateral institutions and development assistance agencies, more critically, we need to foster good social policies and to build strong institutions to develop and administer social safety nets.
- Promoting Means to Help the Poor Better Their Lives. Experience has borne out that micro-credit institutions and small businesses, often centered on families, can be an important engine of economic growth in developing countries. Much more can be done to foster the development of these businesses. The work of the Consultative Group to Assist the Poorest, for example, has demonstrated that micro- and small-credit programs are integral to supporting the growth of the small business sector among the world's poorest.
- Improving Knowledge Infrastructure. If the knowledge gap is to be narrowed and technology is to be used to foster development, in parallel with investment in education, development assistance agencies need to support investments in communications and other segments of the knowledge infrastructure. This is an area where there is strong potential for partnerships between the public and private sectors. Currently, incentives for promoting private sector interest in developing the physical and human infrastructure necessary to extend knowledge-based development to the world's poorest regions are simply not strong enough.

Conclusions – Looking Forward

In this age of globalization two compelling realities – the growing interdependence of national economies and the increasing pressures to respect political and cultural diversity – are at the heart of our efforts internationally. Ensuring economic and social opportunities for all is a major challenge of globalization. The fact is, global market growth does not automatically, or equally, raises everyone's standard of living. The global community, guided by a common set of values – the sharing of risks and benefits as well as social and economic opportunities, the pooling of resources and the respect for diversity – offers a future of opportunities in a world of change and in a time of promise. With the world becoming more integrated and interdependent, the need for such values has become more compelling than ever. The fact is, the best balance sheets in the world will mean nothing unless they can be translated into better lives for people and their families. The best international architecture in the world will achieve little unless it results in an increasing standard of living for everyone, especially those who are often left unheard.

The challenge we now face is to help globalization work, not only for governments, not only for corporations, but especially for people and their families, no matter where they live. And that means sparing no effort to ensure that the quality of growth in economies is matched by the quality of life in our societies.

Statement by Mr. N'Goran Niamien, Minister of Economy and Finance (Côte d'Ivoire)

The Joint Meeting of the Development Committee and the Interim Committee, held September 26, 1999, demonstrated the need to strengthen the international financial architecture. Considerable time was saved and duplication of effort was avoided. We must nevertheless proceed cautiously and ensure that the entire international community, including borrowing countries, participates in the exercise. I wish to congratulate management and staff of the two institutions for having successfully translated the wishes expressed in this regard by our Committee at the spring meetings. My congratulations go as well to the Chairmen of the two Committees for willingly approving this concept, and to our Executive Secretary, who had the delicate task of organizing the inter-institutional contacts required to work out the arrangements for the Joint Meeting.

I will present my comments in the order in which the topics appear on the agenda of the Development Committee.

Heavily Indebted Poor Countries Initiative (HIPC)

With regard to the Heavily Indebted Poor Countries Initiative, I welcome the decisions taken in Cologne in June 1999 at the Summit of the Heads of State of the G7 countries and the guidelines on the subject which they established for multilateral financial institutions. The guidelines reflect concerns we have expressed on numerous occasions in this forum since the initiative was introduced. These concerns include the small number of potential beneficiaries and the absolute amount of support to be provided to countries. The proposed modifications call for increasing the amount of assistance and pave the way for additional countries to benefit from the initiative. They call for reducing the characteristic debt ratio and the point at which the amount of debt relief is calculated. We support the proposals. We also favor the adoption of floating completion points, which will enable countries wishing to finish implementing their programs before the agreed completion date to benefit from the initiative. Although this approach will present a number of practical difficulties, especially those of selecting appropriate support measures, it will allow beneficiary countries to take ownership of their programs. Finally, we welcome the adoption of the principle of retroactivity for countries already deemed eligible for the initiative on the basis of existing criteria and for those whose debt situations were considered sustainable and had therefore been unable to benefit from the HIPC Initiative.

We fully endorse the linking of debt relief and poverty reduction. Poverty reduction is a major concern of our countries. We therefore support the proposal to integrate debt relief in the broad strategy to combat poverty to be formulated by governments in cooperation with all their partners. However, I wish to emphasize that it is essential to determine the actual margin of safety that countries will have in terms of available cash once their debt has been reduced. Some countries in fact were no longer able to service their debt. The actual margin of safety following debt reduction may therefore be minimal. This explains our insistence on careful consideration of this margin and on the principle of the additionality of funds.

As to financing the initiative, I believe that the real issue is one of burden sharing on the part of bilateral and multilateral creditors. However, in the light of certain options explored recently by the Bank's Executive Board, we object to proposals calling for some IDA resources to be utilized, as well as proposals, which would compromise future capacity for the replenishment of IDA resources. The crux of the problem for our countries is that we must be able to count on a sufficient flow of resources to finance our development. We also wish to draw particular attention to the African Development Bank (AfDB) and the West African Development Bank (WADB), two institutions which the initiative has placed in a difficult position. The shareholders of these Banks are poor countries. Accordingly, it would be wrong to take from poor countries in order to give back to poor countries.

IBRD Capital Adequacy

Our countries attach considerable importance to the discussions currently under way in the Bank with regard to the question of its capital adequacy. Whatever solution is ultimately adopted, we are concerned about its potential impact on the level and modality of resource transfers to IDA and other programs of assistance to poor countries, including the HIPC Initiative, the Partnership for African Capacity, and the Program of Assistance to Post-Conflict Countries. In view of the current downward movement of bilateral aid flows, confirmed by the background note prepared by World Bank staff on Recent Trends in the Transfer of Resources to Developing Countries, it is of the utmost importance to our countries that multilateral sources of financing such as IDA and accompanying initiatives and mechanisms be protected from any uncertainties arising from likely shortfalls in contributions from donor countries. We therefore believe that in the absence of a significant increase, it is crucial to maintain the level and quality of resource transfers from the Bank's net revenue.

Developing Countries and the International Trade Agenda

Since the conclusion of the Uruguay Round and the establishment of the World Trade Organization (WTO), the World Bank has been actively involved in helping developing countries, particularly the least developed among them, to integrate more fully into the world economy by taking advantage of opportunities offered by the World Trade Organization. This assistance (which was provided in conjunction with other agencies of the United Nations system and has benefited a number of countries from our Group) has enabled the countries concerned to formulate their objectives and requirements effectively in preparation for joining WTO. We welcome these developments and we encourage the Bank to continue helping developing countries, particularly the least developed nations. The ongoing program of research and capacity building which the Bank has established on trade issues has enabled our countries to continue benefiting from best practices and experience developed within WTO. We are pleased that this assistance may be extended to encompass regional integration and the social impact of economic crises precipitated by external trade shocks. We encourage the Bank to continue its assistance to the countries concerned.

World Bank Support for Strengthening the International Financial Architecture

With regard to World Bank support for strengthening the international financial architecture, our countries are aware that the World Bank, in partnership with the International Monetary Fund and other multilateral institutions, has been actively involved in recent years in reviewing the existing international financial system, particularly in the wake of the financial crisis in Asia. We strongly support the efforts of the World Bank to strengthen the international financial architecture.

As indicated earlier, the convening of this Joint Meeting of the Development Committee and the Interim Committee is a positive step toward the desired reform of the international financial system. If credible reforms are to be introduced, our countries should also be included in the debate, whether in the Group of 33 or the informal Financial Stability Forum established earlier this year.

Statement by Mr. Fathallah Oualalou, Minister of Economy and Finance (Morocco)

The Development Committee is holding its Sixtieth Meeting during a period of relative calm on the international economic and financial scene, considering the fears that the financial crises of the past two years would lead to a widespread global recession.

Nevertheless, the economic upturn remains fragile in most developing countries, and uncertainties continue to haunt their prospects for growth and their increased integration into the world economy.

These uncertainties and challenges may be attributed to several factors, particularly the following:

- The impact of the crisis of the past two years, which has resulted in increased poverty and insecurity and a lower standard of living in most of the countries affected;
- The imminent convening of the Third Ministerial Conference of the World Trade Organization (WTO), which will provide the opportunity to launch a new cycle of multilateral negotiations aimed at increasing the liberalization of international trade in goods and services; and
- The fact that net capital flows to the developing countries and countries in transition have not yet recovered from the historically low levels recorded in 1998.

While it is true that these uncertainties stem from different problems, in reality they are closely related, and they require a substantive answer to a crucial question: In an international environment characterized by increasingly interdependent national economies, what policies should be adopted at the national and international levels in order to ensure that economic and financial globalization will have a stabilizing effect and thereby promote equitable and sustainable development?

National governments, regional groups, and multilateral institutions alike must strive to find the answer to this question, and their actions must ultimately bring about the stability needed to establish a global economy founded on solidarity and inclusiveness for the benefit of all. The Marrakech Declaration adopted on September 16, 1999 at the conclusion of the Ninth Ministerial Conference of the Group of 77 reflects these concerns.

There can be no disputing the role played by international trade in goods, services, and capital in this regard. However, such trade must be based on appropriate national policies and equitable international systems, and must take the needs of the developed and less developed countries alike into account.

In this connection, the Ministerial Conference in Seattle and the multilateral trade negotiations to follow should take into account the difficulties many developing countries have experienced thus far in attempting to implement the agreements arising from the Uruguay Round of negotiations. The new deliberations should also take into account the fact that overly rapid liberalization during a recession can have negative economic and social repercussions.

Trade negotiations are clearly growing more complex as they move beyond traditional questions relating to obstacles to trade to address such diverse issues as trade infrastructure, insurance and credit, competition policy, public procurement, customs supervision rules, and the origin of goods. These issues are relevant to far more than trade policy, and go to the very heart of development policy as a whole, including its institutional aspects.

We welcome the recent recognition by the World Bank, the International Monetary Fund, and the World Trade Organization that it is imperative to take the development dimension into account when devising trade policies.

This recognition should be translated into improved cooperation among the bodies concerned in order to enable the developing countries to strengthen their capacity with respect to the various issues under negotiation. It should also prompt the IMF and the World Bank to focus their program support in a manner that will encourage the countries concerned to adjust their trade policies with a view to reducing poverty, improving living standards, and promoting sustainable development.

In this connection, the Integrated Framework for Trade-Related Technical Assistance for the benefit of the least developed countries; research programs to strengthen the capacity of developing countries in trade negotiations; and the World Bank’s research, analyses, and advisory services are commendable initiatives which should continue, strengthen, and expand, in partnership with appropriate bodies such as the IMF, WTO, the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Program (UNDP), and the International Trade Center (ITC).

Along with trade, the international financial system too should play a key role in fashioning a global development strategy.

Without a stable international financial system, national development strategies are at the mercy of uncertainties and risks, which undermine transparency and discourage initiative.

The international financial system obviously is in part a reflection of national policies. These in turn must be sound, must enjoy solid institutional support, must be properly supervised on the basis of rules and standards reflecting best international practice, and must be supported by far-reaching structural and social reforms.

The crises of the past two years have also underscored the crucial role which multilateral financial institutions should play in the new international financial architecture.

These institutions have been called upon to encourage increased cooperation bearing in mind their respective comparative advantages and to include the social dimension in both financial reform programs and crisis intervention programs.

Significant efforts have been made to accomplish this goal. These efforts should continue and should be strengthened along the same lines, in order to help member countries identify and address their social and structural vulnerabilities and thus minimize the risks inherent in globalization.

Efforts to identify and disseminate best international standards and practices should also be pursued, in cooperation with the appropriate institutions and bodies.

Such efforts in turn call for equally important measures at the institutional level to avoid interference and duplication of work, and to ensure that the institutions involved focus more energetically on fulfilling their fundamental missions.

I remain convinced that the pursuit and intensification of efforts at both the national and multilateral levels will help to alleviate the uncertainties and risks we face and will contribute to promoting stable and sustainable development.

Statement by Mr. Suphachai Phisitvanich, Permanent Secretary of State (Thailand)

As we convene again for this important forum, we are pleased to note some positive developments, albeit slight, in terms of the global economic outlook. Undoubtedly, our collective and individual remedial efforts have begun to take hold, coupled with reinforcing conditions in the industrial countries and a noticeable return of investor confidence in emerging markets. However, we recognize the need to remain vigilant and relentlessly press on with the financial, social and structural reforms needed to put our countries back on a platform that generates sustainable growth and development. We believe that the challenge for East Asia now is getting back to where we should be in terms of our pre-crisis growth trends and that, I must say, is quite formidable, given the current conditions.

However, I must thank the international development community, including the bilaterals and the multilateral institutions, for their concerted efforts in helping us during these difficult and trying times. I must also emphasize that this ongoing and consistent assistance is even more needed now as we face the risk of easily sliding back into the economic doldrums at the slightest upheaval.

Today’s agenda presents an encompassing menu of development issues, which comprise integral elements of our overriding mission to fight poverty. We wish to record our general appreciation for the discernible efforts put into these issues since we last met and as we begin to map out the appropriate course of action into the future. Let me now turn to the initiative for Highly Indebted Poor Countries (HIPC).

Enhanced Framework for the Initiative for Highly Indebted Poor Countries

We welcome the modifications made to HIPC, realizing that it captures the principles agreed to in the last Development Committee and will surely broaden, deepen and quicken the implementation of the initiative. We are also impressed with the strengthened links between debt relief and poverty reduction, as this must be a fundamental requirement of the initiative.

The focus on indicators and enhanced transparency and accountability underscores the need to regularly gauge the progress of key determinants of poverty and therefore the effectiveness of the initiative on poverty reduction. We are indeed grateful to the Bank and the

Fund for initiating these modifications and the extensive efforts marshaled to reach an appropriately designed enhanced framework.

The financing of the enhanced framework has more than doubled the original cost, and this manifests the scope and depth of the modifications made. We urge the Bank to fully explore all the financing options, bearing in mind that debt relief should be additional and should not compromise other resource flows to non-HIPC low-income countries.

However, it must also be ensured that the financial integrity of multilateral institutions, including the Bank, is maintained as it has vast implications for developing countries as development-financing institutions. In this regard, we can understand the difficulties of reaching an amicable agreement on how the cost burden should be shared. Nonetheless, we wish to support management in their quest to find a solution flexible enough to accommodate the different shareholders, their diverse preferences and the different political and budgetary dilemmas. On this note, we would urge leading countries, particularly those represented in the Cologne Initiative, to consider a broad range of financing approaches and perhaps adopt a correspondingly flexible approach to burden-sharing.

IBRD Capital Adequacy

We perceive capital adequacy to be the central issue that will define the boundaries of the Bank's operations and the extent to which it will be able to meet changing demands. As a long-standing item in the Development Committee agenda in the last few sessions, its significance is nonetheless increasing as the Bank faces the escalating demands of the aftermath of the financial crisis.

We, therefore, support the view espoused by the external panel of experts that the Bank is in fact approaching the limits of its risk bearing capacity and I invite my fellow colleagues to impress upon their governments to examine carefully the options that we have and weigh these with the realities facing the developing world.

In our view, it is imperative that we align the direction of the Bank in terms of the demands placed on it by the evolving tides of economic development. The required financial capacity falls back on what role the shareholders would want the Bank to play in the development community.

As indicated by the panel's report, the Bank will need additional risk-bearing capacity judging by external trends and shareholder actions in recent years. The more pertinent issues then are when, by how much, and how, are we going to meet the needed increase? Hence, we appreciate the options laid out in the paper since it provides a good starting point to ponder over which option would be the most appropriate.

In this regard, I would urge the Bank to keep working on alternative options or different combinations of the options against the backdrop of the various scenarios the Bank is likely to face. Therefore, we support the views of the Executive Directors that there should be a fuller elaboration of options and their implications. A deeper analysis of the external environment is essential before we can discuss the institution's mandates and whether they are adequate.

We also wish to stress the importance of maintaining the financial integrity of the Bank in pursuit of the Bank's development agenda of poverty alleviation, in cognizance of on-going initiatives such as HIPC. Finally, we would also like to underline the principle of fair burden sharing in developing a balanced set of options, and these should be examined in terms of timing and additionality in a comprehensive manner.

Developing Countries and the International Trade Agenda

Developments in international trade are now at an important juncture as countries, global trade institutions, and other development institutions contemplate how the next round of WTO negotiations should shape out as we enter the new millennium. We wish to acknowledge the bank's contribution in assisting developing countries on international trade and we must say that it has had discernible influence on the integration of some developing countries into the global trade arena.

The broad range of key trade policy issues facing the Bank now illustrates the pervasive influence of trade in overall development. We appreciate and support the Bank's initiatives for supporting and enhancing trade in developing countries, particularly the stronger emphasis on capacity building, expanding partnerships and the mainstreaming of trade into country strategies.

In our view, and as many may agree, these initiatives reinforce the relevance and significance of the comprehensive development approach in the context of CDF. Trade has enormous potential to contribute to poverty reduction but trade liberalization must be implemented with proper sequencing, bearing in mind the status of the macroeconomic and structural conditions in the different countries while taking into consideration the social impacts and consequences.

Having said this, we would like to underline a few points that may be important to consider. While the Bank has significant comparative advantages, it must be realistic in regards to its reach and influence in assisting developing countries, especially given its mandate. However, it must continue to build effective partnerships and seek to amplify developing countries perspectives and concerns in global and regional trade forums.

On the other hand, we would also encourage developing countries to cooperate better among themselves and build capacities with more of their own resources to enable them to argue their position from a genuinely developing country perspective. This is especially so with the WTO increasingly moving into issues in which the interests of developed and developing countries conflict (e.g. labor and environmental policies). Finally, as we move forward, we would like to have the Bank's ongoing work in other related areas (Commodity Risk Management, the Small States Initiative, and etc.) linked to the Bank's work on trade, since these initiatives have important trade implications for developing countries.

The World Bank Group's Role in Strengthening the New International Financial Architecture

The new international financial architecture presents a challenge, which is not entirely new but surfaces in the wake of adverse situations, such as the recent crisis. The goals of such a system remain the same, which are: to promote efficiency of trade; ensure stability in the system; and allow for an equitable and socially acceptable distribution of income and wealth. While markets are becoming increasingly global, we would see the imbalances as manifest in the predominance of domestic policies and rules, over an apparently weak international financial architecture.

Nevertheless, we very much appreciate the efforts made by the Bank (and Fund) for the progress achieved through the various initiatives currently underway in their roles in strengthening the new international financial architecture. We also fully agree that the Bank should primarily focus on strengthening the social and structural policy framework and building capacity in developing countries.

However, we believe that the Bretton Woods institutions need to play a more defined and enabling role in addressing systemic issues at the international level. Progress on the domestic policy front must be complemented by a clear plan of action and corresponding advances on the international front. We see no other international stakeholder in a more appropriate position to play the coordinating balance between the two fronts, other than the Bretton Woods institutions.

With regards to corporate governance, we would like to stress the need to refocus our efforts on the relationship between public and corporate governance and the direct correlation with institutional capacities. Public governance is just as important in itself, as it is a measure of regulatory efficiency and policy setting for the private sector, and in particular the corporate sector. Furthermore, we would also like to underscore the influence of intrinsic structures, systems and cultures in the different country contexts.

We would also like to give our utmost support to the enhanced Bank-Fund collaboration on the Financial Sector Assessment Program (FSAP) and the assessment on implementation of key standards and principles of good practice. The Bank must ensure that it has adequate resources and continue to build its knowledge base on the financial sector, with a cooperative team culture. Success of these joint efforts will eventually be judged by how well these assessments are integrated into the Bank’s Country Assistance Strategy and the Fund’s Article IV Consultations.

Finally, we would like to revisit the issue of the Bank Group’s financial capacity. As previously discussed, we the Bank Group shareholders must come out clearly on what we jointly perceive as its role as we enter the next millennium. There is a limit to how much we can stretch its existing risk bearing capacity, beyond which we begin to undermine its financial integrity. In addition to other major initiatives, the strengthening of the international financial architecture is currently at the building block phase, with no clear conception of what the final design will entail. In this regard, we consider it imperative that we reset a long-term direction for the Bank Group and examine its resource needs accordingly.

Statement by Mr. Didier Reynders, Minister of Finance (Belgium)

On behalf of our Turkish Constituency member, I would, first of all, like to express the deep gratitude of the Turkish Government and people for the World Bank’s assistance in addressing the consequences of the earthquake that struck the Marmara Region on August 17. The Bank’s support has been expeditious; its coordinating role is greatly appreciated by other donors; and the breadth and professionalism of its involvement will be instrumental in helping Turkey with the institutional strengthening required to contain the impact of any future disasters and improve its emergency response system.

Unfortunately, the earthquake of last month is not an isolated case. As the Secretary General of the United Nations recently observed, the human and economic costs of natural disasters are increasing exponentially and most of these costs are incurred by developing countries, where poverty and population pressures force growing numbers of people to live in harm's way. Clearly, the issue should receive more systematic attention on the international agenda. In view of the development challenges involved, the World Bank is well placed to contribute to this effort, in partnership with other relevant agencies. Countries in need of comprehensive disaster management strategies would benefit from assistance on effective institution building consistent with their own capacity constraints, on the introduction of insurance schemes which are accessible to the poor and, more generally, on development strategies aimed at reducing population pressures in risk-prone areas. Echoing the call made by my Mexican colleague at the last Development Committee meeting, I urge the Bank to continue to expand its assistance on prevention and institution building in this area.

On the specific items on the agenda and referring to my statement at the joint Interim Committee-Development Committee meeting for our position on the enhancement of the HIPC Initiative, I would like to offer the following comments.

IBRD Capital Adequacy

I welcome the progress achieved since the last Development Committee meeting in clarifying the options for enhancing IBRD's financial capacity. The analytical work produced since then reconfirms the following conclusion, which appears to be commonly shared. The decisions on increased loan pricing, taken a year ago, have substantially contributed to the restoration of the Bank's financial soundness, but future loan growth remains constrained by limitations on its risk bearing capacity. I therefore agree that we should continue to keep the Bank's financial capacity under review and explore the available options with an open mind. As part of this review, I would especially encourage further work by Management and the Board towards a common assessment of the following consequences of the present capacity limitations.

First, the analysis produced for today's discussion, concludes that in the event of a major non-accrual shock, most if not all of the Bank's net income will, at least temporarily, have to be used for protecting the institution's financial integrity. Even if such a worst-case scenario may seem unlikely, it illustrates the precariousness of the present situation in which claims on the Bank's annual net income are increasing rapidly and have come to be considered as rigid multi-year entitlements. While it may be difficult to correct this situation any time soon, it would be equally difficult to justify a capital increase on the expectation that the budgetary allocations needed to fund it, would soon evaporate as a result of generous income distribution decisions. I would therefore encourage management to redouble its efforts to introduce a culture of mutual restraint in the yearly income allocation proposals and would, in this connection, especially urge the largest shareholders to set the tone by refraining from systematically shifting new geopolitical challenges to institutions such as the World Bank, in the hope that in doing so they will be more easily financed.

Second, further reflection is also needed on the notion that, under present conditions, the Bank will not be able to respond to the next financial crisis with substantial quick-disbursing lending of the type it provided to help counter the Asian crisis. I am not convinced that this prospect is a sufficient justification for embarking on a capital increase, all the more so since the additional financial capacity created by such an increase could be easily wiped out by a few large interventions dictated by geopolitical considerations. As suggested by President Wolfensohn in his Note to the Development Committee, I would therefore welcome further discussion in the coming months on the specific role which the World Bank should be expected to play in financial crisis situations, in accordance with its development mandate and with the long-term nature of its financial interventions. This discussion should also take into account future progress on the more general objective of limiting the magnitude of official interventions in privately induced financial crisis situations.

A third consequence, to be further considered, is the need to manage future lending growth more proactively by incorporating into countries' lending programs contingency lines which could be activated under appropriate policy conditions when they suffer a deterioration in their financial market access. Potential, rather than effective, lending growth would become the benchmark for assessing the Bank's financial performance, implying that, in normal times, it should grow below its capacity and preserve sufficient lending space for activation against adverse market developments. At a time when an increasing number of middle-income borrowers have access to market financing—and are thus exposed to market volatility—this type of approach to the Bank's business strategy can probably no longer be postponed.

Finally we cannot ignore that the debate on the Bank's capital adequacy is coinciding with an unprecedented public scrutiny of the utilization which is made of the financial resources committed by the Bretton Woods institutions. I welcome this scrutiny, as well as the anticorruption measures, which the Bank had already started to take. These measures will now need to be implemented systematically and consistently, so that proposals for increased budgetary support for the international financial institutions can be duly justified by a new sense of accountability on the integrity of multilateral development assistance.

World Bank Support for Strengthening International Architecture

The progress report on "The New International Financial Architecture and the Role of the World Bank" leads to the encouraging conclusion that the institution is moving forward on a broad range of policy areas which affect countries' vulnerability to external financial shocks. If implemented consistently, the recommendations emerging from this unfolding agenda should result in stronger national economies and in a more resilient international system. Clearly, the Bank's focus on policy and institutional reform for its developing member countries cannot be seen in isolation from progress on global policies aimed at improving the stability of financing flows to emerging markets. Prospects for a more solid architecture depend on balanced progress in all relevant fora. With respect to the role of the World Bank, I would suggest further reinforcement of the following aspects.

While the Bank's advisory and lending services should go a long way in assisting countries with the structural and institutional requirements for their successful participation in the global economy, we can not be confident that they will suffice to produce the desired outcome on time in all circumstances. Strong preventive signals encouraging the correction of persistent weaknesses may, at times, have to reinforce the Bank's traditional demand-driven approaches, especially when these weaknesses could threaten the stability of a broad range of emerging economies through financial contagion. I welcome the increased collaboration between the Bretton Woods institutions to enhance the Fund's surveillance activities in this spirit, but the Bank may have to develop more transparent consultation channels of its own in its areas of expertise.

Such a more proactive policy dialogue, in accordance with the Bank's core mandate, would be especially desirable with respect to the need for countries to avail themselves of social protection schemes which are better suited to deal with the forces of globalization. If anything, the Asian crisis has demonstrated that poverty reduction is not irreversible, certainly not in the absence of efficient and cost-effective schemes to absorb the social implications of economic crises. The principles included in the document on Managing the Social Dimensions of Crises are a good starting point for making sustained progress in this area. I encourage the Bank to promote these principles widely and to keep track of their systematic implementation.

Finally, let me welcome the work recently conducted by the World Bank on the prioritization of corporate governance and the restructuring on the international development agenda. The new Global Corporate Governance Forum will appropriately focus on the dissemination of best practices and on the mobilization of relevant technical assistance. Sound corporate governance cannot be solely achieved by the imposition of internationally accepted rules: it also depends on a process of cultural change and on an informed dialogue between the corporate sector and relevant government agencies, both of which require patient and consistent implementation over time. In this regard, I encourage the IFC to step up its efforts to become a catalyst of sound business environments in which stable investment flows can be more easily attracted. In view of its operational involvement in countries' corporate sectors, it is well placed to fulfill this advocacy role with insight and authority.

Developing Countries and the International Trade Agenda

I support the program the World Bank proposes to launch in order to assist the developing countries with their participation in the next round of trade negotiations. The stakes are high, especially for the poorest countries that have so far not succeeded in sharing the benefits of globalization. The Bank's assistance program on trade focuses appropriately on capacity building initiatives. These initiatives should, first of all, contribute to a debate which is better informed on the interests of the developing countries in a fair and comprehensive negotiation; and they should increase the negotiators' awareness of the capacity constraints which many poor countries face in implementing internationally agreed trade reforms without appropriate assistance. Perhaps most important of all, these initiatives should stimulate the developing countries to move ahead with the institutional and regulatory requirements for a successful participation in the global trade system. A final point which I would like to highlight is the need to step up efforts to reduce administrative barriers to trade, which can be a major cause of poor competitiveness and create opportunities for corruption, thereby contributing to a perception that trade only benefits vested interest groups.

Statement by Mr. Abdulla Hassan Saif, Minister of Finance and National Economy (Bahrain)

We meet today at a time when prospects of the international economy are brighter than they were during the spring meeting of the Committee. We now see gradual but clear signs of recovery from the severe effects of the financial crisis in Asia and elsewhere, and projections for growth and trade are now higher than previously expected. Looking at the outcome for the year as a whole, however, the picture is far from bright, with possibly two-thirds of the developing countries recording falling per capita incomes and therefore more poverty is expected. Compared with the pre-crisis year conditions in many developing countries are also still far worse and there is a risk of complacency in policy attitudes that might perpetuate a setback.

Capital flows have also been disappointing. Gross flows from capital markets to developing countries this year have gone down sharply compared with the same period in 1998, and total net flows are expected to fall again this year. Official flows improved last year and are expected to remain steady for the current year, but are still well below the levels of the early years of the decade; concessional flows have experienced steady decline in the past couple of years.

In view of the fragility of recovery and uncertain prospects, there is obviously no room for complacency on the part of both developed and developing countries. The international community still needs to ensure that the recovery remains on track and that capital flows, both private and official, will make a meaningful contribution to the efforts of developing countries to achieve sustainable growth rates and better prospects for poverty alleviation.

This brings me to the main issues on our agenda.

The most pressing issue on our agenda is certainly the proposed enhanced HIPC framework that seeks to provide faster, deeper and broader debt relief. We commend the initiative of the major donor countries at the Cologne summit and the hard work and participatory process that has gone into preparing the specific proposals submitted to us.

We strongly endorse the proposed enhancements of debt relief and the heightened attention to a stronger link between debt relief and poverty reduction. For this initiative to achieve these objectives there is obviously the need to ensure additional funding and avoid any weakening of the integrity of the financial position of multilateral institutions. On this I agree with the statement of Mr. Wolfensohn in his Note to this Committee that multilateral institutions, including the Bank, should rely on bilateral contributions to finance the extra costs of the enhanced debt relief.

The financial integrity of the Wold Bank has been the focus of extensive technical work and substantive discussion in the Bank for the past two years and I commend the work that has been done so far. The IBRD has faced financial strains, especially in view of the increased financing that it had to undertake in response to the financial crisis and the deterioration of the Bank's loan portfolio. I share the view that while the Bank's financial position remains sound, the financial capacity of the Bank is placing a limit on its ability to respond to future demands and make available transfers for developmental purposes. To provide an appropriate response, we need to come to a common view on the role of the Bank in the new financial architecture and the global development targets, and also on the particular and important issue of the Bank's role in financing crisis. I therefore look forward to further discussions by the Executive Directors on this and on the various options available and their implications.

The international financial architecture has been the subject of discussions in various fora in the past few years and we note the report we now have on what the Bank has been doing to strengthen this evolving architecture. Many of the new elements in the consensus of the international community reached so far should indeed strengthen the international financial architecture and are consistent with what the Bank is doing. These include enhancing transparency, strengthening country policies, more efforts to mitigate the social costs of crisis and strengthening and reforming the international fora.

We note that the Bank in an effort to make a tangible contribution towards strengthening the international financial architecture has done considerable work. A major aspect of Bank activities in this direction is in strengthening the structural framework of developing countries in such areas as setting standards and norms and capacity building. In this regard, I underscore the view that the Bank is not a standard setting body and that the best approach is disseminating of best practice rather than setting rigid standards. Expanding developing country capacity to implement the social and structural agenda should also be a key element. Weak capacity has proven to be one of the most serious impediments to better performance of developing countries on various fronts.

The Bank has also been active in helping international fora that have been dealing with some aspects of the international architecture. This is a useful endeavor and should help in drawing attention to the issues relevant to the poverty reduction agenda of developing countries. We also note that progress is being achieved in coordination with the IMF and in experimenting with better coordination of Interim and Development Committees work on issues of common interest. What we note on the work of the various fora is that many aspects of the international architecture have been dealt with on piecemeal basis and eventually we may even see a move towards comprehensive reform. This will have substantial implications for developing countries. Therefore there is a need to ensure adequate and more effective participation of developing countries in all fora that deal with aspects of the new financial architecture.

Finally, on the international trade agenda, I endorse the new approach the Bank is embarking on in shifting emphasis from liberalization of trade, where progress has so far been substantial, to help developing countries benefit fully from the opportunities for growth and poverty reduction made possible by the global economy. As the document before us rightly shows, interest in trade liberalization is bound to continue and there are such issues as the pace and manner of trade liberalization, which are bound to have serious social impacts. There is also the need for more work on the impact of subsidies in developed countries on developing country exports.

The new focus of the Bank trade agenda towards helping countries use trade as a tool for development is indeed a monumental task. As the document reports, the Bank has a substantial program on both the new and traditional trade issues, including dissemination of best practice, the Integrated Framework for the Least Developed Countries, research and capacity building for trade negotiations and research on the new trade issues. We commend this program and underscore the urgency of moving expeditiously on this track in view of the forthcoming trade discussions. We also urge that adequate resources be allocated for this program and look forward to more coordination in this regard between the Bank, the IMF and the WTO.

Statement by Ms. Clare Short, Secretary of State for International Development and Mr. Gordon Brown MP Chancellor of the Exchequer (United Kingdom)

Our meetings this week take place in the shadow of further suffering, conflict and violence; this time in East Timor. Rapid changes of circumstances - whether created by human conflict, natural disasters or economic and financial events - serve to underline the responsibility we have, as members of the World Bank and IMF, to respond effectively to the needs of the poorest and most vulnerable sections of our global society.

Debt

The HIPC Initiative launched three years ago was a serious attempt to address the problem of debt. But it has become clear that relief has been too slow, and has failed to secure the 'exit' from unsustainable debt that it was designed to achieve. Our greatest concern is the fact that HIPC has failed to free up resources for spending on poverty reduction programs.

Over the past year, there has been increasing recognition that debt relief is not an end in itself but must be linked to programs and policies to reduce poverty in the Heavily Indebted Poor Countries (HIPCs). The measure of the initiative's success is not how much debt is cancelled, but how many people are lifted out of poverty. It is important that resources freed up from debt servicing for poverty programs are truly additional to existing resources. Only in this way will HIPCs be able to help us achieve the international development targets - agreed in a series of UN conferences over the past decade - to halve by 2015 the proportion of the world's population living in abject poverty and raise the level of primary education and basic healthcare.

The proposals made by the G-8 Summit in Cologne for faster, deeper and wider debt relief linked to poverty reduction are an important step in enhancing the HIPC Initiative. We, as members of the World Bank and IMF, should endorse these proposals.

In looking at ways of strengthening the link between debt relief, poverty reduction and sustainable development, we need to ensure that indebted countries themselves should be part of the solution to the debt problem. Increasingly, they want to understand their own debt position, take control of it, and adopt the right policies on new borrowing. We are among those financing an excellent HIPC Capacity Building Program which is working with 21 HIPCs to improve their debt management capacity to ensure that debtor countries have more say in how their debt relief is delivered.

HIPC countries also need the capacity to collect reliable statistics on their social sectors to complement the traditional emphasis on economic and financial statistics. Without good quality information they are ill placed to plan and monitor effective polices to reduce poverty in their countries and play their part in achieving the global International Development Targets. They need help to do this. A coordinated and strategic approach towards building sustainable national statistical capacity is required. We strongly support the work OECD-DAC is doing with the World Bank, IMF and UN to map out the way forward.

Donors also have an interest in good quality social statistics. To minimize the demands we place on developing countries we should standardize our requirements wherever this can be done. The work the World Bank and Fund are doing together on strengthening the social statistics module of the General Data Dissemination System (GDDS) is a useful start. But this needs to be developed and could form the basis of a Social Data Code to enable the IFIs and other donors to assess the impact of their programs of support. We call upon the Bank and Fund to increase their efforts on this and to involve other bilateral and multilateral donors as well as developing countries so as to meet the needs of all.

We support very strongly the idea that HIPC debt relief should be delivered in support of Poverty Reduction Strategies in which both the Bank and Fund will participate. As the G7 said at Cologne, "the central objective of this initiative is to provide a greater focus on poverty reduction by releasing resources for investment in health, education and social needs." Debt relief, like aid, must be used to support countries seriously committed to reform and poverty reduction. HIPC2 provides a launch pad - equivalent on average to a 9 percent increase in government revenue. We hope this will be not just a welcome financial resource for government, but will provide a real political impetus to generate a national movement to reduce poverty. That is why we have argued so strongly for the bulk of HIPC relief to be made available as early as possible in the process.

Good Poverty Reduction Strategies will, of course, take time to draw up. It would be wrong to rush the process, or make it a condition that such a strategy is in place by the Decision Point. It should be sufficient that there be a clear process by which an agreed strategy will be achieved by the Completion Point, and that the country has implemented two or three key benchmarks.

Clearly, providing enhanced debt relief will require additional resources. But the scale of these should not be exaggerated. If costs are considered on a year by year basis, it is clear that they can be managed. But we must all contribute to this. To date, the UK is the largest contributor to the Trust Fund to help the multilateral institutions meet their share of the costs. We look forward to seeing contributions from our G8 partners, as well as from other countries, which are already responding generously. We expect the multilateral institutions to contribute, too, through allocations of net income generated from lending to middle income countries, and appropriate reallocation of other resources as necessary. In addition, the UK - with the support of others - is seeking a substantial contribution from the European Development Fund (EDF), using funds which are unallocated. We believe that debt relief would be a good use of these resources. None of this implies, of course, that debt relief is an alternative to official development assistance. Even with debt relief, HIPC countries will remain some of the poorest in the world, and will continue to need aid for many years to come.

These Annual Meetings must ensure, through decisions on finance and on the poverty link, that the strengthened HIPC2 framework can become operational immediately. It will then be important to move as quickly as the HIPC governments themselves can reasonably manage. We should like to see the Bank and Fund publish a timetable, showing how three-quarters of HIPCs can reach their Decision Points by the end of next year.

This is a full and important agenda. It is also a very public one; the eyes of the world are upon us. We therefore propose that the World Bank and the IMF establish a joint secretariat to monitor progress, to help co-ordination, and to report back to the Interim and Development Committees. It need not be large - perhaps two or three people. And, in the spirit of coordination and transparency, we believe it would be entirely appropriate that a prominent and respected person from civil society from one of the HIPC countries be appointed to one of these posts.

IBRD Capital Adequacy

The ongoing review of IBRD's finances is important. It is very timely in the wake of the large expansion of IBRD lending which took place during the financial crisis and provides an important opportunity to assess financial capacity in the context of the future role which we envisage for the IBRD.

We believe strongly that the principal objective of Bank lending should be to contribute effectively to the achievement of the International Development Targets. The review must consider carefully how far a continued expansion of lending is required to achieve this objective. It must consider, against this, what can be achieved by improving the distribution and quality of lending programs. A careful assessment of the Bank's future role in financial crisis is also necessary, and this must take into account the changes that are now taking place in international financial architecture, which suggest this role may not need to be as substantial as over the last two years. We believe there is scope for more focused thinking on these issues and the implications for financial capacity than perhaps has so far been applied.

The review must also develop a hierarchy of options for improving financial capacity starting with those which, although they might be modest in terms of their overall impact, have wide support and can be implemented quickly with little cost. As we move down this hierarchy the discussion will become more difficult, but it will be important to develop a menu in which the burden of strengthening capacity is carefully shared between borrowers and shareholders.

For the moment we have drawn the conclusion from the analysis which has so far been presented (including the very recent improvement in the IBRD finances) that there is no immediate requirement for major action to rebuild IBRD's financial capacity, including through a capital increase.

World Bank Support for Strengthening International Architecture

We commend the efforts that the Bank and the Fund are making to work more closely together - in particular, the new arrangements that they have put in place for dealing with the financial sector. These are, we understand, working well. Britain is pleased to have been able to provide some expertise to the World Bank to work on financial sector liaison. We would now urge the Bank to consider whether these reforms could be deepened, and also whether they might serve as a model for other areas of collaborative work, for example, on HIPC.

We welcome the work the World Bank has done on Principles and Good Practices in Social Policy. It is essential that these efforts are now translated into operational effect as quickly as possible. As part of this process, we believe that the World Bank needs to publish the paper before us today, as a substantive document along with the draft paper on the Principles which we discussed in April of this year. The link between the Principles and Good Practices might, we suggest, be a subject for discussion at the next meeting between ECOSOC Ambassadors, and World Bank/IMF Executive Boards.

Corporate governance is a key component of the new international financial architecture. However, it is clear that there are many different models of good corporate governance, one size does not fit all. For this reason, we welcome the proposal for a Global Corporate Governance Forum. This should enable progress to be made in a strategic and collaborative manner. But it is an ambitious program. It requires the involvement of developed and developing countries, as well as willingness from the public and private sector to undertake the necessary reforms. By bringing together the OECD, World Bank, multilateral development banks, Commonwealth Association and many others, we shall be able to draw upon the experience and expertise which exists across the world. The benefits of a strong business environment which will strengthen the prospects for long-term economic growth can then be realized.

Developing Countries and the International Trade Agenda

This Committee needs no reminding of the crucial importance of international trade in development. The contrast between the development success of countries which have pursued policies of openness and the disappointing performance of closed economies speaks volumes about the importance of outward looking development policies. The outward-oriented developing countries have, notwithstanding the setback of the Asian crisis, made huge strides in banishing poverty. Closed countries have experienced an inexorable rise in poverty.

Those countries which have chosen the path of openness have benefited immensely over the last three decades from the steady reduction of tariff and non-tariff barriers to international trade which has occurred under the aegis of the GATT, and now of the WTO. We underline the essential role which the WTO is now playing and must continue to play in preserving the gains of past trade Rounds, and in developing, through consensus and on an incremental basis, new rules and disciplines which further erode the remaining tariff and non-tariff barriers to world trade.

It is therefore vitally important that developing countries participate actively in the forthcoming trade round. Developing countries are a majority of members of the WTO, and so can have a big say in the future effectiveness of the organization. It is up to all members to ensure that the organization remains a bulwark against the fragmentation of the world into trading blocks, or its division into separate tiers of states following different trade policies and different disciplines. It is up to the developed world to take a lead in improving market access for developing countries. We strongly support the EU's commitment to provide duty free access for essentially all products exported from LDCs by the end of the next Round. We call upon other members to match this commitment at the Seattle Ministerial meeting in November.

Developing countries have a legitimate and strong interest in the further opening of developed country markets for agricultural and manufactured goods and for services. They also have a legitimate interest in influencing the evolution of multilateral trade regulations, so that they are practicable and relevant to their needs, and provide further opportunities for their exports to surmount. Developing countries also have an interest in using the WTO framework of disciplines to demonstrate their own credibility in the eyes of investors and traders, and thus to position themselves more advantageously in an expanding global economy.

The interests of developing countries are diverse. Some are primarily concerned with market access for their agricultural exports; others with lower tariffs and protection from opportunistic anti-dumping duties and others concerned mainly to strengthen their supply side and to attract more inward investment. For this reason the forthcoming trade Round must have a comprehensive agenda, to ensure that all parties to the WTO have the opportunity of reaping advantage. Trade liberalisation can provide win-win gains for the countries involved.

However, a new round may create practical problems for some countries. How are they to cope with the negotiations, and how are they to implement new agreements, when they have still to complete the implementation of Uruguay Round agreements? All countries which open their markets to foreign competition need to make adjustment in the short term to get the benefits from higher growth and prosperity. It is therefore right and proper for developing countries to request practical assistance from the developed world as they approach the new Round.

The UK strongly supports the EU's proposal that there should be a commitment of more resources, notably from the World Bank, for technical assistance and capacity building, and that there should be closer co-ordination in this between the Bank, the Fund and the WTO. It warmly welcomes the constructive response to the EU's initiative by the management of the Bank and the WTO, and the decision of the Bank to mainstream trade in its country strategies.

We believe, however, that this higher level of support for developing countries should now be given a high political profile. This will reassure those countries which doubt their ability to cope with the new round, and promote a shared interest in its success. Assistance programs might also mitigate the short term costs of adjusting to market opening and to heightened competition from abroad. We suggest that the donor community, under the leadership of the Bank, should consider how to take this forward in the run up to Seattle. We should identify specific mechanisms to enhance the accessibility, transparency and credibility of these proposals. This would build on the approach of the existing Integrated Framework of trade-related help but would extend it to all developing countries, as the EU has proposed. It would widen its scope to include adjustment assistance and accelerate its response time.

We have no blueprint of how this might work but there are elements in the Special Programme for Africa and the Consultative Group on Aid for the Poorest which might be relevant models. The results of this work could be outlined in the form of an action plan to be presented alongside the Joint Declaration.

Conclusion

There is a new sense of energy and commitment in the international community at present to tackling poverty and to see that the International Development Targets are achieved. The vision provided by the Comprehensive Development Framework sets out at least part of the means for this. The closer relationship between the Bank and Fund in responding to the needs of the poorest and most vulnerable is an important development and provides a strengthened opportunity to make a real impact.

Statement by Mr. Yashwant Sinha, Minister of Finance (India)

Though the worst of the financial turmoil is over, it is discouraging to note the steadily declining trend of net long term capital flows to developing countries. The environment for capital flow still remains difficult and uncertain. Developing countries' access to the international capital market remains limited and a number of steps remain to be taken to boost the confidence of various players in the market. We appreciate the positive and bold steps taken by President Jim Wolfensohn during the last two years in meeting the global challenges thrown up by the financial turmoil. The Bank stretched itself and responded quickly and adequately to meet the wide ranging emergency and long term needs of the countries in difficulty.

HIPC

We are happy to note that the Bank has come out with an enhanced HIPC framework providing deeper, broader and faster debt relief to HIPC countries and we extend our full support for the same. However, we hope that the developed countries will contribute additional resources generously in meeting the cost of enhanced HIPC Initiative. The burden sharing should be wholly and proportionately distributed among all the developed countries. This will be in line with the spirit of the report of the G-7 Finance Ministers to the Koln Economic Summit.

The transfer of resources from IBRD Net Income should be avoided since that can only be at the cost of financial integrity of the World Bank or reduced availability of funds for development and poverty alleviation. Already substantial part of the net income has been diverted even against the will of the developing countries.

We fully support the demand for enhanced relief to facilitate poverty reduction in vulnerable countries. However, it is equally essential to ensure support and encouragement to other developing countries that are regularly meeting the debt service obligations irrespective of their difficult circumstances.

Any funding to the enhanced HIPC should be based on sound principles of additionality and equitable burden sharing and at the same time ensure the financial integrity of the World Bank Group. This is a challenge to the international community and we believe the industrialized countries will respond positively and adequately, in time.

We welcome the proposal that debt relief should be linked to poverty reduction. Poverty and inequality are on the rise. The financial crisis in East Asia, Russia and Latin America during the last two years has also dealt a severe blow to global efforts to reduce poverty. We consider that all available resources must be effectively used to achieve the goal of poverty reduction and the HIPC debt initiative cannot be viewed in isolation. We also believe that the overall strategy to be adopted to reduce poverty in a country should be best left to the country concerned.

The Bank's willingness to build its poverty reduction strategy on the existing framework within each country to revolve around a clear set of outcome-oriented goals is a welcome feature. While we have no hesitation in involving the civil society in formulation, selection and monitoring of outcome indicators, we are confident that such involvement can be fully secured through democratically elected institutions. This can be facilitated through decentralization of decision-making to local democratic institutions.

IBRD Capital Adequacy

As reflected in the April Communiqué of the Development Committee, Ministers had asked for balanced options for maintaining and supporting the financial capacity of the institution. In our statement at that time, we had cautioned against interventions which undermine the financial integrity of the Bank, and urged for appropriate burden sharing options. We appreciate the complexities involved and the difficulties of the process, but believe that a clear time frame needs to be set for a decision in this regard. The demand for Bank's resources will continue to be large even in the absence of another immediate crisis since the Bank has to respond to the challenge of meeting the poverty reduction goals set out before it. This will call for large resources being mobilized. Internally also, the demands on income have been increasing with the result that resources that could potentially have strengthened the institution's capacity to bear risk have been transferred to meet other preferences. In this scenario, it is essential that the capacity of this institution be strengthened.

While several options are under consideration, we consider that a comprehensive resolution of the issue of strengthening the financial integrity of the Bank would require either an increase in loan charges, or a General Capital Increase (GCI). We exercised the former option last year. At that time, while seeking a balanced solution, we had supported the idea of Mr. Wolfensohn to set up a Trust Fund to be funded by the developed countries in order to assume some of the burden. Such a step would enable us to increase the reserves, and in turn, improve the risk bearing capacity of the Bank. However, so far not much progress has been made in this regard.

As an institution of a cooperative nature, it is necessary for it to adhere to the principles of equity. An increase in loan charges, which would increase the burden for IBRD borrowers, would not, in our view, be equitable. On the other hand, a GCI will be a more equitable decision, and will send out a strong and clear message of shareholder support for the institution. While we understand some of the concerns expressed by other colleagues, we believe that this would be the appropriate response to the present predicament. The process of a General Capital Increase is time consuming. We therefore, urge that the process be initiated as soon as possible.

The New International Financial Architecture and the Role of the World Bank

The need for a New International Financial Architecture has essentially arisen in response to a broad set of developments. Globalization and economic integration have ushered in an era of fresh promise. They have also posed serious challenges to developing economies and enhanced the role of the private sector and the civil society. This brings into focus issues of institutional reform, governance, transparency, and participatory models of development. The new framework is essentially a recognition of these changes in the priorities. In defining the Bank's role in contributing to the new Financial Architecture, we would urge that the framework of assistance should be consistent with its mandate, resources and comparative advantage. The Bank had responded, though on an ad hoc basis, speedily during the recent crises. We however, suggest that firm and transparent criteria be established to define the Bank's role in future crises. In this regard, it is also important that we avoid a one-size fits all model, and instead recognize the specificity of local circumstances and capacities, in tailoring our interventions.

There is little doubt that the Bank has not only played a leading role in the international response to the crisis, but has institutionally identified many of the underlying causes that led to the crisis and the lessons learned. It would be appropriate at this stage to reflect on the post crisis experience, and draw lessons from the work done. The issues of local ownership, capacity constraints and state of preparedness of clients have clearly emerged as important factors for consideration. There are also emerging concerns that signs of early recovery could lead to a sense of complacency in respect of corporate and financial sector reforms.

The ongoing financial crisis has added new dimensions to the issue of social policies. We recognize their importance within the overall development effort. The World Bank, in collaboration with other partners, should help its member countries implement these principles based on its comparative advantage. However, this effort should be realistic and in accordance with national priorities. It should be recognized that the main reason that developing countries lag in achieving reasonable social development is because they need to satisfy conflicting demands that are made on the limited resources available with them. In that context, the Bank has an important role to play in leveraging and providing resources and knowledge that will enable members implement these principles successfully. It should be noted that during our Spring discussions, the Bank was expected to help countries mobilize resources to implement these principles. We encourage the Bank to continue with that effort.

Developing Countries and the International Trade Agenda

We recognize the work of the World Bank towards helping developing countries strengthen their trade sector. This is very much in keeping with the institutional mandate, since trade is inextricably linked to development and poverty reduction objectives.

Trade is an integral part to the process of globalization. A number of steps have been already taken by the developing countries to increase their share of global trade, particularly in the context of the Uruguay Round. As we enter the new millennium, the basic profile of trade itself will undergo change. Reforms and opportunities have led to financial and economic integration. Advances in technology and communications, along with institutional innovations have altered the way businesses are conducted, apart from the fact that the services sector is becoming increasingly important. These changes have introduced an era of both challenge and opportunity for developing economies. And in this regard, the Bank has an important role to play.

In the immediate context of the forthcoming trade discussions, developing countries need to prepare themselves to safeguard their interests and ensure that they fully realize the benefits that were expected to accrue as a result of the obligations assumed in the Uruguay Round. The developing countries also need to carve out opportunities for themselves for trade development. But as noted in the document, there are institutional and capacity constraints that will hinder developing countries in this task. The Bank, as a development partner, as well as a research center, should target its resources in helping members address these requirements particularly in the areas of policy, regulatory reforms, institution building and through specific investments directed at development of the trade sector. Furthermore, the Bank should use its knowledge base to help countries garner their competitive advantage through strategic planning and investments.

Statement by of Mr. Dominique Strauss-Kahn, Minister of the Economy, Finance and Industry (France)

After two years marked by the financial crisis, improvement in the general situation now allows us to redouble our focus on the most pressing problems of the poorest countries.

The Cologne initiative on the debt of the poorest countries represents a major step forward, and France is proud to be the leading contributor in the world to financing the debt of the poorest countries: between 1990 and 1997 our aid for the development of the beneficiary countries reached nearly $20 billion, while France’s contribution to the initiative itself is over $5 billion, over and above Paris Club cancellations.

Overall the involvement of the IFI’s, notably the World Bank, in these countries must continue to be effective and realistic.

Dealing with the problems of HIPC.

The burden of debt in the poorest countries in and of itself constitutes a major obstacle to their development. When a country's debt service is greater than its education or health budgets, it is simply impossible to envisage steady development progress. France has always fought the debt battle.

It will now be indispensable to go much farther to free the poorest countries from debt overhang. According to the terms proposed by France with its G7 partners at the Cologne Summit, the debt sustainability of 41 countries will be reviewed. Most of these countries should benefit from debt relief, the total of which will equal about $62 billion euros within the enhanced HIPC initiative. This is an ambitious challenge which we must take up.

We must be watchful that this goal is achieved in full accordance with three fundamental principles which France has put forward from the outset:

- solidarity which should lead us to concede the most favorable possible treatment to the poorest countries;
- equity, which is the basis of fair burden-sharing between all bilateral and multilateral creditors;
- responsibility, which justifies that these exceptional measures support the social sectors of countries with irreproachable public management.

This new impetus must be equitably financed. France has not stalled, waiting for others to pay in our place. France is definitively in the front ranks of funding the initiative. We are waiting for other developed countries to commit to a comparable effort.

Countries like France which make large bilateral efforts have a right to expect equal effort from the multilateral institutions and their shareholders. The credibility of our multilateral system depends on equitable burden sharing. It is indispensable that the richest countries and those who don't have to implement major bilateral debt cancellations take the prime responsibility for bridging the financing gap.

Moreover, before defining the extent of supplemental contributions, we must examine all the internal financing opportunities open to the concerned institutions. Thus, we could set aside donors' additional contributions to Banks that have insurmountable financing problems, such as the African Development Bank. For this reason, the IMF and the World Bank must mobilize a maximum of internal resources.

I warmly thank Michel Camdessus and James Wolfensohn for the efforts they have made to come to a solution. I know that it was not without sacrifice. It will allow us to take advantage of a global solution, which directs additional resources to the institutions whose situation is critical.

An Effective Fight Against Poverty.

Debt cancellation should provide poor countries new breathing room in their quest for development. This dose of oxygen should, by priority, be targeted at the most vulnerable populations and should allow eligible countries to establish basic public services: education for all, access to health care, and the provision of basic infrastructure. For this, it will be up to the developing country governments to adopt economically and socially coherent development policies. The IFI's and donors must accompany their efforts in a context of mutual confidence.

Budget transparency, regulator independence, parliamentary and civil society participation in defining priorities for public expenditure, and the quality of relations between countries and the donor community will best assure that the funds freed through debt cancellation will be used effectively in the fight against poverty.

We must resist every temptation to capture the funds freed in an off-budget structure aimed more at show than effectiveness. To my mind, going off-budget is in contradiction with the principle of primary government responsibility, which is one of the cornerstones of the debt initiative.

Consistent Action in Support of Development.

France has unceasingly affirmed that in view of the constant reduction in public aid flows, simply dealing with debt and private investment flows in a few emerging countries will not alone suffice to resolve the problems of development.

Maintaining sufficient flows of public aid is vital. The concessional loan funds at the multilateral Banks must in fact receive the resources committed during the recent replenishments. IDA and the African Development Fund are key pillars in the development finance of poor countries.

At the moment when the WTO is opening a new cycle of commercial negotiations, it behooves each of our governments to reflect on how they will affect development in poor countries. As you know, France and Europe have long ago incorporated this dimension into their relations with the developing countries, notably through the Lomé convention.

The new cycle of negotiations should be an opportunity for us to reaffirm the importance of developing country access to developed countries' markets. For economies this fragile, the offer of temporary protection is indispensable.

Regional integration is also a necessary step. What is true for Europe is all the more so for the developing world: integration is a source of political stability, of convergence, and of peer pressure between governments. Integration gives regional economies critical mass in the global one. It's not a question of creating new regional fortresses, but of facilitating global integration. The experience of the CFA Franc Zone contains a wealth of information: I hope it will serve other regions of the world.

The International Financial Institutions must increase their development effectiveness.

Globalization must serve development. France has chosen a market economy, but refuses a market society. Globalization must become a generator of growth, not the cause for increasing inequalities.

We must respond to instabilities of all kinds with strengthened surveillance, concerted action and renewed regulations.

While I do not support excessive regulation, which is a source of administrative rigidity, I do believe that building up a set of international rules is essential to adequately confront the global issues at stake: the UN conventions on the environment, the social principles defined in Copenhagen, the work on international financial stability, the arrangements made by the international financial community to fight corruption or to gain oversight over off-shore centers - all are indispensable measures to be taken.

I expect our financial institutions, especially the World Bank, to actively participate in these deliberations, within the limits of their mandates.

To make real development progress, we need effective Banks, whose activities are grounded in local reality. International regulations cannot, in and of themselves, change the course of events. They must be anchored in everyday reality. Our system and our institutions will be judged on their capacity to achieve concrete results.

The international community needs multilateral Banks to be present on the ground and effective in helping developing countries to integrate global preoccupations into their development.

We have reason to be satisfied with certain of the results achieved. Let me cite two very different examples.

The innovations of the Global Environment Fund, whose creation was proposed exactly 10 years ago by my predecessor Pierre Bérégovoy, has resulted in the progressive incorporation of environmental protection into development finance. Of course, there is still a long road ahead, and as the negotiations evolve they are pushing their boundaries toward mastery of greenhouse gas emissions, but the GEF has allowed us to profoundly change mindsets.

On a wider scale, after a difficult beginning, the international community has been able to take effective action on the Asian crisis. Our institutions must continue to assist these countries to implement long-term reforms.

There are also numerous cases where our action is insufficient or ineffective. Our institutions are not always able to escape two traps: abstraction and dispersion. Abstraction, because global problems require an initial intellectual effort to define a general course of action; but, too often, they then fall in the trap of staying at that stage, unable to adapt specific solutions responding to real need on the ground. Dispersion, because there is a strong temptation to create a new and independent course of action for every new subject.

Multilateral Banks must be the mechanism through which the international community links global phenomena with local reality in the developing countries.

To confront the issues at stake, the World Bank Group has an essential role to play. It already has the financial means for this end.

To confront the global issues at stake, it is even more important to select priority work areas, at the risk of dealing with nothing well while touching on everything a little bit.

I expect the World Bank to concentrate its action in each country on the areas where it can bring real value-added to development and to the fight against poverty. The Bank must make this effort in partnership with the regional development banks and the appropriate actors. In a period of scarce resources, we must be careful to work for greater complementarity among all actors.

I note with interest that the World Bank Group intends to renew its approach to private sector development. This is an essential move. But, we must use market instruments, such as bond guarantees, with the greatest prudence, and work out a clear policy for the IFC vis-à-vis off-shore centers, along the lines on the proposals I have just presented.

I trust that President Wolfensohn will successfully create a more effective and rationally organized Bank, prepared for its role in the fight against poverty. Its budgetary and resource margins have been identified and are sufficient to achieve the desired goals.

Statement by Mr. Lawrence H. Summers, Treasury Secretary (United States)

The millennium marks a significant moment in time. It should also inspire us to renew and revitalize our collaborative efforts to promote growth and development in the poorest countries, and to eradicate global poverty. Our shared experience over the past fifty years has been marked by some astonishing successes as well as some deep disappointments. It underscores the scope and complexity of the enormous challenge we confront, and the need to focus resolutely on what works. The Development Committee remains a concrete expression of our firm and persevering commitment to meet this challenge and advance the common good.

Unprecedented globalization and technological change make the challenge even greater, as does the divergent pace of economic and social development progress among countries and regions.

The Development Committee's attention over the last two years has focused heavily on the advanced emerging economies and the collaborative efforts needed to address financial shocks with systemic implications. This crisis generated a remarkable process of international consensus building. While there has been considerable progress toward a return to stability, much more needs to be done if we are to see a sustained and better-balanced global economic recovery. We also believe it is now important to shift the attention of the policy community to global poverty and to dedicate commensurate energy to more effectively address the development challenges faced by the world's poorest countries.

Progress in improving living standards in the poorest countries has been disappointing and overall poverty remains unacceptably high. Sub-Saharan Africa's per capita income is today somewhat lower than it was in 1980. The number of people living on incomes of less than a dollar a day is now expected to increase from 1.2 billion in 1987 to 1.5 billion next year and close to three-quarters of Africans' private wealth is estimated to be overseas. In many countries, the modest improvements experienced in health and education indicators have begun to stagnate or, in some cases, decline. Countries affected by AIDS have experienced the loss of all the gains in life expectancy achieved over the last fifty years. Clearly, we need to find new and more effective approaches to poverty reduction.

A long and difficult road lies ahead if we are to prevent huge portions of the world's people from remaining marginalized, mired in poverty and without satisfaction of their basic needs, and bypassed by technological change. No one could be satisfied with such an outcome. It diminishes international welfare and is a recipe for global instability, the spread of disease, and environmental and humanitarian disasters.

It is clear that the commitment and the domestic efforts of developing countries are central to successful poverty reduction. We also want to encourage a broad international commitment to give our priority to the fight against global poverty and transform our policy approach to helping these poorest countries. We do know unambiguously that some things do contribute to equitable growth. There is, for example, a growing consensus that countries -- and the donors trying to assist them -- ought not only to pursue sustainable growth but also focus more explicitly on attacking poverty, by concentrating public resources and attention more effectively on the interventions that most affect poverty. The vast human dimensions of the problem underscore the importance of urgent action.

The United States seeks a global development partnership, owned by recipients and donors alike, that strengthens the framework for combating poverty at its roots. Our goal should be to build on lessons learned and make whatever changes are necessary in policies and institutional strategies and processes to ensure that development assistance can and does make an important difference on the ground in improving human welfare. Expressions of commitment and political will must be translated into action. While the challenges are formidable, we are confident that a renewed collaborative effort can significantly reduce poverty in the coming years and help make the International Development Targets a reality.

The Basic Conditions Which Make Development Work

While development experience provides many and often complex examples, we do know that there are four broad critical pre-requisites for sustainable growth and poverty reduction.

1. Sound and transparent economic management, including market-encouraging macro-economic policies conducive to private enterprise, and financially viable banking institutions;

2. A policy framework which focuses more on poverty considerations by integrating poverty reduction and growth objectives, including those for agriculture and rural development;

3. Priority attention to human development, particularly the provision of far stronger and more efficient basic education and health services to equip the poor to respond more effectively as opportunities improve; and

4. Good governance, including fully functioning institutions incorporating transparency, accountability, the rule of law, and the participation of civil society.

These are, in effect, the basic conditions that make development work.

Comprehensive progress in all four areas is integral to sustaining successful long-term development. Yet very few of the poorest countries can be satisfied with their situation in any single category. As countries look more systematically at policy frameworks and public expenditure programs to sharpen their poverty focus, they will have to tackle their most glaring and fundamental problems, notably including corruption.

Admittedly these conditions are easy to prescribe but often very difficult to achieve. For example, there is the widespread public concern about the impact of adjustment programs on the provision of social services to the poor and the often seemingly intractable problem, which we also confront in our own country, of ensuring that poverty reduction is a cross-cutting theme across the broad range of public policy. There is also the problem of overcoming vested interests.

Difficult as these obstacles are, we believe that if governments fully embrace and take ownership of sound development strategies to achieve growth and poverty reduction, the problems can be overcome. Without sound policies, external assistance, as research continues to show, will be of little help and may even be counterproductive. Action and performance, not words or intentions, should determine allocations of assistance. Such ownership may have to be built and deepened in stages, but this process must be rigorous and sustained. Improved transparency and participation, and better informed and increasingly involved constituencies in civil society, should be viewed as key mechanisms for helping to generate necessary public ownership and confidence.

The Bank and Fund, along with the broader development community, need to encourage and support the efforts of the poorest countries to build and maintain development frameworks reflecting individual country circumstances and incorporating sound development principles. The roles of the IFC and MIGA to harness private sector initiative are also crucial.

It is also important to approach environmental management and poverty reduction as an integrated whole. "Environmental" problems -- such as unhealthy drinking water, poor sanitation, soil depletion, deforestation, and pollution -- are increasingly concentrated in low-income countries, where institutional and technical capacity to solve them is also weak. These problems have long-term economic costs that are not fully understood, and they impact disproportionately on the poorest. The international financial institutions and their borrowers therefore need to be more alert to opportunities to improve the environmental sustainability and quality of their activities across the board. MDB policies on environment and natural resource issues are essential ingredients in a process to enhance development in a way that makes poor peoples' lives better. In some areas, these policies are quite strong. In others, we believe further improvements are needed. We intend to work for intensified efforts by the Bank in the area of energy efficiency and renewable energy which could result in substantial and cost-effective improvements in the lives of the poor in both urban and rural areas while positively contributing to reductions in climate change. But in all cases, it is imperative that agreed policies be fully implemented -- which has not always been the case to date.

The World Bank and IMF and a Renewed Development Framework

The Development Committee and our member governments will continue to rely heavily on the World Bank Group and the International Monetary Fund in the new millennium to promote sound economic management and governance, encourage policy reform, facilitate the flow of trade and capital, and, most importantly, reduce poverty. These vital institutions, in close partnership with the regional development banks, must be forceful advocates of policies that lead to both sustainable development and social progress.

For those countries that demonstrate a commitment to sound development policies, the support of the Bank and Fund can make an important difference in improving welfare and promoting the common good. All too often, however, commitments and intentions have triggered external financing with disappointing results. It is performance that counts.

We believe the Bank and Fund should use their pivotal leadership roles to help re-energize development efforts to combat global poverty. We also believe they must undertake the fundamental internal policy and process changes needed to enable them to sharpen their focus on achieving verifiable progress on poverty reduction. In sum, the Bank and Fund must do a better job in using their technical and financial resources to help catalyze positive poverty outcomes.

We believe it is imperative for both institutions to work collaboratively in drawing from the lessons of the past fifty years to build pragmatic collaborative partnerships with those of the poorest developing countries that are committed to reform and poverty reduction.

We welcome and strongly encourage the transformed approach now underway in the Bank and Fund to elevate poverty reduction as an overarching objective of their programs in countries receiving concessional funding. This approach must be applied consistently. It must be sustained. And it must be implemented vigorously. It is essential that macroeconomic policies, sound economic management, social development policies, and poverty reduction be mutually reinforcing. This will lay a secure basis for sustainable growth.

We would also like to see much closer collaboration between the Bank, Fund and recipients at the design stage of planned operations, with the Bank sharpening its focus on achieving verifiable progress on poverty reduction and the Fund improving the complementarity of its macroeconomic recommendations. The centerpiece of these partnerships, led by recipient countries, could be the Poverty Reduction Strategy Papers and an agreed core set of monitorable poverty reductions goals, such as: increasing literacy, for both women and men; reducing infant/child mortality; lowering the incidence of AIDS; and improving environmental conditions. In many countries, progress on poverty reduction will require meeting specific targets for the rural sector which often contains high concentrations of the most vulnerable.

We believe both institutions should routinely articulate core reforms and other measures required to reduce poverty as performance indicators in their respective programs.

- In contrast to past practices where social considerations were often a secondary concern, particularly in the IMF, Bank and Fund programs should be grounded in an assessment of poverty and its determinants, and consist of integrated, coherent sets of steps needed to reduce poverty. In the Bank this will mean integration of poverty impact assessments into Country Assistance Strategies.
- The Bank, Fund, and recipient government programs should be more transparent and accountable, with substantially expanded public access to programs and policies helping to strengthen national ownership of programs, ensure greater accountability of decision making, and encourage broader participation by civil society in all phases of the process.

Country implementation performance, not just plans or intentions, on agreed poverty indicators should be the crucial determinant in a more selective allocation of Bank/Fund resources.

The World Bank's engagement plays an important role in avoiding financial crises by helping countries to take preventative action to reduce vulnerabilities to sharp swings in global capital flows. We encourage the Bank to deepen the cooperative work underway with the IMF on assessments of countries' implementation of international codes and standards and in the broader area of financial sector reform, including financial sector program design and technical assistance. In the area of corporate governance, we applaud the establishment of the Global Corporate Governance Forum by the Bank and the OECD, and we expect the Forum to promote the speedy implementation of the OECD corporate governance principles. In addition, we look forward to the Bank's contribution, in cooperation with the IMF, to the development of best practices for public debt management. We appreciate the Bank's ongoing work on good practices in social policy, and urge that good social policies and practices be given operational effect in World Bank and IMF programs.

The Enhanced HIPC Initiative

The enhanced HIPC Initiative is a concrete example of our renewed commitment to help the world's poorest countries. As President Clinton said earlier this year: "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."

The initiative also provides a unique opportunity to find the right way for the Bank, Fund, and recipient governments to more effectively target support on social objectives while also enhancing national ownership and participation, and to design effective economic reform policies while also protecting and advancing core social priorities. It is an important test of the Bank and Fund's ability to implement a new and more closely coordinated approach to the poorest countries.

HIPC debt relief is not an end in itself, but a means to an ultimate objective: a successful development process for countries where today children are more likely to be malnourished than go to secondary school, and where more than forty percent of the populations lack access to clean water. HIPC provides a window of opportunity to translate sound policy prescriptions into meaningful and decisive action.

The Bank and Fund and members of the Development Committee have worked hard to design an effective HIPC framework which promotes a number of mutually reinforcing objectives - poverty reduction, sustainable development, and good governance - while reinforcing the incentives for reform and growth. Successful implementation of the enhanced HIPC Initiative would constitute a major step towards meeting the internationally agreed upon target of halving the proportion of the world's population living in absolute poverty by 2015. HIPC is an important investment in our own future and in the world we will inhabit in the 21st century.

At the Cologne Economic Summit meeting, the G-7 nations agreed to further strengthen the development impact of HIPC by providing faster, deeper, and broader debt relief for those countries demonstrating a commitment to poverty alleviation. Ministers also endorsed efforts to integrate more fully the benefits of debt relief into growth-oriented country strategies for poverty reduction and human development. They stressed the crucial importance of preparing such strategies in open, transparent, and participatory processes.

The HIPC framework can only work in the context of appropriate national policies and with the right institutions and practices; and it can only work with the right kind of support from the international community.

In order to achieve the desired development impact, eligible HIPC countries need to clearly assume leadership in establishing the right policy framework. We all know that the more policies are genuinely "owned" by a country the better they tend to work. Most specifically, governments will need to forcefully demonstrate at the highest political levels and through specific actions a commitment to poverty reduction and the reforms and domestic funding needed to give effect to such commitment. This means, for example:

- Taking concrete steps to improve governance and to increase transparency and accountability, especially with respect to public expenditures. A demonstrated commitment to eliminating the scourge of corruption and its corrosive effects on economic growth and poverty reduction must be a central feature of the integrated strategy. Shining a light on public economic policies and practices is one key mechanism to address this need;
- Ensuring that domestic resource decisions fully reflect the priority given to poverty reduction;
- Working more closely and openly with civil society groups; and
- Implementing the macroeconomic, structural, and legal reforms that will support economic growth and a rising standard of living for all including the most vulnerable.

Close coordination among the World Bank, IMF, and the regional development banks is also essential so that a country's support for poverty reduction is recognized and fully integrated in all IFI programs. I welcome the joint meeting of the Development and Interim Committees as representing tangible progress in this area.

Achieving these objectives will require substantial capacity building at the World Bank and IMF and, even more importantly, within the borrowing countries themselves to support the type of participatory, transparent deliberative procedures that are at the core of a more country-driven and poverty-focused strategy. It is critically important that efforts should commence immediately, both at the institutions and within eligible countries, to address institutional and other problems of absorptive capacity which impede the effective use of social and other poverty-focused expenditures. In the HIPC context, we should expect to see substantial, concrete progress in poverty reduction efforts in advance of the completion point for each beneficiary country as part of a progressive, iterative medium-term strategy.

Financing the Enhanced HIPC Initiative

As members are aware, the costs of the enhanced HIPC Initiative are substantial, a reality which underscores the importance of utilizing debt relief in a way that achieves maximum sustainable development effect. It is crucial to ensure a financial framework with adequate resources. It will be particularly important to maintain a very close linkage between the timing of debt relief and an eligible country's demonstrated performance and its absorptive capacity to use resources effectively.

It is important for bilateral creditors to move expeditiously to secure funding for the substantial additional costs that they will incur under the enhanced HIPC framework. We also believe it important for all of the international financial institutions to accelerate their efforts to identify financing approaches that maximize the use of their own internal resources.

It is clear that even with new innovative ways to generate internal resources, the African Development Bank (AFDB) will continue to rely heavily on bilateral contributions to the HIPC Trust Fund to help fully fund its participation. The Inter-American Development Bank (IDB) also will require substantial bilateral support.

We welcome the steps that the World Bank has taken to help fund its participation in the enhanced HIPC Initiative. It is our view that the World Bank has a resource base of sufficient scale and flexibility to generate the resources necessary to cover its immediate enhanced HIPC costs. We are committed to taking long-term enhanced HIPC costs into consideration as we assess concessional needs and negotiate future IDA replenishments.

The President has submitted to the Congress a revised budget request of nearly $1 billion. This will cover the direct costs of HIPC relief on debt owed to the United States, and it will provide a U.S. contribution to the HIPC Trust Fund of $600 million to help fund a share of the multilateral costs to the MDBs, provided other countries make comparable efforts.

I would now like to comment briefly on some other important development issues, including World Bank-specific matters.

Trade and Development

We urge the World Bank to continue encouraging trade and investment liberalization in developing countries. Open, transparent, and well-governed markets, both domestic and international, are an essential foundation for sustainable development and poverty reduction.

We are poised to launch a new round of international trade negotiations at the upcoming Ministerial meeting of the World Trade Organization (WTO) in Seattle. This Ministerial Meeting represents a particularly important opportunity for the global community to further reduce barriers to new market opportunities in support of development and growth.

Key areas include:

- Continuation of the work begun in the Uruguay Round to liberalize trade in agricultural products, including through the abolition of agricultural export subsidies;
- Further negotiations to reduce and eliminate tariff and non-tariff barriers to trade in non-agricultural goods, an area which holds particular potential for developing economies;
- New negotiations aimed at creating more open and transparent customs regimes and further liberalizing services activities, which will greatly enhance institutional capabilities in those sectors; and
- Conclusion of an agreement on transparency in government procurement, thereby addressing one source of resource-draining bribery and corruption.

As these negotiations begin, particular attention must be made to better integrate developing countries into the world economy and to help them to fully realize the benefits of open trade. Trade liberalization is mutually beneficial to both developed and developing countries. The World Bank is in a unique position to help developing countries realize these benefits and better make the link between their international trade commitments and their development goals.

In this regard, we urge the Bank to work with its borrowing member countries in adopting a comprehensive development approach to trade liberalization. Increased emphasis should be placed on encouraging economic diversification, recognizing the linkage between agricultural trade reform and poverty alleviation, minimizing the social impacts of trade liberalization, developing alternative sources of revenue for governments that rely heavily on customs duties, ensuring that sustainable environmental objectives are met, and ensuring complementary transport and communications infrastructure are in place.

Trade and investment reform should be more consistently and fully integrated into all Country Assistance Strategies and should also become part of the Comprehensive Development Framework. The World Bank can play an important role in promoting appropriate regional and sub-regional trade integration as a means of facilitating developing countries' participation in the global economy. The Bank can also assist in the development of trade-related infrastructure and institutional foundations, many of which are critical for a flourishing trade regime. In this regard, we support the commitment of the Bank to provide sustained assistance as part of its current programs for trade-related capacity building for those members that request it as part of their development strategies. Also, we support the work by the World Bank under the WTO Integrated Framework and the research and analytical support it is able to provide to facilitate developing country preparations for trade negotiations. We are not yet convinced, however, of the wisdom of establishing an intermediary that would subsidize crop insurance to help developing countries cope with highly volatile international commodity markets.

We note with satisfaction the success of initial efforts at enhanced cooperation and coordination among international institutions as a result of decisions taken at the end of the Uruguay Round. We would encourage the development of further efforts to deepen and broaden policy and program cooperation in the future. For example, a WTO agreement on transparency in government procurement would complement the World Bank's efforts to promote good governance, transparency, accountability, and improved government financial management practices among its borrowers.

IDA-12

The IDA-12 agreement will be the cornerstone of the Bank's development assistance efforts in the poorest countries over the next three years. The agreement, now approved by Governors, embodies a policy framework designed to improve the effectiveness of IDA lending. These policies are integral to the replenishment and need to be fully implemented in a timely manner.

We are concerned about the slow pace and unevenness of implementation of some of the key IDA-12 provisions, including:

- The commitment to provide comprehensive and specific diagnostic inputs for Country Assistance Strategies to ensure they fully reflect the findings of up-to-date building blocks, including Public Expenditure Reviews, Poverty Assessments, Country Financial Accountability Assessments, Country Procurement Assessment Reports, and National Environmental Action Plans;
- The commitment to improve diagnostic treatment of cross-cutting issues in the CAS such as gender, environment, core labor standards, and the financial sector;
- The commitment that policy and program performance and governance issues, as determined by clear and monitorable indicators, should determine the size, design, and delivery of a country's IDA program;
- The commitment that CASs should be prepared with the active participation of government, civil society and donors and be publicly available; and
- The commitment to heightened centrality of public expenditure analyses that consider the role of non-development expenditures -- including military expenditures and subsidies to state owned enterprises -- and whether reallocation of these could enhance the development impact of IFI or national public spending.

It is vital that these commitments be taken more seriously in order for IDA to play the vital development role envisioned by donors.

Moreover, it is important that existing Bank policies, especially the "safeguards policies" of disclosure, fiduciary controls, and environmental protection, be applied more consistently. These are all reasonable standards that exist to strengthen the Bank's development impact. Management must improve staff training on policies and strengthen its vetting process to ensure that Bank policies are applied rigorously to all Bank projects.

World Bank Partnership with the African Development Bank

As has been discussed in previous meetings, enhanced collaboration among the multilateral development banks is important to an improved international financial architecture and to the effectiveness of development assistance in reducing poverty. The United States welcomes the progress made by the team of independent experts advising the World Bank and African Development Bank on a strategic partnership between the two institutions and in offering suggestions pertinent to the drafting of a memorandum of understanding between them. We encourage both institutions to proceed quickly toward this memorandum of understanding. We believe an official partnership would enhance collaboration in areas such as common strategic visions; country strategies; harmonization of missions, disbursement procedures and reporting requirements; and staff exchanges to strengthen networking.

We look forward to a similar agreement between the World Bank and the Asian Development Bank, as is currently being discussed in the two institutions.

World Bank Capital Adequacy

We welcome the attention which management and members have given to safeguarding the Bank's financial soundness and risk-bearing capacity. Financial strength is fundamental to the Bank's ability to respond quickly and effectively to the evolving development needs of our borrowing members.

We agree with the External Advisors and the Bank's own analysis that the Bank is now operating on a firm financial basis. We also recognize that projections regarding the Bank's future financial position depend heavily on judgments on the prospects for the world economic environment and the potential future demands on – and inherent risks of – the Bank's portfolio and its adherence to the policy of selective lending based on country performance.

We do not believe that the Bank needs to substantially increase its hard loan window lending capacity at this time. Rather, we believe that management and the Board should look more closely at selective lending choices and the opportunities for mobilizing additional support from within the Bank's existing resource framework.

In all cases, it will be important to keep both the Bank's financial situation and the nature and composition of future lending under close review.

We have also been asked by IFC management to consider a possible capital increase for that institution. We would like to discuss this further with management and the Board, but at this point do not see a strong case for a capital increase.

Corruption and Money Laundering

There is increasing awareness that corruption contributes to distortion of investment flows, poor economic performance, reduced confidence in financial institutions, and vulnerability to financial instability. It is one of the most serious impediments to development and poverty reduction, and is a problem that must be forcibly addressed head on.

As a follow-up to the OECD Anti-Bribery Convention and Vice President Gore's Anti-Corruption conference in Washington in February 1999, we strongly urge complete ratification and implementation of the OECD Convention by all signatories.

We also call on the Bank and the IMF to perform authoritative reviews of their procedures and controls and those of borrowing countries to identify ways to strengthen safeguards on the use of IMF and World Bank funds, especially in situations where there is a heightened risk of diversion or misappropriation of funds. We encourage strong membership support for this effort.

The United States also intends to work with our G-7 partners and others to coordinate anti-corruption efforts and assistance and complete a WTO agreement on transparency in government procurement. In addition, we are considering ways to institutionalize international measures to identify, block and seize illicit financial flows gained through crime.

We view concrete steps to enhance cooperative and multilateral efforts to combat money laundering and financial crimes as a crucial component of the international financial agenda. We therefore welcome the fact that the World Bank, IMF, and regional development banks are acutely aware of the serious problems posed by international money laundering. The structural reform assistance provided by the IFIs in recent years has helped selected countries improve their banking supervisory capacity, adopt financial sector reforms, and strengthen public institutions and the rule of law. We continue to believe that corruption and other governance considerations should be taken into account in allocating IFI resources, and that government failure to address the problem of systemic corruption should have important consequences.

We urge the IFIs and their members to be alert to the opportunities for further engaging in these priority efforts. We specifically encourage the institutions to expand efforts to help countries, in the context of financial sector reform, to create transparent and accountable financial systems, identify and interdict illicit financial flows, strengthen financial supervisory institutions, and promote adoption of appropriate anti-money laundering policies and measures.

We also continue to urge the MDBs to give priority attention to developing uniform procurement rules and documents of the highest standard and to help countries combat corruption.

Labor

It is our position, supported by ample evidence, that the core labor standards, in conjunction with a responsive and equitable legal and institutional framework of labor relations, can have a positive impact on poverty alleviation in general and on productivity, income distribution, and civil society specifically.

The ILO's 1998 Declaration on Fundamental Principles and Rights at Work, representing a consensus among labor, employer, and government representatives of a membership that closely parallels that of the Bretton Woods institutions, demonstrates that the values reflected in internationally recognized labor rights are broadly shared. Therefore the debate should no longer focus on whether core labor standards are good or bad for development and growth, but how to achieve growth and development in a manner consistent with internationally recognized workers' rights.

We welcome the Bank paper's careful treatment of labor market flexibility and the desirability of policies that encourage such flexibility. But this is only part of the challenge. We are quite concerned that by addressing only this narrow sector of labor market policies, the Bank is missing a real opportunity to support forward looking policies on labor markets that are consistent with core labor standards during good times as well as bad. We urge the Bank to revisit this issue of vital concern to industrial and developing countries alike.

It is also essential that the Bank, together with its borrowers, move forward on the implementation of the labor provisions contained in the IDA-12 agreement, and that all the IFIs ensure that their projects and programs are consistent with core labor standards and work cooperatively with the ILO and other labor institutions to promote programs and policies beneficial to working people.

Military Spending

Consistent with our efforts to encourage the most productive utilization of limited donor and domestic resources, the United States believes greater attention needs to be placed on improving military spending accountability. We encourage the international financial institutions to ensure the full transparency of military spending within the range of borrowing countries' public expenditures and their accounting and reporting mechanisms. We believe it is incumbent on the IFIs to be fully knowledgeable of the audit and accountability systems in place for military expenditure -- like all expenditure -- prior to extending assistance. We consider this necessary to better ensure that assistance is supplementing a country's own best efforts to reduce poverty and pursue equitable economic growth, rather than simply making it easier for the country to engage in excessive military spending. Equally important is the very reasonable expectation that countries receiving assistance should maintain transparency and accountability in the management of all public resources, including military spending.

I hope that all members of the IFIs will join us in prioritizing the issue of military spending -- recognizing that accountability of military spending is integral to the growth and development mandates of the IFIs -- and promoting active and well coordinated IFI engagement on public expenditure and accountability issues, issues which are also essential components of the HIPC Initiative.

Conclusion

In concluding, I would like to highlight the fact that we are meeting at a time of increased public scrutiny of both bilateral and multilateral financial institutions. There is widespread skepticism of the benefits of development assistance and other official financing, reinforced by the overall disappointing economic performance of the poorest countries over the last half century.

A renewed commitment to change the framework for assisting the poorest countries, reinforced by the HIPC Initiative, is needed to jumpstart the process for reducing global poverty. I recognize the scope of the challenges this will entail. Development is not an easy process and there are no quick fixes. Yet we can all do a much better job in reaching and engaging the poor and in ensuring that economic growth and social progress are mutually reinforcing. Genuine commitment and performance by the poorest countries themselves is the linchpin. But well targeted external assistance is also crucial. My government is committed to working with the Bank and Fund and their members to help meet this vital challenge.

Statement by Mrs. Heidemarie Wieczorek-Zeul, Federal Minister for Economic Cooperation and Development (Germany)

HIPC Debt and Poverty Reduction Framework

The beginning of the implementation of the enhanced HIPC Debt Initiative may turn out to be a watershed in the joint efforts of developing countries and the international donor community to combat poverty in a meaningful way.

The enhanced debt reduction framework will deliver an unprecedented amount of debt relief. It will set free significant resources in debtor countries' budgets that can be used for health, family planning and education spending, for the improvement of basic infrastructure and in general to support sustainable development.

Now it is our shared responsibility to ensure the implementation of this framework in political as well as financial terms.

The World Bank/IMF proposal on how to link the debt relief provided under the HIPC Initiative with poverty reduction marks a fundamental change in the approach to poverty alleviation and in matters of cooperation between the two Bretton Woods institutions. Clearly, much work remains to be done in transforming the general proposals into country-specific action plans and, finally, into comprehensive and lasting success in terms of development and poverty alleviation. In striving together towards this aim, we should make sure we take into account the commitment and institutional capacity of our partner countries. In this regard, it might be useful to deepen our understanding of how sound institutions work and how existing institutions might be improved, in particular those relevant to the field of social policy.

The HIPC Poverty Link proposal provides a sound framework for the development and implementation of concrete and integrated poverty reduction strategies and thus the efficient utilization of the available resources, both internal and external. However, there is need for complementary improvements and changes in the global framework affecting the developing countries, in the areas of trade, capital movements and conflict resolution. To address these and other global concerns, further concerted efforts will be required of global society.

Our priority task now is to secure the funding for the forthcoming country cases under the enhanced HIPC Initiative framework. With the bilateral creditors' share funded, the many proposals that have been tabled for the multilateral creditors' share should constitute a menu that can be drawn on so as to fill the gap sufficiently to allow implementation to commence.

Finally, the prominent position of poverty reduction in the enhanced framework should, in our view, also be reflected in its title. We would therefore propose something like "HIPC Debt and Poverty Reduction Framework".

The New International Financial Architecture

We are convinced that enhanced global financial stability relies firstly on both prudent national policies and institutions and secondly on sound and effective international regulations and standards, capable of effectively guiding the decisions of companies in the global marketplace.

Instruments like *best practices* and *international standards* will play a crucial role in this context and we appreciate the constructive contributions of the World Bank and the IMF in this regard. Prudent international regulations are critical in ensuring transparency and accountability on the global level and in guiding decision makers on both, the global and the national level.

The East Asian crisis of 1997/98 proved that financial crises have a dramatic effect on the livelihood of the majority of the population in developing countries, in particular the poor. A lot of work has been done since to explore the various causes of the crisis. Today there is widespread agreement that one crucial area, which has to be addressed as a priority in this context, is institutional capacity, in particular in areas relevant to economic and social policy. The challenge then is to improve the overall social environment – policies, institutions and human capacity - with a view to enhancing stability and preventing or at least mitigating the effects of crises on the national level. Therefore we greatly welcome the significance the papers and discussions at the Annual Meeting of the Bretton Woods Institutions attach to the field of social policy and related institution building.

Sound social policies encompass, *inter alia*, protection against fundamental risks for all members of a society, specifically the poor. The protective aspect of social policies is important, but social policies offer an added, productive advantage: Social policies make a crucial contribution to social cohesion and stability and thus to an enabling environment which reduces risks and encourages people to invest and realize their potential. Our concept of social policy should therefore not be limited to the protective aspects. In line with the ongoing discussions in the *Copenhagen + 5* process and the *ILO Declaration on Fundamental Principles and Rights at Work,* we should view social policy as a crosscutting instrument involving all groups within society. It is encouraging that social policies are finally being considered a valuable social and economical asset.

Therefore we would like to encourage the Bank and the Fund, together with the United Nations, the ILO, bilateral donors, NGOs and others, to further strengthen their efforts in this field.

Trade/WTO

A new world trade round is about to commence, the outcome of which will be of great significance for the developing countries. In this regard, the German government welcomes in principle the World Bank paper on international trade issues. We should set ourselves two clear objectives:

Firstly, we must ensure that the developing countries' participation in the multilateral trade system is enhanced. The Uruguay Round resulted in the developing countries taking on extensive commitments. In order to allow these commitments to be fulfilled effectively, institutions have to be reformed and new ones created. The new world-trade round will pose similar problems. The World Bank can and must make a decisive contribution to this and thus enhance coherence in global economic policy making.

What is needed, however, is not the provision of greater assistance -- what is needed, above all, is the right strategy. The question today is not whether, but how to liberalize foreign trade and investment regimes. In order to be successful, liberalization has to be combined intelligently with institution building and the formulation of efficient public policies. Whereas trade liberalization can be implemented almost with a stroke of the pen, institution building takes time. The pace of liberalization must respect these institutional constraints. We must ensure that the World Bank fulfils its development mandate in this area as well.

The World Bank must play a more active and stronger role than before in ensuring that the multilateral trade system conforms to the objective of sustainable development. In particular, it must be ensured that when markets are opened up, the appropriate trading infrastructure is also in place (transport, communication, trade credit system etc.). It is also important that the trade reforms, in particular liberalization policies, contribute to, or at least do not undermine, macroeconomic stabilization. Care must be taken, for example, to ensure that, in parallel with import liberalization, tax systems are reformed and new sources of income developed since import liberalization generally leads to a drop in customs revenue.

Finally, developing countries should be further supported in their efforts to participate more actively in the shaping of a new global trade framework. Therefore we welcome the steps taken to enhance their representation at the WTO headquarters.

Financial Capacity

A very comprehensive report analyzing a wide range of possible options for consolidating and strengthening the Bank's risk-bearing capacity has been presented by the Bank. The next step must now be a systematic approach differentiating between short-term and long-term problems and options. Our short-term priority has to be the further consolidation of the Bank's risk-bearing capacity, and thus the retention of AAA rating, while ensuring the necessary income-generating capacity and thereby ensuring future net income transfers for the benefit of the poorest countries through contributions to IDA and HIPC. Any discussion of long-term options for enhancing the financial capacity of the Bank has to be preceded by a discussion on the future role of the Bank, which also addresses the division of labor between IMF and World Bank. In our view, the Bank's principal mission has to be long-term development financing, offering advice to assist structural reforms rather than offering short-term crisis lending. It could also possibly become involved in matters relating to the International Architecture or the funding of critical global public goods. What is needed is a selective approach, taking into account such aspects as comparative advantages, coordination procedures in the context of CDF, the probability of effectiveness of operations and also financial restrictions.

The Bank's Program of Renewal

We commend the visible success that has already been achieved under the very ambitious reform program the Bank is implementing – the Strategic Compact. As the recently presented fifth progress report confirms, significant progress has been made in terms of improving the quality of the Bank's operations, in terms of improving knowledge management and3 in terms of more and better partner orientation. We are convinced that the Bank will continue to make every effort to meet the goals set and thus further improve the development effectiveness of its policies and operations.

Indonesia/East Timor

The United Nations' decision to send a peace-keeping mission into East Timor is an important step towards ending the expulsion and murder of the civilian population and towards creating the necessary conditions for peaceful development within the country.

Once peace has been restored, the rebuilding of East Timor as an independent democratic state will require a concerted effort on the part of the international community; we welcome the timely decision by the World Bank to host an informal East Timor coordination meeting in the framework of the Annual Meetings.

We call on the international community and all responsible institutions to undertake all political and economic steps required to guarantee the independence of East Timor. This commitment reflects the decision of almost 80 percent of the East Timorese population in favor of independence for their country, as expressed in the referendum, which was monitored by the United Nations and respected by the Indonesian government.

We support the World Bank initiative to freeze its current loans to Indonesia. The period for which this measure will apply should, we believe, depend on further developments and, above all, on the conduct of Indonesia.

Following the initial phase of humanitarian aid, which is already under way, joint long-term efforts are needed to achieve rehabilitation of the entire infrastructure and of the economic and political system and also the development of a viable civil society.

Statement by Mr. XIAN Huaicheng, Minister of Finance (China)

The world economy has reached a turning point on the eve of the new millennium, with the financial crisis fading away and the Asian crisis-hit countries starting a turnaround. International financial markets are getting stabilized. The United States and European countries have maintained the momentum of growth. With the amelioration of the overall situation, it is time for the multilateral development institutions to shift their focus from emergency assistance to lesson-learning, consolidation of the world economy and the long-term development agenda. The present Development Committee agenda highlights some of the long-term issues concerning developing countries, on which I would like to give my comments:

International Financial Architecture and Developing Countries' Participation

The discussion on international financial architecture cannot be disassociated with the context of developing countries' position in the economic globalization. The developing countries participation in globalization is determined by the fair share of benefits and opportunities to them. Developing countries' participation in globalization involves two dimensions, that is, the need and the role. First, developing countries need to adapt to global economy through structural adjustment and institutional development; second, they should be allowed to play an active role in formulating the rule of game for the global economic activities to safeguard their interests and opportunities in the globalized economic system. We call for a better balance between the two dimensions.

We welcome the efforts made so far in reforming the international financial architecture. Nevertheless, such efforts ought to be multi-dimensional. The thrust of the reforms is to solve the substantive issues of the international financial architecture, i.e., international monetary system and management of international capital flow. Such reforms should not be limited to the establishment of international standards and codes of conduct within the context of macro and structural policy adjustment. Developing countries should have their opportunities to fully participate in the discussions for this purpose.

Social and Institutional Structure

Social policy, governance, and institutional building are undoubtedly essential to development and crisis prevention. However, the depth and broadness of these themes extend far beyond economic development and crisis control. It is worth exploring approaches to the way the World Bank should play its role in these areas within the economic context.

In playing such a role, the World Bank is encouraged to practice along the following lines. Firstly, to put more emphasis on experience dissemination without imposing a straight-jacket of any model in its support to institutional building in developing countries based on their own specific situations. The social and institutional development in each and every country is subject to the particular stage of its economic development, as well as values, culture and tradition. Therefore, no standardized social and structural model will work. The experience of developed countries in terms of social and institutional evolution can be of important relevance to developing countries. However, they should not be regarded as an international standard that can be universally applied to all developing countries.

To judge whether a given country is successful or otherwise in its social policies and institutions, the conclusion should be based on their effectiveness in the specific context of that country rather than their identity with any possible counterparts in developed countries. But they should not be regarded as a universally applicable standard to be imposed upon the developing countries. To judge a country's success or failure in social policies and institutions, one has to see if these policies and institutions are effective in that country's specific context, rather than to see whether they follow the suit of practices in developed countries.

Secondly, to put more emphasis on exploring appropriate processes, rather than on expediency. Social and structure progress is a historical process, which took developed countries a long period of time to reach today's stage. Likewise, it cannot be completed overnight in developing countries. The multilateral development institutions should study and disseminate experience and lessons learned from developed countries in such process, and good practice from developing countries as well. Thus, the developing countries may benefit from such efforts in adopting the most suitable approaches for them and improve social and structure system over time.

Thirdly, to put more emphasis on getting things done rather than mere deliberations. Increased concessional resources should be provided to developing countries to meet their needs in their endeavor to solve social problems. At present, the real needs for the developing countries in this respect are financial resource inputs, not a series of standards. It is all right to underscore the importance of the social sector expenditure. But the ability of the developing countries to do so, to a large extent, is constrained by their budgetary capacity, which in turn is determined by their economic development stages. Even worse, during the crisis period, such budgetary capacity would be badly eroded. Therefore, the transfer of financial resources, in particular the concessional resources lies in the center of the multilateral development institutions' value added to social area.

International Trade

We endorse the direction of trade liberalization. On the other hand, we have to concern ourselves with the fair share of benefits to the developing countries and the balance of their rights against obligations in the international trade system, as well as the opportunities expected of trade liberalization.

Many trade-related issues, which come uppermost in the mind of developing countries, remain unsolved. We need to push the implementation of the agreements concluded in Uruguay Round in a concrete, effective, and balanced way, particularly those areas related to the interests of developing countries. The forthcoming new round of multilateral trade negotiations should take into full account developing countries' concerns and needs, and work towards a more open and fair multilateral trade system, thereby contributing to the balanced development of the world economy.

With the World Bank's long experience in development, we welcome the Bank's involvement in the above mentioned issues with the purpose of providing developing countries with intellectual supporting services in their new round of multilateral trade negotiations under WTO. We also encourage the Bank to help developing countries in risk management during the trade liberalization through well-targeted services.

We believe that the cooperation among the Bank, the Fund and the WTO must be preconditioned on their clear division of labor. Each should perform its respective duty according to its charter. The member countries' legitimate rights and obligations in these institutions should accord with the respective mandate of these institutions.

Poverty Reduction and HIPC

A disturbing fact along with the globalization is that the progress achieved in poverty reduction after the World War II has reversed since 1990s, due to a series of international economic political uncertainties. The gap between developing and developed countries has further widened. Developed countries and multilateral development institutions are obliged to help solve this problem.

Economic growth and equitable income distribution are key to poverty reduction. They cannot replace each other, but equally important at both domestic and international levels. In this context, we feel that the theory of "redistribution with growth" advocated by the Bank in the 1970s remains valid today. While policies and institutions play an important role in poverty reduction, they are not the substitute for net resource transfer. Therefore, the efforts by multilateral development institutions towards poverty reduction should be focussed on economic growth in developing countries through resource transfers and the redistribution of production factors in favor of the poor. The resource transferred by multilateral institutions is not charity; so they must be used to support improvement of effective productivity of the poor in developing countries. Developed countries have their obligations to increase ODA aimed at poverty reduction. The prevailing pessimism in major developed countries towards ODA is not justified by their currently improved budget status. We hope that the situation will be reversed as soon as possible.

Financial resource is the key to the enhanced HIPC initiatives. The targets for poverty reduction in HIPC countries need to be commensurate with real resource inflows. Unrealistic policy requirements should be avoided. We hope that major developed countries would demonstrate their political willingness by promptly putting in place additional financial resources required for the enhanced HIPC Initiative.

Prepared Statements Circulated by Observers

The following statements were submitted by Observers in addition to the foregoing statements by Members:

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

The importance of the Development Committee lies in its constructive role in defining shared values and global agendas, in forging and strengthening partnerships, in alerting developed and developing countries alike to challenges and opportunities that lie ahead. The African Development Bank Group appreciates the opportunity to participate in these meetings, and to add our African perspective to the discussions. We fully share the sense of urgency with respect to the key issues to be discussed at this meeting, namely the new financial architecture, the enhanced HIPCs initiative, trade issues, and small states.

Africa's Economic and Political Situation

The markedly improved performance of several African economies over the last decade, and in particular over the last three years, has resulted in careful optimism that the Continent is at a turning point. Growth has been largely driven by the significant progress made in resource allocation through the implementation of policy and structural reforms, and the restoration of macroeconomic stability, resulting in more disciplined fiscal and monetary policies and declining trends in inflation and exchange rate disparities. It is, indeed, worth noting that the continent's strides towards attaining sound economic fundamentals have been steadily held despite the adverse external pressures on exchange rates and government revenues. It is also noteworthy that these important and wide-ranging reforms have been backed, in several cases, by improvements of the governance systems of African countries.

However, in Africa and among Africa's partners, there is concern about the negative effects of the recent global financial crisis, including on countries having followed sound policies. Indeed, regional GDP growth in 1998 of 3,2 percent was lower than the average for the last three years, largely as a result of lowering commodity prices, especially of oil, and weakening demand for primary commodities. Furthermore, the spread of conflicts also contributed to slower growth in 1998; there is a pressing need for innovative and effective ways to address this problem if the full potential of Africa is to be realized.

While the continent will continue to be dependent on its development partners, it is at the same time in a better position and more ready to make good use of resources put at its disposal. To be sure, in recent high-level fora, African leaders have clearly confirmed their commitment to a fruitful partnership based on shared values and mutually agreed upon development policies and agendas, and subscribed to the International Poverty Goals for the year 2015. We look forward to the further collective guidance that may emerge from the next few days' discussion on the way ahead.

International Financial Architecture

As the recovery from the effects of the Asian financial crisis gets underway, we reflect back on the role of domestic policy weaknesses and the fragility of financial institutions in the precipitation of such crises, and realize the need to strengthen the global financial architecture, but also financial systems in individual African countries. We need more transparency and accountability, better financial standards, policies and practices, more effective supervision of financial institutions, public and private. Benefits of such reforms would include sustainable economic growth, more efficient financial intermediation and reduced volatility of capital flows, exchange rates and other macroeconomic fundamentals. They would also facilitate Africa's integration into the globalized economy.

The African Development Bank Group is ready to take its place, along other Multilateral Development Banks (MDB), in the new global structure and to work with other international institutions in developing the required monetary and financial systems. We also look forward to the further discussions on defining an appropriate role for regional institutions which we believe can play a critical role in meeting the challenges of globalization.

Highly Indebted Poor Countries (HIPC)

Africa's significant external debt overhang continues to hinder its economic progress. It generates a substantial drag on resources, reduces the ability of countries to attract much needed private investment and other financial flows, and creates stress in the budgetary system with the risk of crowding out vitally needed expenditures on social services and poverty programs.

This is why we warmly welcome the recent enhancements to the HIPC framework, agreed by the leaders of G-7 countries in Cologne, which propose deeper, broader and faster debt relief, increasing the number of eligible countries from 29 to 36. For Africa this means adding five new countries to the original 25. However, initial estimates suggest the enhanced HIPC initiative would cost approximately US$27.4 billion in 1998 net present value terms, more than double the previous estimate of US$12.5 billion.

Costs to MDBs are expected to rise from US$6.2 billion to US$ 13.3 billion, while the Bank Group's share will increase from an estimated US$914 million to US$1,998 million (excluding costs for Liberia, Somalia and Sudan). Strong efforts were made to secure a substantial share of the original HIPC requirements from the Bank's own resources, and through the Trust Fund established by the World Bank. The magnitude of this new increase, however, exerts pressure on the Bank Group's already constrained financial resources. As the success of the initiative is contingent upon the full participation of all multilateral creditors, efforts must be made to secure adequate financial resources, bilateral and multilateral, while preserving the financial integrity of international financial institutions and keeping in mind the limits for generating financing from their own resources.

We have been particularly heartened by the impressive mobilization of public opinion in favor of the HIPC countries, a prime example of how greater involvement of civil society can invigorate an issue and infuse a sense of urgency.

This unprecedented public support may indeed have helped galvanize governments and international institutions into concerted efforts to solve the problem. It may help ensure that debt relief is additional to, and not at the cost of ODA. And it has meant that sight was not lost of the ultimate aim, that of poverty reduction.

Indeed, alleviation of human suffering and poverty should be at the core of this initiative. Debt-relief must be linked to long-term poverty reduction and economic growth, with the clear objective of contributing to the achievement of the 2015 international poverty targets. HIPC countries must embrace programs that help improve domestic policies and put them on the path to permanently exit from unsustainable debt situations. Bilateral creditors must demonstrate a collective commitment to securing sufficient financing. And multilateral development banks should follow the Cologne Declaration's call to develop strategies to strengthen the linkages to poverty reduction, keeping in mind the need to see debt relief as part of a more comprehensive reform strategy.

Developing Countries and the International Trade Agenda

As four eminent ministers recently wrote in the International Herald Tribune: "fighting the poverty menace requires imaginative thinking and tough action, not only on debt but also on issues such as trade and development financing." Indeed, globalization and liberalization of the world economy has created great new opportunities for economies that were well-prepared or adjusted to the challenges and able to exploit the expansion in world output and trade. For Africa, as a continent, this has not been the case. Africa has experienced a decline in its share of world trade, which now stands at a modest 2 percent.

The deterioration in Africa's trade share is partly a reflection of the difficulties in increasing, or even maintaining, its market in primary commodities. Also of concern is the inadequate development of alternative products, such as manufactures, which command larger international demand. The markets for such knowledge-based products are promising, their demand increasing more than proportionately with the growth of global income. Therefore, countries now strive to build dynamic export sectors and acquire new competitive advantages in the supply of products where world demand will be high, technological progress will be rapid, and labor productivity will rise fast. This new competitive strategy is the goal that we in Africa should pursue with vigor if the region is to meet the challenges and opportunities ensuing from the full implementation of the terms of the Uruguay Round Agreement.

We view with much concern, however, the emergence of large global trade imbalances, with consequent risks of de-stabilizing exchange rate movements and protectionist pressures. The removal of non-tariff barriers to trade holds great potential for improving economic performance of African countries as it allows freer access to developed country markets for products from Africa. But given the present situation, it is also essential, for this to be significant, to implement "the special and differential treatment" offered by the World Trade Organization to developing countries and , not least, to give them adequate time to adapt their economies to the new world trade system.

Special Problems of Small States

Recognizing their special problems, The Bank Group initiated in 1994, a special program of action towards the economic development and integration of its island regional member countries, the majority of which are small. Priority areas of action include human resources development; tourism; the environment, issues related to globalization such as development finance, trade and investment; and regional institutions and technical co-operation. The African Development Bank Group welcomes any further possibilities for working with other development partners to ensure concerted efforts towards the solution of the special problems of these countries.

The International Agenda for the Beginning of the Decade

Our meeting today, and the Interim Committee's yesterday, have addressed critical and topical issues that have been of concern to us over the past few years, and remain highly relevant today. Looking ahead however, there are major initiatives that will feature prominently in these meetings in the next few years and to which we should direct our attention.

First, the upcoming WTO Conference in Seattle and UNCTAD conference in Bangkok in the year 2000, are key events that will determine the fate of developing countries. Will these conferences recognize the diversity of WTO member countries, and the specific needs of developing countries; will they enable developing countries to capture the unfolding opportunities of the global world trade system? Will they ultimately, by harnessing developing countries' export potential and opening more trade opportunities, have a positive impact on the lives of the poor in developing countries?

Second, on the issue of financing development, the UN General Assembly will be organizing a high-level international event before the end of 2001. It is our hope that this conference will receive as much attention and draw as strong political commitment as the HIPCs initiative, and that it will generate and stimulate much needed resource flows to developing countries, from both private and public sources.

Third, it is our hope the new millennium will herald co-operation in the form of genuine and constructive partnerships, using tools such as the Comprehensive Development Framework (CDF). We pledge our willingness to work with all the development partners to ensure that complementarity is fully taken advantage of, synergies enhanced, and comparative advantages exploited as best as possible. We also wish to endorse the CDF's emphasis on maintaining a balance between macro-economic and social concerns. And in this respect we welcome the recent signals from the international community, academic as well as political, that poverty is squarely in the center of our attention.

Conclusion

In conclusion, we see, from an African perspective, a need for sound and democratic global governance; we cannot be satisfied with policies of exclusion and institutions of limited representation and vision. We need to give the people who bore the cost of the recent crises, and those who may be harmed by future crisis, a voice. We need to integrate the finance, development and trade agendas, to make the most of synergies and complementarities between resolving the debt and balance of payments problems, increasing market access, enhancing private capital flows and building necessary capacity in developing countries.

We look forward to see evolving a global architecture and policies capable of restoring sustainable, broad-based growth in the world, through concerted, coordinated efforts, and which tackle the systemic challenges of globalization to the benefit of all.

Statement by Mr. Jean-Claude Faure, Chairman, Development Assistance Committee

The DAC's 1996 policy document on *Shaping the 21st Century: The Contribution of Development Co-operation* has had a remarkable influence on the international community's thinking on development and development cooperation in terms of a partnership approach. Major development agencies as well as many developing countries' governments advocate now similar approaches. A growing number of policy documents have been produced which bring out the same message, on both substance and process. We must nevertheless recognize that implementation of the partnership approaches is a time-consuming and difficult process, as it requires changes in the way we are operating.

The time may have come, therefore, to distil some fundamental partnership principles from various policy documents issued in the past few years, as a common reference for the international community. A first attempt is attached under the title *On Common Ground: Converging Views on Development and Development Co-operation at the Turn of the Century*. Such a common set of principles could highlight the international community's determination to work in partnership towards realizing the international development goals, including the important goal to bring down the number of people living in poverty by fifty per cent. It could also provide a strong basis for genuinely concerted endeavors.

An amended version of the attached document, taking into account views and suggestions from the international community, will be presented to the DAC Senior Level Meeting in December of this year as a preamble to the Guidelines for the Donor Community on Partnership, which the DAC is aiming to produce by the end of the year 2000.

Views and suggestions on the contents of the document, from Members and Observers of the Development Committee would be much appreciated. Ideas on ways in which it can be shared as widely as possible with the international community, would also be welcomed.

Working draft

ON COMMON GROUND: CONVERGING VIEWS ON DEVELOPMENT AND DEVELOPMENT CO-OPERATION AT THE TURN OF THE CENTURY

Growing Convergence

The international community has in recent years built a stronger consensus on what constitutes sustainable development, and how it can be achieved. Following the international Conferences sponsored by the United Nations, which have set out an agenda and brought consensus to what people-centered development means in process and substance, bilateral and multilateral agencies are explicitly taking a more systemic approach to co-operation arrangements and techniques based on ownership and participation by the governments and civil societies of developing countries themselves. These concepts, goals and endeavors stem from a host of major policy documents issued in the past few years.[4]

[4] IDB Task Force, *Serving a Changing World*, March 1996 In this report, the Task Force on Multilateral Development Banks recommended closer co-operation and harmonization among the five multilateral development banks (the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank and the World Bank) in support of "borrower ownership of reforms, programs and projects". All the banks supported the main conclusions of the report and in a joint report to the Development Committee in 1998, the Presidents of these banks reconfirmed their support for the directions indicated in the report, while recognizing "a clear need to deepen their co-operation beyond what has been achieved thus far".

OECD/DAC, *Shaping the 21st Century: The Contribution of Development Co-operation*, May 1996. In this report, Members of the OECD's Development Assistance Committee - at the level of Ministers for Development Co-operation and Heads of Aid Agencies - laid down their agreement on the principles of inclusive and people-centered development strategies, and proposed a global effort to achieve priority-specific goals within a give time frame, calling for partnership and local ownership.

IMF, *The ESAF at Ten years: Economic Adjustment and Reform in Low-Income Countries*, 1997 and *External Evaluation of the ESAF*, 1998. In their discussion of these evaluation reports, IMF Directors considered that the mutually reinforcing ESAF objectives of growth and external viability called for ambitious strategies, but tailored to the situation and implementation capacity of countries, and set over a realistic time frame. They called for appropriate compensatory measures to be built into the design of the program to protect low-income groups, including the provision of well-targeted technical assistance to the more vulnerable groups and the allocation of adequate resources for social sectors. They agreed that countries have primary responsibility for economic reform programs and that IMF staff should consider the political constraints faced by the national authorities. They noted that some of the recommended measures to ensure ownership might prolong the initial stages of negotiations but considered that the investment would be compensated for over the period of implementation.

World Bank, *Partnership for Development: Proposed Actions for the World Bank*, May 1998 and *Partnership for Development: From Vision to Action*, September 1998. The first is a discussion paper proposing a new course for the World Bank, through an emphasis on supporting country ownership of the development efforts and working in partnership with governments and civil society as well as other donors in support of

Development agencies increasingly recognize the need for a ***long-term integrated vision of developmen***t, emerging from and supporting the ***country's ownership*** of its own development process; they call for ***partnership*** with government, civil society, assistance agencies, NGOs and the private sector in defining development needs and implementing programs; and, finally, they all stress the need for concrete ***development result***s. Encouragingly, it appears that a wide range of developing countries in all regions of the world have moved, to varying degrees, to exercise their own leadership in designing and implementing their strategies, in monitoring results and in coordinating with their external partners.[5]

Common Principles

The following principles form building blocks for partnership among all development actors. They are common to all partnership efforts, whether initiated by developed or developing countries. ***Long-term integrated vision of developmen***t. Over the years, the understanding of development and development co-operation has undergone fundamental change. It has expanded to take more fully into account how markets, societies and governance interact and evolve. The importance of human and social capital in these development processes has also received more recognition. From this, it follows that sustainable development can only be achieved by integrated strategies that incorporate key economic, social, environmental and political elements. All components -- macroeconomic, financial, structural, social and human -- should be brought together in a long-term, holistic and strategic approach.

To achieve effective sustainable development, it is necessary to address economic and financial issues on the one hand, with structural, social and human issues, on the other, in a balanced way, thereby integrating the following key elements:

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a nationally owned development strategy. The second, based on consultations in Africa, Asia, Europe and the Americas, outlines action to be taken to put the partnership approach into practice.

James D. Wolfensohn (President of the World Bank), *A Proposal for a Comprehensive Development Framework (A Discussion Draft*), January 1999. This proposal follows the World Bank's broad proposals on partnership in 1998. It recognizes that to achieve sustainable development impact, it is necessary to address economic and financial issues, on the one hand, together with structural and social issues, on the other, in a balanced way. It also underlines the need for country's ownership of the development process and for all internal and external stakeholders to work together in partnership.

United Nations, *General Assembly resolution on Renewal of the Dialogue on Strengthening International. Economic Co-operation for Development through Partnershi*p, January 1999 In follow-up to the UN's adoption of the Agenda for Development and to the first high-level dialogue of the General Assembly on the social and economic impact of globalization and interdependence and their policy implications, the General Assembly reaffirms in this resolution the continuing need to strengthen constructive dialogue and genuine partnership in order to promote further international economic co-operation for development.

United Nations, *United Nations Development Assistance Framework, Guideline*s, April 1999, and *Common Country Assessment, Guideline*s, April 1999. As part of the UN Secretary general's program for reform , the united nations Development Group proposed in 1997, the United nations development Assistance Framework (UNDAF), with a view to bringing "greater coherence to the UN programs of assistance at the country level …with common objectives and time frames in close consultation with governments". The UNDAF, both as a process and a instrument, is based on the Common Country Assessment (CCA), generating a common understanding of the causes of development problems as well as the needs and priorities of the country.

ACP-EU, *ACP-EU Joint Assembly Resolution on the Future of ACP-EU Relation*s, April 1999. In 1998, the European Commission received the mandate from the council of the Union to negotiate a new partnership agreement with the ACP countries after the expiry of the Fourth Lomé Convention in the year 2000. The eradication of poverty will be the central plank of the agreement, which will require reforms in the ACP countries to achieve more sustained development and greater competitiveness as well as to develop the private sector, as well as to develop the private sector, create productive jobs, improve access to social services and extend the partnership to civil society. In a lengthy resolution, the ACP-EU Joint Assembly, among others, "maintains that, if sustainable development is to be achieved, human beings and their basic rights should be made the focal point of development policy deliberation and activities"…. "maintains, in particular, that the new ACP-EU Convention will provide an important opportunity for honoring the commitment and achieving the objectives adopted at international summits and notes that the OECD's Development Assistance Committee has negotiated a number of useful reference points"…. "reiterates that ownership of interventions is crucial and that this requires early involvement from civil society in the formulation of policies and programs".

[5] A non-exhaustive list includes: Tanzania - *Development Vision 202*5; Ghana - *Vision 202*0; Egypt - *Vision 201*7; Uganda - *Poverty Eradication Action Pla*n; Bolivia - *Operational Action Plan 1997-200*2. Typically, where governments have been able to produce such strategies, they also manage reasonably well to organize the co-ordination process (although there may be differences between various sectors).

- a sound policy framework encouraging stable, growing economies with full scope for a vigorous private sector and an adequate fiscal base;
- investment in social development, especially education, primary healthcare and population activities;
- enhanced participation of all people, and notably women, in economic and political life, and the reduction of social inequalities;
- good governance and public management, democratic accountability, the protection of human rights and the rule of law;
- sustainable environmental practices;
- addressing root causes of potential conflict, limiting military expenditure, and targeting reconstruction and peace-building efforts towards longer-term reconciliation and development**.**

Ownership by the Country.

The view that each developing country and its people are ultimately responsible for their own development is widely accepted nowadays. Experience shows that success has been achieved only where the people and the institutions of developing countries themselves have made sustained efforts. It therefore follows that the developing country is the essential agent for organizing cooperation efforts. There is no room for paternalistic approaches. Countries must be in the driver's seat and set the course. They must generate the commitment to development, and determine goals and the phasing, timing and sequencing of programs.

The responsibility for development, reducing poverty and the preservation of a political environment conducive to peace, security and respect for human rights lies with the developing countries themselves, the role of developed partners and multilateral institutions being to support such efforts. The developing country is the legitimate organizer for co-operation efforts, through relationships and mechanisms that reflect the particular local circumstances. Prime responsibility for overall country-specific coordination lies with the developing countries; in cases where local interest or capability is not tuned to this ambition, external partners will encourage regular fora for coordination with the government and ensure that their own representatives participate; where capacity for coordination is insufficient, external partners will support efforts for capacity building

Partnership

Earlier aid efforts involved working almost always with central governments. Today the international development community is working with many more partners to meet demands for greater efficiency, respond to more pluralistic and decentralized political systems, and recognize the importance of a dynamic private sector, local ownership and participation by civil society. Defining development needs and implementing programs should be done in the partnership mode, involving government (national, state, city and municipal), civil society in all its forms, private sector (domestic and foreign) and development agencies (both multilateral and bilateral). Such partnerships may also be needed at the regional and global levels to identify and supply "public goods" required to solve specific barriers and bottlenecks to development.

Country-owned development strategies and targets should result from an open and collaborative dialogue between developing country authorities and civil society (including the private sector) and external partners, about shared objectives and their respective contributions to the common endeavor.

Each external partner's programs and activities should be set within the framework of a country owned strategy in ways that respect and encourage strong local commitment, participation, capacity development and ownership.

Development results

In order to effectively relate financial inputs -- be their origin domestic or foreign, public or private -- to the ultimate outcome of development efforts, it is increasingly being accepted that, in addition to setting quantitative goals for such financial inputs, quantitative goals must be set for results countries want to achieve with their development efforts, especially in the area of poverty reduction. Setting goals implies the establishment of processes for systematic monitoring of their achievement. The articulation of development goals and monitoring of results promotes participation and accountability, two basic elements in sustainable development.

Development cooperation and the procedures by which its implementation is governed, should be accountable, transparent, effective and visible; partners should undertake to harmonize tools and practices and should use channels and methods that do not undermine the values of ownership and partnership. Joint monitoring and evaluation mechanisms, including quantitative indicators, should be set up to monitor development progress. External partners should ensure that the entire range of their policies are consistent with and do not undermine development objectives. Partnership approaches to development tend to be more time-consuming and labor – intensive than donor-led approaches; however, external partners should not consider this as a burden, but rather as an investment towards achieving sustainable development, and development agencies' staff should be effectively interested, motivated and trained to put partnership principles into practice.

Future Directions

Experience shows that implementing the approach described, is not an easy task, neither for local nor for external partners. Agreement by the international community on the above principles will not automatically lead to full-scale implementation. In spite of converging ideas, there is still proliferation of isolated efforts. This leads sometimes to confusion and misunderstanding at the operational end. It is also detrimental to the need for partners involved to build mutual trust and confidence. Thus, while recognizing the responsibility of developing countries under these arrangements, external partners should be prepared to re-visit and discuss their own practices so as to indeed give space to assumed ownership. Harmonizing tools and procedures will not only help developing countries through reduced administrative demands, but should also lead to a significant reduction in the transaction costs of development cooperation.

The number of people living in poverty has reached historic highs, while the Official Development Assistance effort has reached historic lows. We risk reaching the millennium with globalization, which should enhance the foundations for development in the next century, possibly weakening them. What is required is a step forward, a concerted push to sustain the political will to pursue development cooperation in a way that will reduce the inequalities between rich and poor. The international development cooperation system needs to ensure that its performance is measured against the above principles; that we harness collective strengths and knowledge to improve the impact at the country level; and that we engage vigorously with those outside our "ground" - the private sector, the trade institutions, the investment houses, and the public at large - to attain the goals for an inclusive global society. Doing so will add *value* and *substance* to the *process* of convergence.

Statement of Mr. Juan Somavía, Director-General of the International Labour Office

I thank you most warmly for the decision to accord observer status to the ILO at the Development Committee. As I said in my statement to the Interim Committee, to which we have also recently been admitted as an observer, this marks an important step towards the essential goal we all share of integrating, in sound and sustainable ways, the economic and social aspects of policy at both the international and national levels.

I hope that our special institutional identity that includes governments, employers' and workers' organizations will constitute a useful contribution to your work. We shall endeavour to reflect a wide range of socio-economic issues of interest to our constituents in the field of rights at work, entrepreneurship, enterprise development and job creation, social protection and social dialogue. I have synthesised what the ILO should stand for, entering the 21st century, in the notion of "Decent Work", which I believe expresses the most widespread aspiration of people, their families and communities all over the world. I want the ILO to be a strong partner in the cause of development and eradication of poverty that your committee pursues so effectively.

As the organizer of the World Summit for Social Development, I must express great personal satisfaction at the progress that has been made by the World Bank in giving greater attention to social issues in the formulation of economic and financial policies and in the implementation of programmes and projects.

First, Jim Wolfensohn's introduction of the Comprehensive Development Framework is a much needed effort to provide us all with an analytical framework that seeks to redress the relative neglect of the structural, social and human aspects of development. I welcome in particular his key statement that 'we cannot adopt a system in which the macroeconomic and financial is considered apart from the structural, social and human aspects, and vice versa. Integration of each of these subjects is imperative at the national level and among global players'. It also gives due prominence to the need for broad participatory approaches to policy design and implementation, something the ILO has long advocated.

Secondly, the paper on "Managing the Social Dimensions of Crisis: Good Practices in Social Policy" is a good basis for the improvement of the social policies and institutions that are required to minimize the social costs of economic crises. Similarly, there will be a high pay-off from the work underway to develop practical indicators of social progress that can serve as criteria for evaluating the effectiveness of economic and financial policies. Finally, we support the Bank's joint effort with the IMF to strengthen the link between debt relief and poverty reduction.

These are all positive and stimulating directions. They will help us address the many unresolved development problems we face. We know that the benefits of the global economy are not reaching enough people. We face formidable challenges in making markets work for everybody. We understand that there are no stable investments in unstable societies. We want to eradicate poverty not only because it is the right thing to do, but also because it is the wise thing to do. If we are clever enough to design public policies and market incentives that will make the poor of today become the consumers of tomorrow, it is not difficult to imagine the impact on global growth and general well being. Yet we know it is not happening sufficiently. We need to work together to develop policy instruments that take into account economic, environmental and social policies simultaneously and with equal priority.

I believe that social efficiency is, in the long run -- and often in the short -- a precondition for sustainable economic efficiency. There may be short-term advantages to ignoring this reality; few of them last in time. It is important to dispel the common preconception that economic and social policies are in conflict. A simple observation of existing good practices will show the many ways in which potential conflicts can be reduced through the better design of economic and social policies and institutions. This is further enhanced by appropriate use of social dialogue and consensus-building instruments among the relevant actors. Local ownership is key. This has been, after all, an important component of the growth and stability of developed countries. In fact, this is a part of our job at ILO, to conceive and develop institutions and policies which make it possible to advance equally fast on the social and economic fronts.

I believe we could all contribute better to reducing poverty if greater attention is given to the world of work in the further development of an integrated framework for development policies. From an ILO perspective the promotion of decent work for all is central to the attainment of development with modernity and social justice. Employment is the source of livelihood for most people and is also essential for ensuring a sense of participation in economic and social life. Steady improvements in the conditions of employment are central to ensuring security and a fair distribution of the benefits of economic development. At the same time, respect for the notion that everyone at work has rights is key to building just and democratic societies.

We need to put in place policy frameworks that give a prominent role to employment creation, through entrepreneurship and enterprise development as well as improvements in the quality of employment and social protection. This is probably the single most generalized demand of people today. It is easier to do so with labour market institutions that combine adaptability and protection of basic workers rights, promote social inclusion and stimulate cooperation between workers, employers and governments to achieve equitable development. The ILO is actively engaged in elaborating these aspects of policy which should be central to any comprehensive framework for economic development. We look forward to working closely with the World Bank and the IMF on these issues.

But we know that more and more the world of work goes beyond traditional forms of employment: the working poor, informality, self-employment and different forms of inadequate livelihoods and underemployment should concern us all. In fact, there are too many unemployed and overworked people in the world. It is difficult to jump from the poverty trap to the enjoyment of full and secure employment and yet if we just help people to struggle and subsist with their head barely above water, we know we would be failing in our long-term tasks. Empowerment means developing the capacities to go the whole way to decent work and develop the policies that will remove obstacles so people can get there.

In the other extreme of social reality, the knowledge society and the global economy that is growing in front of our eyes is, in many ways, changing the traditional notion of the workplace for that of the workspace; virtual, decentralized, flexible and atomized. This generates a different type of workforce, more educated and professional, and new social issues.

To address these questions we face the common challenge of conceiving policies that can marry modernity and equity, between countries and within countries. What Klaus Schwab called ‘responsible globality’ in this year’s Davos meeting. Policies that recognize the enormous advantages of open societies and open economies, but are sophisticated enough to leave behind uni-dimensional explanations and policy proposals.

I should also like to take this opportunity to enlist your support for two major campaigns. The first is the promotion of the ILO Declaration on Fundamental Principles and Rights at Work which reflects an agreement of the whole international community adopted by the World Summit for Social Development. It did so in the understanding that universal adherence to these basic standards constitutes an important part of the architecture of global governance that is required to ensure that globalization generates equitable economic development to reduce inequality and poverty. I am convinced that this cannot come about unless there is a system-wide effort to promote the Declaration. I shall therefore seek to ensure that in the future cooperation between the ILO and the World Bank this issue is given priority and practical means are worked out for us to work together on a non-conditionality basis and through enhanced technical cooperation.

The second is child labour. I wish in particular to bring to your attention that this year the ILO adopted, with the absolute, unprecedented, unanimity of its tripartite structure, a Convention for the eradication of the worst forms of child labour. We have launched a campaign for its universal ratification, and it is off to a good start. As we approach the new millennium, there is a strong moral imperative for us to work together to eliminate this serious affront to the social conscience of the world.

Statement by Mr. Ahmad Mohamed Ali, President, Islamic Development Bank

The Development Committee, as an epic development forum, has always assumed special significance for development planners and practitioners around the globe. The meetings of the Committee provide opportunities to interact on issues related to the direction of the world economy and the efforts needed at different levels to overcome the challenges of development.

The Sixtieth Meeting of the Development Committee is taking place at a time when the world economy is gradually adjusting to the effects of sharp fluctuations in the financial and capital markets in different parts of the world, the emerging markets are continuing to learn how to deal with the destabilizing effects of globalization, and major producers of commodities and other natural resource-based exports are struggling to preserve their developmental gains that are threatened by frequent price fluctuations of their exports. While most industrial economies in North America and Europe have been relatively quick to recover from the after-effects of Asian crisis, the emergence of similar crises in economies such as Russia and Brazil, poor performance of stock markets in most parts of the world during 1998, and in the early 1999, the prospects of slow growth in major economies such as China, and the persistence of the of the adverse social and economic effects of financial crises in some of the emerging economies 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, in particular the trade and investment relationships, as well as the efforts made at the national and multinational levels to overcome those challenges. The performance of the member countries of the Islamic Development Bank (IsDB) has continued to be in low-key as two of its large and economically vibrant members suffered negative growth during 1998, a trend which is yet to be adequately reversed in the case of Indonesia. Some other major economies of IsDB member countries also experienced low or negative growth in 1998 and have yet to achieve any meaningful export diversification in order to ensure stable economic growth. Some other IsDB member countries have experienced further macroeconomic imbalances due to certain strategic initiatives leading to adverse international reactions. Consequently, the growth rate of our member countries which was 4.4 percent in 1997 dropped to negative 0.3 percent in 1998. It is, however, expected to be positive again in 1999. This significant downturn in GDP growth of our member countries is obviously 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 indebtedness, and erosion of resource on account of adverse trade and financial conditions to sustain their development efforts in particular. Of equal concern to the IsDB are the issues related to trade and development as a number of its member countries depend heavily on trade for their economic progress.

As regards the flow of financial resources to the developing countries, it has been noted that the net private flows, which are the most important component of resource flows to these countries, dwindled from their level of US$139 billion in 1997 to US$65.8 billion in 1998. However, they are projected to increase to US$116.1 billion in 1999. Net foreign direct investment (FDI) which amounted to US$126.5 billion in 1997, dropped to US$108.2 billion in 1998 and is projected to drop even further to US$97.8 billion in 1999.

While the marked increase in private capital flows to developing countries which, by the way, is directed mostly to the emerging market economies, is most welcome, serious concern arises with respect to the steady decline in net concessional flows which are critically important to IsDB member countries, especially the least developed. Total net official development finance (ODF), including official development assistance (ODA), decreased from US$71.2 billion in 1995 to US$69.5 billion in 1996 and further to US$67.6 billion in 1997. Total net ODA flows, which represent over 80 percent of ODF flows, decreased from US$59.2 billion in 1995 to US$57.7 billion in 1996 and to US$56.5 billion in 1997.

The continued decline in ODA flows and the bleak outlook for any trend reversal in 1997 and 1998 reflect budgetary difficulties as well as aid fatigue in most donor countries. This downward trend indeed may almost nullify the commendable structural adjustment efforts already being undertaken by an increasing number of low-income developing countries.

In the face of the above situation, the IsDB fully endorses the efforts of the Ministers of the Group of Twenty Four (G-24) and the Development Committee of the World Bank and IMF to ensure continuity of IDA lending. For its part, the IsDB has already taken decisions to increase the level and effectiveness of its assistance to its member countries and is looking for ways and means of increasing its concessional flows to the Least Developed Member Countries (LDMCs).

Against this backdrop, the agenda of Sixtieth meeting of the Development Committee is of a great significance to the IsDB and its member countries. It is very comprehensive and covers wide ranging subjects of both perennial and current in nature such as Highly Indebted Poor Countries (HIPC) Initiative, Support to Strengthening International Architecture, Report of the Small Scale Task Force, and Developing Countries and the International Trade Agenda.

Let me share with you the views of the IsDB on the agenda of our meeting. I would like to start with the last item i.e. the Developing Countries and the International Trade Agenda.

Developing Countries and the International Trade Agenda

In the views of IsDB the basic challenge facing WTO members is to craft an agenda for the new global trade negotiations that would provide the broadest participation and the greatest potential for agreement on significant new trade reforms. Given the diverse and often divergent trading interests of key WTO members, the agenda will need to be broad ranging. At the end of the global trade talks, developed and developing countries alike must be able to "take home" some of their negotiating priorities. In other words, the agenda must hold the promise of something for everyone so that countries can attract domestic political support for participating in the multilateral trade talks and for reforming their own trade barriers.

At first glance, it might be argued that the problem is already solved because the built-in agenda provides an agreed mandate for new negotiations in critical areas such as agriculture and services. To be sure, agriculture and services do provide the twin pillars of new WTO negotiations. However, even with the addition of industrial tariffs, these subjects would not comprise a "critical mass" of issues that could yield agreement to liberalize long entrenched trade barriers.

As a practical matter, countries will agree to reduce their hard core trade barriers only if they receive reciprocal reforms of foreign barriers that provide substantial benefits to their exporters, thus creating a counter-balancing political force to their protectionist lobbies. Sectoral talks do not provide sufficient scope for such trade-off because policy makers have to match winners and losers within each sector. Global trade talks would thus need a broad based agenda that may provide cross sector trade-off. The Uruguay Round result would have been much more limited, had there been no broad based agenda of trade reforms.

Accordingly, the international trade agenda for future multilateral trade negotiations needs to be comprehensive if the new negotiations in the so-called Millennium Round are to succeed. Developing countries would expect that in the Millennium Round commitments on the part of developed countries include significant reduction in hard core trade barriers in areas such as agriculture, textiles, petroleum, etc.

On this occasion it may be worthwhile to mention that out of 53 member countries of the Islamic Development Bank, 33 countries are members of World Trade Organization and 9 others have observer status in the WTO. The IsDB is trying its best to provide the necessary assistance to its member countries to prepare them for the new multilateral trading system. The main focus of the Bank's WTO-related activities during the recent years has been on assisting the members countries in better understanding the Uruguay Round Agreements, creating awareness about the implications of the new multilateral trading system, and in capacity building in these countries to meet the challenges stemming from the implementation of these agreements. The Bank has been doing so through organizing seminars, workshops, and training courses. Since the signing of the Uruguay Round Agreements and the establishment of the World Trade Organization, the IsDB has organized more than ten seminars / workshops covering a wide range of topics. It has also organized Trade Policy Courses for its member countries in collaboration with the WTO. In addition, the Islamic Development Bank is also organizing seminars on Technical Barriers to Trade and Sanitary and Phyto-Sanitary Measures. These seminars are being organized in collaboration with the International Trade Centre (ITC), Geneva.

The second major area in which the Islamic Development Bank is helping its member countries is their preparation for the WTO Ministerial Conferences and future multilateral trade negotiations. The Bank has organized a number of consultative meetings of senior officials from the member countries to assist them in preparing for the First as well as the Second WTO Ministerial Conferences. Work is currently under way for holding similar meetings before the Third WTO Ministerial Conference. To assist the member countries for the future multilateral trade negotiations, studies have been undertaken on selected topics in collaboration with UNCTAD. The reports of these studies have been made available to the member countries and they will be discussed in the IsDB Consultative Meeting in October 1999.

In addition to seminars, training courses, and consultative meetings, the IsDB has received specific technical assistance requests on WTO-related matters from a number of member countries. Several of these projects are currently under process. It is hoped that the Bank's WTO-related Technical Assistance Program would enhance the capacity of member countries to derive maximum benefits from the Uruguay Round Agreements.

It may also be mentioned here that the Islamic Development Bank already has observer status in the Trade and Development Committee of the WTO and it has applied for observership in the following WTO Councils and Committees: General Council; Council for Trade in Goods; Council for Trade in Services; Council for Trade in Intellectual Property Rights; Committee on Trade and Environment. Observer status in these Councils and Committees will enable the IsDB to keep abreast of the new developments and thus to better serve its member countries.

Highly Indebted Poor Countries (HIPC) Initiative

The Islamic Development Bank has from the outset supported the HIPC Initiative and is fully committed to its broad objectives. The international financial community has embarked on a commendable task to assist the heavily indebted poor countries on achieving debt sustainability and more importantly strengthen the linkage between the debt relief mechanisms and poverty alleviation.

The modifications that are being considered to enhance the effectiveness of the HIPC Initiative are very challenging and far-reaching. This will give a greater impetus to the commitment of these countries in raising the standard of living of the population as a whole. The initiative is of course an integral part of the reform programs aiming at reducing the poverty levels in the concerned countries. In terms of faster, deeper and broader relief, the Enhanced initiative is a reconfirmation of the firm commitment of the international financial institutions towards the efforts being undertaken by the countries in the attempt to redirect their scarce financial resources to those sectors of the economy which would impact directly on the lives of their people.

We believe that the enhanced initiative should avoid excessive conditionality and allow for greater flexibility particularly for post conflict countries. It should also avoid the lack of ownership. The eligible countries may be allowed to reach their decision and completion points with a macroeconomic program that is broadly on track and is part of the country's overall development program.

The financial implications of an enhanced initiative will have to be seriously considered and quantified. This will call for an equitable debt burden sharing amongst the various multilateral creditors and a feasible financial framework to be developed and implemented alongside the enhanced mechanisms of the initiative. Alternative financing options will have to be addressed in order to enable the Multilateral Development Institutions to meet the new challenges and the additional demands on their resources available to them whilst maintaining the financial integrity of their institutions. The IsDB is also supportive of such mechanisms that will remove obstacles faced by HIPCs that have demonstrated a strong commitment to structural reforms.

The Islamic Development Bank is committed to combat poverty, promote human resources development and capacity building and this commitment is reflected in the Bank's focus on such priority sectors as agriculture and food security, small and medium scale industries, education and health, and transport and communication. The IsDB emphasizes investments in education and health with a view to enhancing national capacity building efforts and to promoting greater access to better quality of basic health services. The Bank has also established a special account for the Least Developed Member Countries. The objective of this program is to help these member countries in meeting urgent and basic needs of the people, specially those of the poor by: (i) increasing their productivity, income, and opportunities for employment; (ii) providing outlets, specially for the rural poor, so as to enable them to market their products and secure access to inputs and consumer goods; and (iii) improving their quality of life through access to education and health facilities. It is hoped that IsDB's participation in this initiative will further strengthen its efforts in the area of poverty alleviation.

The Islamic Development Bank has, under the present framework of the initiative, successfully implemented for Uganda, being the first country to qualify under the HIPC Initiative, the debt relief which has been agreed upon by the esteemed country. In this respect we are currently in the process of preparing the final agreement to deliver the relief. We look forward along with other multilateral creditors to the country embarking on a sustainable path of economic growth and development.

The results of the initiative will have to be measured and performance indicators will have to be monitored to ensure that the relief granted is used efficiently and having the expected desired social outcomes.

Strengthening International Architecture

The IsDB also feels the need for reform and strengthening the present international financial architecture particularly after the Asian financial crisis which seriously affected some of the largest and rapidly growing economies of its member countries in the region. While it may be true that domestic financial institutions and policies should be strengthened to avoid such crises in future, the Bank finds it equally important that there should be greater discipline in the flow of financial resources at the international level. The Bank noted that the growth of financial sector in most East Asian economies was detached from the growth in the real sector and there was an excessive and unregulated speculation affecting the international portfolio investment which contributed in sharp fluctuations in the financial and capital markets in these economies. Therefore, for ensuring stable financial growth and capital movements, some mechanism and understanding at the international level needs to be developed to streamline speculative transactions and financial flows. On this occasion it may be worthwhile to mention that the modes of financing by the IsDB such as leasing, installment sale, equity financing etc. are designed to finance actual transactions and have little room for any speculative behavior. Therefore, while reforming the international financial architecture it may be worthwhile to see how some of the IsDB modes of financing could contribute in this process.

Actions Related to Small States

The IsDB welcomes the initiative concerning the small states particularly that 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$ 87.43 million till the middle of April 1999, around 60 per cent was either loan 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 plan 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 standard 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 an 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.

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. Seyyid Abdulai, Director General, OPEC Fund

The subject of this statement - *Developing Countries and the International Trade Agenda* –is one of the issues for discussion in this 60th Development Committee Meeting. Much like the other topics listed, I believe it merits constructive debate, as called for.

Many developing countries consider free trade an engine of growth. This is evidenced by the wave of trade liberalization and cooperation agreements already concluded or planned for implementation in the years ahead. By 2005, a Free Trade Area of the Americas will come into existence to serve the countries of the area (developing and developed), as will in 2010, another free trade zone in/and for the Mediterranean basin. A West African Economic and Monetary Union is already in force, created in 1994. Policy makers appear to be in agreement that encouraging free trade, by removing national legislative and customs barriers, would help create jobs, increase prosperity and raise living standards.

The movement toward free trade, championed by the *ancien* GATT, the General Agreement on Tariffs and Trade, gained fresh momentum with the establishment, in January 1995, of the World Trade Organization (WTO). Among WTO's achievements thus far are the conclusion of an Information Technology Agreement in February 1997, some improvement in its dispute settlement mechanism and measured progress toward transparency in its decision-making processes and procedures.

More, however, is expected of the new WTO, especially in regard of the twin principles of reciprocity and non-discrimination which, though often breached, should continue to guide the multilateral trading system, as we prepare to move into a new millennium. It certainly is proper that we are celebrating the 50th anniversary of the international trading system and WTO's early successes; but we must admit that obstacles still clog the path of global peace and prosperity through trade.

Globalization – the rapid and revolutionary changes in world industry and technology – continues apace. Initially, much store was placed on the process in the hope that it will herald a new dispensation to benefit all. It now appears the hope may have been misplaced: more and more people seem to be excluded from an acceptable way of life as a result of globalization, which is widening the industrial, financial, and technology gaps among nations.

Although there is consensus on the need to halve the proportion of people living in absolute poverty by 2015, indications are that the 1.3 billion people in this category will increase, rather than diminish in number. The signs are that the world is becoming economically more polarized, both within and among nations. Poverty has increased sharply in countries in central and eastern Europe and in the former Soviet Union, since that region began its transition from a centrally-planned to a market economy.

Asia is not spared, either. After several decades of falling poverty, the recent financial crisis has caused a substantial surge in the region's poverty indicators. Prospects also remain worrisome for Africa, which is threatened with further marginalization from the mainstream of the world economy. Most countries in the Africa region appear to lack the fundamentals for sustained economic growth, as shown by falling shares of world trade, a continued flight of capital and human resources, declining state capabilities and, in some cases, war and civil disturbance.

The situation is particularly worrisome for the economically-fragile and resource-deficient least developed countries (LDCs) as a whole, most of which are in sub-Saharan Africa and are beneficiaries of OPEC Fund assistance. We see a looming, further marginalization of LDCs in the world economy, despite the multiple measures they have taken to promote trade and investment. In a world of unequal partners, where bargains are struck among major players, these countries remain spectators in international trade, rather than participants. Their meager share in world trade, which dropped from 0.6 percent in 1970 to 0.3 percent in 1995, is an indication of this marginal status. Indeed, sub-Saharan African exporters have lost global market share, even in products where they have a comparative advantage, such as cocoa, coffee, rubber and vegetable oils. Today, 47 sub-Saharan African countries account for only 2.4 percent of global gross domestic product (GDP). Of that total, almost 40 percent is contributed by just two countries: South Africa and Nigeria.

In view of the precarious situation of the poorest trading nations, one recalls a specific provision of the WTO mandate relevant to this discussion. As outlined in the December, 1996, WTO Inaugural Declaration.

The integration of the developing countries in the multilateral trading system is important for their economic development and for global trade expansion.

In this connection, we note that the WTO agreement embodies conditions conferring differential and more favorable treatment for developing countries, including special attention to the particular situation of the least developed countries.

Recognizing that market liberalization and expansion have failed to alleviate poverty, and cognizant that both the state and the market are imperfect institutions, WTO might wish to examine other ways and means of helping to reduce the ever widening gap between rich and poor. An important step in this direction could be to collectively ensure that poverty alleviation tops the agenda of the next major round of trade talks, the so-called Millennium Round scheduled to be launched in conjunction with the Third WTO Ministerial Conference in Seattle, in November.

This is a priority question for the OPEC Fund, considering the history of the Fund, its mandate and the composition of its membership. Established in 1976, by OPEC states in expression of South-South solidarity and support, the OPEC Fund is mandated to assist the poorer, low-income countries in their quest for social and economic advancement. Trade policy in most Fund member states echoes the principles and philosophy of WTO/GATT in several respects. OPEC policy objectives can be considered as supportive of WTO, in that OPEC promotes equitable trade in oil, minimizing market volatility and ensuring that supplies match demand, thus bringing security to both producer and consumer. Six OPEC states – Indonesia, Kuwait, Nigeria, Qatar, the United Arab Emirates and Venezuela – were high-contracting parties at WTO's predecessor, GATT, and subsequently signatories to WTO between 1995 and 1996. Two others, Algeria and Saudi Arabia, are in the process of acceding to WTO.

The OPEC Fund, therefore, has an interest in the topic of developing countries and the international trade agenda, both in the Fund's capacity as an international development finance institution, and in its very composition as an agency whose membership is drawn from the ranks of developing countries.

OPEC member countries rightly consider themselves an integral part of the developing world, and have often been in the vanguard of debate to further North-South issues. OPEC countries, within and outside WTO, reflect on how the present trade rules could be used more fully to the advantage of developing country oil producers, including OPEC.

On the other hand, some apprehension exists that WTO membership does bring, with it, some trade rules that may place restrictions on the national sovereignty of OPEC members. In particular, the worries center on fundamental issues, such as the freedom to determine production and export levels of traded items, like oil, and whether trade rules accord the right of establishment to foreign companies (in the territory of any WTO member), sovereignty rights notwithstanding. Similarly, questions have been raised in the context of the ongoing environmental debate, which poses the threat of even higher taxes on oil products.

OPEC difficulties with WTO membership are shared by many other developing countries. This is reflected in continuing discussions on the agenda for the new round of trade negotiations. A matter of common interest to the South is the need to address the constraints they encounter in implementing existing trade agreements. The constraints fall into two categories: the first relates to problems with the implementation of existing commitments, due to a lack of resources, or problems not envisaged at the time the commitments were entered into. The second category concerns agreements from which developing countries had expected benefits, but which have not materialized. If these problems are not adequately addressed in the next round of trade talks, developing countries may be reluctant to take on new commitments.

Yet other issues of common interest which could be negotiated at the upcoming trade round include the increase in the use of anti-dumping legislation by some major trading powers on certain products, and the need to facilitate accession to WTO, which has become lengthy and complex.

Equally discomfiting is a tendency, on the part of the industrialized countries, to bring new and controversial topics to the negotiating table. So far, these have included measures on trade liberalization in agriculture and services, public procurement, competition policy, and environmental and labor standards. Another issue is the Multilateral Investment Agreement, which aims at providing binding multilateral rules to protect, retain and promote foreign direct investment (FDI). Once concluded, the agreement would replace bilateral and regional treaties and serve as a beacon, attracting investments to countries that sign it, and deflecting FDI from those that reject its provisions. Three years of intensive negotiations have failed to produce a consensus on MIA, which has drawn considerable criticism from governments, labor unions, research institutions and non-governmental organizations.

Developing countries are hesitant about the inclusion of new items on the agenda, and fear that a rapid, indiscriminate process of integration in the world economy could, for them, generate socio-economic and political disorder. The recent Asia crisis painfully demonstrated the potentially harmful effects of rapid capital markets liberalization. Drawing from the lessons of the Asia crisis, there is a clear need to allow developing countries a learning process and some time to prepare and coordinate approaches toward the subjects of trade talks which could lead to new and legally-binding multilateral agreements.

OPEC member states and other developing countries are united on the need to alleviate poverty in their societies. With increasing global inter-dependence, this burden cannot be borne by any one government or group of countries in isolation. Pooled international effort will be required to build stronger coalitions for change, and to make rapid progress. An integral part of this common strategy would be to ensure that the concerns of the developing countries, and the poorest amongst them in particular, are adequately addressed in the upcoming Millennium Round.

WTO can play an important part in the global endeavors to end marginalization and alleviate poverty, by ensuring that the achievement of international poverty alleviation targets is given the highest consideration in the forthcoming trade negotiations. The route toward these targets could be differential and more favorable treatment of developing countries, particularly, the least developed. Now is the time for action.

Statement by Mr. Rubens Ricupero, Secretary-General of UNCTAD

Just over two years ago the collapse of the Thai baht and the rapid spread of financial distress across much of developing East Asia looked set to blow the global economy far off course. Today, with the Asian economies recovering strongly, with the irrepressible rise of industrial countries' stock markets, and with signs of a European growth revival, the worst danger lies in complacency and temporary relief and in refusing to draw hard lessons from the crises to undertake the necessary reforms and changes. Concerns about the fairness and effectiveness of the international financial architecture have been jettisoned, and attention is now turning to a new round of trade negotiations to keep up the momentum of rapid liberalization without enough priority to the need for redressing the imbalances that have contributed so much to the intensification of crises over the last 15 years.

Business as usual is the wrong message for developing countries on the eve of a new century. In recent years these countries have striven hard, and often at considerable cost, to integrate more closely into the world economy. But in the face of deep-seated imbalances in economic power and biases in the international trading and financial systems, their expectations of gains from such integration in terms of faster growth, greater employment opportunities and reduced levels of poverty have been disappointed. As things stand, neither the international economic system nor the policies being recommended to developing countries can deliver a pace of economic growth, estimated by most economists as of the order of 6 per cent per annum, sufficient to begin tackling the problems of underdevelopment.

Most of the institutional and policy charts now guiding developing countries were drawn up in response to the debt crisis of the early 1980s. During those years, many countries faced recurrent balance-of-payments problems, were vulnerable to external shocks and had to endure prolonged periods of macroeconomic distress. The consensus was to place almost all the blame on misguided policies cast in an interventionist mould. The solution was believed to be in rapid and unqualified trade and financial liberalization. With world markets providing the right incentives and private capital flows supplanting ODA, economic stagnation was expected to quickly give way to macroeconomic stability and to rapid sustained economic growth.

Things have not gone as promised. Growth in developing countries has recovered in the 1990s but is well below the average 5.7 per cent achieved in the 1970s. This recovery has been accompanied by a significant worsening of external deficits, on average higher by almost 3 percentage points of GDP. While the situation of falling or stagnant growth with widening deficits is particularly stark in Latin America, a similar pattern is repeated almost everywhere. Only a very small number of countries, notably Chile and China, have been able to buck this trend by combining faster growth with improved trade performance over the past decade. Currently they too are struggling to regain or maintain their growth momentum after the Asian financial crisis.

The reasons why trade deficits have been increasing faster than income in developing countries are undoubtedly complex with many national influences playing their part. However, the evidence provided in this year's Trade and Development Report suggests that a combination of declining terms of trade, slow growth in industrial countries, and "big bang" liberalization of the trade and capital account in developing countries has been a decisive factor.

Still, enthusiasts of this new global trend could point to the surge of private capital to developing countries in the 1990s. The figures can appear seductive: net capital inflows reached over $300 billion in 1997 with an increasing proportion in non-debt creating forms. But even before the recent bouts of financial turmoil in Asia, Eastern Europe and Latin America, there were reasons to be cautious. In the first place, much of the renewed flow has simply marked a return to trend after the blighted years of the 1980s. Annual capital inflows in the 1990s have averaged around 5 percent of GNP, much the same level as in the 1970s; if China is excluded, the recent ratio is lower. Moreover, these capital inflows have increasingly been concentrated in a small group of 20 or so emerging markets, which have been receiving over 90 percent of inflows in the 1990s, compared with some 50 percent before the debt crisis. This skewed distribution is as much a characteristic of foreign direct investment as other capital flows. China, Brazil and Mexico together account for almost one half of the total FDI inflow.

Just as importantly for those receiving the flows, a growing proportion of net private capital inflows has been absorbed by activities that add little to productive capacity. Out of every dollar brought in by non-residents, only 50 cents is used for financing real resource transfers. Nearly a quarter is taken out by residents, and one fifth is set aside for reserves as a safeguard against speculative attacks on the currency and reversal of capital flows. The increase in developing countries' reserves from 1990 to 1998 amounted to a staggering 60 percent of the increase in their import bill during the same period. All this took place despite policy reforms designed to increase access to global capital markets, which should have meant the need for less reserves. Given that reserves cost more than they earn, the price of all this has been a cumulative sum of some $50 billion in the 1990s.

The level and composition of capital flows received by most developing countries are inadequate and inappropriate to their needs. Even under relatively optimistic assumptions regarding growth in industrial countries and terms of trade, the external financing required by developing countries to achieve a target growth of 6 per cent can be estimated to exceed recent capital inflows by more than 40 percent.

It would seem that after more than a decade of reforms across the developing world, payments disorders remain as acute as ever, external indebtedness is again on the rise and vulnerability to external shocks is perhaps even greater than in the past.

UNCTAD is not alone in worrying about these features of the global economy. There are encouraging signs that a growing and significant number of personalities and international organizations are now beginning to share some of the positions that we have been defending over many years. However, it is necessary to state clearly that we would not subscribe to a new version of a still unbalanced consensus which would take a more cautionary attitude to financial liberalization in developing countries, whilst at the same time pushing forward with rapid trade liberalization. Such an approach would aggravate the already unfair existing conditions. In today's interdependent world the links between finance and trade cannot be separated so easily. With liberal trading regimes now in place throughout much of the developing world, growth sucks in greater volume of imports than in the past. At the same time attempts to close the payments gap through increased exports to developed countries have to confront sluggish markets, protectionism and adverse movements in the terms of trade. As a result maintaining growth momentum increasingly relies on attracting foreign capital, of any kind. Dependence on hot money has thus become the unstable pillar of economic growth and development in many countries.

What is the alternative? Reform of the global financial architecture remains an urgent priority, with a need for increased official financing, orderly debt workouts and full debt relief for the poorest countries. But it is not simply money that makes today's world go round and reform of the financial system is not sufficient by itself to allow developing countries to expand and prosper in today's interdependent world. Most of these countries benefited little from the Uruguay Round and it is now time to take a hard look at the international trading system, in order to establish a sound basis for new multilateral negotiations.

Developed countries' protectionism against developing countries remains pervasive: tariff levels, tariff escalation and the frequency of tariff peaks are still high in many areas of export interest to developing countries; unjustifiably large subsidies to industrial countries' agriculture, particularly in the most trade-distorting modality, that is export subsidies, shut out imports from developing countries and lead to unfair competition on third markets; and the threat of market penetration by developing countries' producers is prompting new forms of protectionism within the framework of the various WTO Agreements. Consequently, the focus of any new trade negotiations must be on market access in areas where developing countries already have or could quickly establish competitive advantage. Balance here does not mean a "fifty/fifty" outcome because the time has finally come to redress and correct fifty years of neglect and accumulated imbalances against the trade interests of the developing world.

The potential for large overall export gains is underscored by this year's *Trade and Development Report*. It is estimated that an extra $700 billion of annual export earnings could be achieved in a relatively short time in a number of low-technology and resource-based industries. Increased agricultural exports could add considerably to this figure. All in all, the increase in annual foreign exchange earnings could be four to five times the annual foreign capital inflows in the 1990s. Moreover, unlike a large part of such flows, the resources would mostly be devoted to productive activities, with beneficial effects on employment

More flexibility should also be granted to developing countries in the design and implementation of policies. Competitive industries hold the key to future growth not only by boosting exports but also by reducing the dependence of growth on imports. Developed countries continue to promote their industries and their agriculture, while berating similar efforts in developing countries. In some areas of trade policy, where review processes in the WTO are about to get under way, the full impact on developing countries of limiting their policy options needs to be reconsidered, in particular with respect to TRIMs and TRIPs. Special and differential treatment for developing countries of a binding and up-dated kind should be made part of the contractual obligations of the rule-based system.

Finally, developing countries need to improve the management of their exchange rates if they are to benefit from greater integration into the trading system. The advice they have received in recent years has been at best confusing and at worst misleading. Under free capital mobility, no exchange-rate regime can guarantee stable and competitive rates. Countries with free-floating regimes are no less vulnerable to financial crises than others though the damage is inflicted differently. Targeting real exchange rates in combination with the control and regulation of destabilizing capital flows is the desirable route for most countries. Evidence is overwhelming that stable and competitive exchange rates lie behind long-term export success and examples abound, most recently from India, China and Malaysia, of the benefits from successful management of capital flows. It is thus essential that the autonomy of developing countries in managing capital flows and in choosing whatever capital account regime they deem appropriate should not be constrained by international agreements on capital account convertibility or trade in financial services.

In conclusion, in the final analysis what counts is not trade and financial liberalisation and integration per se, but the way this process is conducted -- not the quantity, the intensity, the rapidity of liberalisation and integration as implied in the “big bang” approach but the quality, the long-term sustainability, the sound sequencing of reforms as embodied in the policies that UNCTAD advocates.

ANNEX A

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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September 20, 1999

NOTICE OF MEETING

The 60th meeting of the Development Committee will be held on Monday, September 27, 1999, commencing at 9:00 a.m. in the Preston Auditorium of the World Bank, Washington, D.C.

REVISED PROVISIONAL AGENDA[1]

1. **Topics for Discussion in the Restricted Session**

   A. HIPC[2]

   B. IBRD Capital Adequacy[3]

2. **Items for Comment in Circulated Ministerial Statements**

   A. Developing Countries and the International Trade Agenda[4]

   B. World Bank Support for Strengthening International Architecture[5]

3. **Other Business[6]**

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1 The President of the World Bank and the Managing Director of the Fund will each provide a statement, in advance of the meeting, focused on 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 (Preston Auditorium); Restricted Session 10:15-12:30 (World Bank Board Room, MC13-301); Chairman's Lunch 12:45-2:30 (Executive Meeting Room, MC13-121).

Main points of the 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, World Bank President, IMF Managing Director, Chairman of the Group of 24 and the Director-General of the World Trade Organization (WTO).

[2] As requested in paragraph 4 of the April 28, 1999 Communiqué, a joint Bank-Fund Progress Report will be provided as background for ministers discussion of this topic. **In line with ongoing efforts to minimize duplication of work between the Development and Interim Committees, general discussion of HIPC issues will take place in a joint session of the two Committees on Sunday, September 26. Ministers' discussion in the Development Committee is expected to focus on issues identified in the joint session which require further consideration, including particularly, but not limited to, financial issues concerning IBRD/IDA and other multilateral development banks (MDBs). To guide discussion in the Development Committee a number of questions for ministers will be circulated following the joint session. Detailed financing issues specific to the Fund will be taken up in the Interim Committee**.

[3] The April 28, 1999 Communiqué (para. 7) "asked that the Executive Board review IBRD and IFC priorities....and report back to the Committee at its next meeting with balanced options for maintaining and supporting the institutions' financial capacity…." A report from the World Bank (Enhancing the IBRD Financial Capacity) provides background for this agenda item.

[4] A paper on World Bank Support for Developing Countries on International Trade Issues has been provided as background.

[5] The World Bank will provide a Progress Report: The Bank's Role in Strengthening International Financial Architecture for the Committee's consideration. Several additional papers will be provided as background on the following topics: i) Progress Report on the Bank-Fund Financial Sector Liaison Committee (FSLC); (ii) Managing the Social Dimensions of Crises: Good Practices in Social Policy (Ministers "asked the Bank to report back on this topic to the Committee at the Annual Meetings" (paragraph 10, April 28, 1999 Communiqué)); and (iii) the overview chapter of a World Bank paper entitled Corporate Governance: A Framework for Implementation.

[6] At the Chairman's lunch for Members, the President and the Managing Director, Mr. Wolfensohn will invite Members' views on a number of major issues facing the World Bank Group. Members will also be asked to approve the Communiqué at the close of the lunch.

ANNEX B

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

1818 H Street, N.W., Washington, D.C. 20433

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September 27, 1999

COMMUNIQUÉ

1. The 60th meeting of the Development Committee was held in Washington, D.C., on September 27, 1999 under the chairmanship of Mr. Tarrin Nimmanahaeminda, Minister of Finance of Thailand.

2. **Heavily Indebted Poor Countries Debt Initiative (HIPC) and Enhanced Poverty Focus of IDA and ESAF Supported Programs.** Ministers expressed their appreciation to the Bank and the Fund for the transparent and participatory manner in which they conducted the 1999 HIPC Initiative review. They welcomed the important role played by civil society in the development of proposals designed to make the debt relief under the HIPC Initiative deeper, broader and faster.

3. Ministers endorsed—subject to the availability of funding—the enhancements to the HIPC Initiative framework for countries pursuing sound policies and committed to reform. In this context, they expressed support for: (i) a lowering of the debt sustainability thresholds to provide a greater safety cushion and increased prospects for a permanent exit from unsustainable debt; (ii) the provision of faster debt relief through interim assistance; (iii) the introduction of floating completion points that would shift the focus of assessment toward positive achievements and outcomes rather than the length of track record; and (iv) the resulting increase in the number of countries expected to be eligible for debt relief.

4. Ministers also endorsed the proposed framework for strengthening the link between debt relief and poverty reduction, while recognizing that debt relief alone would be insufficient to achieve this goal. In this context, they welcomed the proposed Poverty Reduction Strategy Papers, to be prepared by national authorities in close collaboration with Bank and Fund staff. They stressed that the Poverty Paper should be in place by the decision point; they recognized,

however, that on a transitional basis the decision point could be reached without agreement on a Poverty Paper, but in all cases demonstrable progress in implementing a poverty reduction strategy would be required by the completion point.

5. Ministers also welcomed and endorsed the proposals developed by the Bank and Fund to extend the same approach to enhance the poverty focus of all IDA and ESAF supported programs, and to strengthen collaboration between the two institutions. The Committee emphasized that the strategies set out in the new Poverty Papers should be country-driven, be developed transparently with broad participation of elected institutions, stakeholders including civil society, key donors and regional development banks, and have a clear link with the agreed international development goals—principles that are embedded in the Comprehensive Development Framework. They stressed in particular the need to develop macroeconomic, structural and social policies that will contribute to long-term poverty reduction, and the need to develop measurable intermediate and outcome indicators to monitor progress. Ministers stressed the crucial role good governance plays in HIPC implementation in establishing a framework that discourages corruption and provides more effective monitoring and quality control over fiscal expenditures. Ministers called on the Bank and Fund, in accordance with their respective mandates and expertise, to give all possible assistance to countries in bringing together the necessary social, structural and macroeconomic policies required in developing poverty reduction strategies, recognizing the countries' capacity constraints. The Poverty Papers would provide the basis for all IDA and Fund lending to low-income countries. Ministers also encouraged regional development banks and donors to use the Poverty Papers to guide their support.

6. Ministers welcomed the proposed reform of the ESAF aimed at giving greater prominence to the goal of supporting countries' poverty reduction efforts and the proposed renaming of the facility as the Poverty Reduction and Growth Facility. Recognizing that the new approach will involve substantial changes in Bank and Fund operations to combat poverty, and the need to tailor the approach to individual country circumstances and to learn quickly from experience in early cases, the Committee strongly welcomed the commitments of the President and Managing Director to its effective implementation. Ministers looked forward to receiving reports on progress achieved.

7. Ministers reaffirmed the importance of implementing the enhanced HIPC Initiative framework in accordance with the principles that have guided the Initiative since its inception, including (i) additionality of debt relief (ii) the maintenance of the financial integrity of multilateral financial institutions, and (iii) the importance of burden sharing on a fair and equitable basis, including of the costs to multilateral institutions. They agreed financing of debt relief should not compromise the financing made available through concessional windows such as IDA. Ministers expressed appreciation for the many contributions to the HIPC Initiative made thus far, and for the efforts made by multilateral development institutions to provide funding for the Initiative from their own resources. Ministers recognized that most of these institutions will need bilateral support on an urgent basis in order to meet the additional costs resulting from the proposed enhanced framework and to enable them to implement the Initiative rapidly. The Committee welcomes the agreement on the financing of the IMF's participation in the HIPC Initiative and continued concessional lending by the IMF for growth and poverty reduction in low income member countries.

8. Ministers also welcomed agreement on the elements of a financing plan for multilateral development banks that respect the above principles. This will permit the Enhanced HIPC Framework to be launched and the delivery of debt relief to begin for those countries requiring retroactive relief and those expected to reach their decision points over the near term. They asked the World Bank to work actively and closely with the whole group of donors and other MDBs to ensure that financing is mobilized to fully fund HIPC debt relief over the longer term.

9. Ministers also welcomed the agreement by the Paris Club to increase its debt relief under the enhanced framework by providing increased debt reduction in NPV terms up to 90 percent or more, if needed, on commercial loans as well as additional relief on ODA claims—up to full cancellation—on a bilateral basis.

10. Ministers welcomed the continuing progress in the implementation of the Initiative, noting that to-date 14 countries have been considered under the Initiative—with four brought to their completion points. The Committee urged the speedy implementation of the enhanced Initiative so that as many countries as possible qualify for assistance under the Initiative by end 2000.

11. **IBRD Capital Adequacy.** Ministers reviewed a report from the World Bank that reflected ongoing discussions by the Bank's Executive Board and management on options to maintain and support the IBRD's financial capacity. The Committee agreed with the report's finding that the Bank's finances remain sound. Ministers also recognized that the Bank's financial capacity may limit its ability to respond to future demands, especially when there was a deterioration in the global financial environment. Ministers requested management and the Executive Board to continue their examination of the level of financial capacity needed to preserve the IBRD's financial integrity while permitting it to help meet, within its mandate, the development needs of borrowing member countries. Ministers requested that the Bank report regularly to the Committee on these issues.

12. **Developing and Transition Countries and the International Trade Agenda.** The Committee noted that effective development and trade policy have become increasingly intertwined. They emphasized the importance of trade to development, poverty alleviation and sustained global economic recovery. Ministers also emphasized that the next round of trade negotiations needed to deliver early and substantial benefits for developing and transition countries, in particular for the least developed countries. This would require improved market access and further reducing barriers to trade. They stressed that if developing and transition countries are to use the international trading system effectively to promote growth and reduce poverty they will need to become active partners in the next round of trade negotiations. Ministers welcomed the commitment of the new Director-General of the World Trade Organization (WTO), Mr. Mike Moore, to achieve this goal and urged the World Bank, the Fund, WTO, UNCTAD and other agencies to help developing and transition countries build their capacity to participate in further rounds of negotiations. The Committee called on the World Bank, IMF and WTO to cooperate with other parties in developing effective programs of capacity building for trade, including through the Integrated Framework for Trade Related Technical Assistance for the Least Developed Countries. The Bank, in particular, could provide financial and technical support to improve trade-related infrastructure and institutions, helping to build capacity in domestic institutions involved in trade policy and negotiations, and undertaking research on trade barriers to developing countries' exports.

13. World Bank Support for Strengthening International Financial Architecture. Ministers welcomed the role the World Bank Group is playing to help strengthen the global financial architecture to reduce the risk and severity of financial crises, and to reduce the vulnerability of developing countries to crises when they occur. The Committee stressed that at the country level the Bank's primary focus, given the objective of preventing crises, should be on assisting developing countries to strengthen their domestic financial markets and their integration with the global financial system. This should be done through helping countries overcome structural and social sources of vulnerability and build the needed policy and institutional capacity. Given the breadth and complexity of the agenda, Ministers encouraged the Bank and the Fund to focus on their areas of comparative strength while developing partnerships with other international institutions. Ministers welcomed progress in the joint Bank/Fund program of financial sector assessments and the Bank's program of Social and Structural Reviews. They also welcomed the proposed enhanced collaboration with the IMF in assisting interested countries to assess their progress in implementing a range of international norms and good practices, with due consideration to differing country conditions. The Committee encouraged the Bank to continue to bring developing country experience and perspectives to the international debate. In this context, they noted the establishment of a global forum on corporate governance, launched in collaboration with the OECD, and the Bank's supportive role for work on insolvency, accounting and auditing.

14. Ministers welcomed the Bank's help to developing countries on social issues, as well as its report on managing the social dimensions of crises and good practices in social policies. They encouraged the Bank to continue to develop this work and draw on it in supporting countries' poverty reduction efforts. The Bank should accumulate and disseminate knowledge of good practices to help guide countries seeking to create institutions and implement policies that will forestall and mitigate the social costs of economic shocks and protect the most vulnerable.

15. Ministers welcomed the steps being taken to strengthen the work of the Development and Interim Committees, both to better reflect the enhanced level of cooperation between the Bank and the Fund and to reduce duplication in the committees' agendas. They encouraged the Bank and Fund to continue to review experience in this area.

16. **Next Meeting.** The Committee's next meeting is scheduled for April 17, 2000 in Washington, D.C.

ANNEX C

DEVELOPMENT COMMITTEE

September 27, 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 Al-Assaf Minister of Finance And National Economy Saudi Arabia	Khalid H. Alyahya (Bank) Abdulrahman A. Al-Tuwaijri (Fund)	Saudi Arabia	1
The Hon. Giulano Amato 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	2
Eduardo Aninat Minister of Finance Chile	Valeriano F. Garcia (Bank) Nicolas Eyzaguirre (Fund)	Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay	3
Peter Costello Treasurer Australia	Neil Frances Hyden (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	4

Pascal Couchepin Federal Councillor and Minister of Economic Affairs Switzerland	Matthias Meyer (Bank) Roberto F. Cippa (Fund)	Azerbaijan, Kyrgyz Republic, Poland, Switzerland, Tajikistan, Turkmenistan, Uzbekistan	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 Gurría-Treviño Minister of Finance and Public Credit Mexico	Federico Ferrer (Bank) Agustín Carstens (Fund)	Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, Venezuela	7
Victor B. Khristenko First Deputy Chairman of the Government of the Russian Federation	Andrei Bugrov (Bank) Aleksei V. Mozhin (Fund)	Russian Federation	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
Kelebone Albert Maope Deputy Prime Minister and Minister of Finance and Planning Lesotho	Godfrey Gaoseb (Bank) Jose Pedro de Morais, Jr. (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

Kiichi Miyazawa Minister of Finance Japan ***Alternate Member*** *Haruhiko Kuroda* *Vice-Minister of Finance for International Affairs* *Ministry of Finance* *Japan*	Satoru Miyamura (Bank) Yukio Yoshimura (Fund)	Japan	12
N'Goran Niamien Minister of Economy And Finance Côte d'Ivoire	Bassary Touré (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	13
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	14
Didier Reynders Minister of Finance Belgium	Ruth Bachmayer (Bank) Willy Kiekens (Fund)	Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, Turkey	15
Abdulla Hassan Saif 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	16

Clare Short Secretary of State for International Development United Kingdom	Stephen Pickford (Bank and Fund)	United Kingdom	17
Yashwant Sinha Minister of Finance India	Balmiki Prasad Singh (Bank) Vijay L. Kelkar (Fund)	Bangladesh, Bhutan, India, Sri Lanka	18
Dominique Strauss-Kahn Minister of Economy, Finance and Industry France <u>Alternate Members</u> *Charles Josselin* *Minister of Cooperation and* *Francophone Affairs* *Ministry of Foreign Affairs* *Jean Lemierre* *Director of the Treasury*	Jean-Claude Milleron (Bank and Fund)	France	19
Lawrence Summers Secretary of the Treasury United States ***Alternate Members*** *Timothy F. Geithner* *Under Secretary for* *International Affairs* *Department of the Treasury* *United States* *Edwin M. Truman* *Assistant Secretary for* *International Affairs* *Department of the Treasury* *United States* *William Schuerch* *Deputy Assistant Secretary* *International Development, Debt and* *Environment Policy* *Department of the Treasury* *United States*	Jan Piercy (Bank) Karin Lissakers (Fund)	United States	20

Tarrin Nimmanahaeminda Minister of Finance Thailand **CHAIRMAN** *Alternate Member* *Suphachai Phisitvanich* *Permanent Secretary* *Ministry of Finance* *Thailand*	Jannes Hutagalung (Bank) Kleo-Thong Hetrakul (Fund)	Brunei Darussalam, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Vietnam	21
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 ***Alternate Member*** *Jin Liqun* *Vice-Minister of Finance* *China*	ZHU Xian (Bank) WEI Benhua (Fund)	China	23
Gerrit Zalm Minister of Finance Netherlands *Alternate Member:* *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	Abdlatif Y. Al-Hamad
Arab Monetary Fund	Jassim Al Mannai Director General Chairman of the Board
Asian Development Bank	Louis Wong Regional Director North American Representative Office
Commonwealth Secretariat	Veronica Sutherland Deputy Secretary-General Economic and Social Affairs
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	Martin Murtfeld Deputy Governor
Development Assistance Committee	Jean-Claude Faure Chairman
European Bank for Reconstruction and Development	Nicholas Stern Chief Economist and Special Counsellor to the President
European Commission	Pedro Solbes-Mira, Member of the European Commission Paul Nielson Commissioner for Development
European Investment Bank	Edwald Nowotny Vice President
Inter-American Development Bank	Enrique Iglesias President
International Fund for Agricultural Development	Vera P. Weill-Halle Representative Washington Liaison Office
International Labour Organisation	Juan Somavía Director General

Islamic Development Bank	Dr. Ahmad Mohamed Ali President
Nordic Development Fund	Jens Lund Sorensen President
Nordic Investment Bank	Jon Sigurdsson President and CEO
OPEC Fund for International Development	Y. Seyyid Abdulai Director-General
Organisation for Economic Co-operation and Development	Donald J. Johnson Secretary-General
United Nations	Richard Carey Deputy Director of the Development Cooperation Directorate
United Nations	Ian Kinniburgh Director, Development Policy Analysis Division Department of Economic and Social Affairs
UNCTAD	Y. Akyuz, Chief Macro-Economics Branch
United Nations Development Programme	Roy Morey Director of the Washington Office
West African Development Bank	Boni Yayi President
World Trade Organization	Mike Moore Director-General

DEVELOPMENT COMMITTEE
INTERIM COMMITTEE

JOINT MEETING OF THE INTERIM AND DEVELOPMENT COMMITTEES
SUNDAY, SEPTEMBER 26, 1999

JOINT STATEMENT BY CO-CHAIRMEN

Heavily Indebted Poor Countries Initiative (HIPC) and Enhanced Poverty Focus of IDA and IMF Concessional Programs

1. Ministers of the Development and Interim Committees met jointly for the first time this morning to discuss the enhancement of the HIPC Initiative which will provide faster, broader and deeper debt relief with the central goal of reducing poverty in the poorest countries in the world. This joint meeting symbolizes the cooperation and high political commitment of all countries and institutions in this effort, and the new closer relationship between the Bank and Fund which will be crucial in achieving this goal.

2. We focussed on three main areas: first, the reforms required to deliver deeper, broader and faster debt relief; second, strengthening the focus on poverty reduction in Bank and Fund programs; and third, an overview of the financing arrangements that will allow the enhanced HIPC Initiative to start after these Annual Meetings.

3. We endorsed the enhancements and reforms to the HIPC Initiative for those countries pursuing sound policies and committed to reform. We support: lowering the debt sustainability thresholds; providing faster debt relief; shifting the focus of the initiative toward a commitment to, and positive achievements in, poverty reduction; and increasing the number of countries expected to be eligible for debt relief.

4. We stressed the need to ensure that debt relief will result in poverty reduction, though we recognise that debt relief alone is insufficient to achieve this goal. We therefore endorse the framework proposed by the Bank and Fund for strengthening the link between debt relief and poverty reduction. In particular, we welcomed the proposed Poverty Reduction Strategies that countries will prepare in close collaboration with the Bank and Fund. We stressed the need to put in place macroeconomic, structural and social policies that will generate growth and contribute to poverty reduction. We stressed the crucial role good governance must play in HIPC poverty reduction and implementation of debt relief. We also endorsed the proposals to extend the same approach to strengthen the poverty focus of all IDA and IMF concessional programs.

5. We agree that Poverty Reduction Strategies should be country-driven, and be developed transparently with broad participation of civil society, key donors and regional development banks. These strategies should be clearly linked with the agreed international development goals, with measurable indicators to monitor progress. We called on the Bank and Fund to give all possible assistance to countries in developing their Poverty Reduction Strategies. These

strategies will provide the basis for all IDA and Fund lending to low income countries and will so assure the close integration of the institutions' work in these areas. We strongly welcomed the commitments of the President and Managing Director to the effective implementation of this approach. We also encouraged regional development banks and donors to use the Poverty Reduction Strategies to guide their support.

6. We reaffirmed the importance of implementing the enhanced HIPC Initiative in accordance with the principles that have guided the Initiative since its inception, including (i) additionality of debt relief, (ii) maintaining the financial integrity of multilateral financial institutions, and (iii) cost sharing on a broad and equitable basis. We agreed financing of debt relief should not compromise the financing made available through concessional windows such as IDA.

7. We expressed appreciation for the many contributions to the HIPC Initiative made thus far, and for the efforts made by multilateral development institutions to provide funding for the Initiative from their own resources. We also welcomed the agreement by the Paris Club to increase its debt relief under the enhanced framework by providing increased debt reduction in NPV terms up to 90 percent or more, if needed, on commercial loans as well as additional relief on ODA claims—up to full cancellation—on a bilateral basis.

8. We heard today from Jim Wolfensohn, Michel Camdessus, Omar Kabbaj and Enrique Iglesias and we have a clear picture of their financing needs. Ministers recognized that there will need to be additional bilateral support in order to meet the financing requirements of the enhanced Initative. These financing arrangements will need to be considered at the forthcoming Development and Interim Committees. Based on the expressions of goodwill and support that we have heard, we are confident that the political will and commitment is there to allow the Enhanced HIPC Initiative to commence after these meetings so that eligible countries can receive enhanced debt relief within the new poverty reduction framework.

9. We urge the speedy implementation of the enhanced Initiative so that as many countries as possible would qualify for assistance under the Initiative by end 2000.