



DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)



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Statement by Senator the Hon. Ian Campbell
Parliamentary Secretary to the Treasurer
Australia

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

Development Effectiveness, Partnerships and Challenges for the Future

The Monterrey Conference on Financing for Development last month recognized three basic requirements for reducing poverty: appropriate country policies; greater opportunities for trade; and more effective and increased levels of aid. The Monterrey consensus provides a framework for renewed efforts to meet key development goals, including halving the proportion of people in the world living in poverty. Over the past decade, poverty has fallen faster than ever before, with the proportion of people living in poverty around the world being reduced from one quarter to one fifth. Still, greater efforts will be required from both developing countries and the international community if the goals are to be reached.

Sound country policies, strong institutions and good governance are the most important determinants of success in reducing poverty. Countries need to establish an environment that nurtures private sector led growth and investment and gives poor people the opportunity to participate in a market economy. An enabling domestic environment will include increased levels of productive investment in human capacity building, enhanced coherence and consistency in national macro-economic policies, and the rule of law. Experience has shown that those countries that embrace the opportunities for growth offered by greater global integration have been the most successful in reducing poverty. The dramatic reductions in poverty in East Asia over recent decades stand as proof of the importance of outward oriented growth policies, despite set-backs in some cases.

Developed countries must play their part by giving developing countries greater access to their markets, especially for the goods that developing countries are best able to produce. The commitments made in Doha last year provide a promising basis for moving forward with a new trade round that could bring considerable benefits to developing countries. Agricultural trade liberalization will be critical. On average, exporters in poor countries face trade barriers that are twice as high as those faced by exporters in richer countries. Restrictions on agriculture are central to this. In addition, developed countries provide agricultural subsidies amounting to over \$300 billion per annum, or more than six times global aid flows. Those who express concern about what they see as the ineffectiveness of aid in reducing poverty in developing countries should also take into account the much larger volume of funds that work in the opposite direction. Broad based trade liberalization is necessary to benefit the vast majority of the world's poor people.

Developing countries should also act to reduce their own trade restrictions, bearing in mind that the greatest gains from such reductions generally accrue to the liberalizing countries themselves. The Bank should strengthen its work in providing advice and support to developing member countries to help them participate more fully in global trade and to implement WTO commitments.

Aid is also a critical part of the development equation. This is well recognized by the donor countries in this constituency: in total, the aid we provide has increased by over 20 per cent in real terms since 1990. I welcome the substantial increases in aid announced prior to Monterrey

by the United States and Canada and the target for increases announced by the EU. I also urge that agreement be reached quickly so that the IDA-13 replenishment can come into effect on time.

The likely increases in global aid flows, when combined with the commitments by developing countries to reform and the potential for improved trade access, bring the prospect of a more effective global effort to promote development and reduce poverty. Country ownership will be central in this, and the poverty reduction strategy paper process provides a good framework for developing agreed programs in coordination with donors. The Bank should continue to play a key role in providing analytical, as well as financial, support and in monitoring progress.

A central aspect of improving aid effectiveness will be a more efficient global allocation of aid to countries with strong policy records and a closer matching of programs to the needs and capacities of developing countries. The World Bank will need to continue taking a lead role in this process. The introduction of the IDA performance based allocation system has significantly improved the effectiveness of Bank concessional assistance over the past decade. But exceptions to the performance allocation framework, such as the lending targets for Africa and very restrictive limits on borrowing by larger countries, constrain IDA's effectiveness and have produced an inverse relationship between IDA allocations and performance across regions. As part of the mid-term review of IDA-13, we look forward to a thorough analysis of how the major exceptions to IDA's performance based allocation process can be eased in order to improve IDA's ability to reduce poverty around the world to the maximum extent.

Education for Dynamic Economies

Effective poverty reduction strategies have rested on two pillars: creating an investment climate that supports sustainable private sector led growth, and ensuring that poor people have the skills and the capacity to take advantage of the opportunities presented by a growing economy. Education is central to both of these pillars: a skilled workforce is necessary for growth, and access to education helps poor people to escape poverty.

The aim of universal primary education by 2015 is an ambitious aspiration. It also rightly recognizes the importance of focusing on results. But circumstances differ between countries and, like other millennium development goals, this target should be viewed in a country context and pursued as part of integrated poverty reduction strategies. I agree that education must be a key development objective. But quality education systems need to be supported by broad based economic growth that lets governments increase education budgets, gives poor families the economic security to send their children to school, and expands employment opportunities for school leavers. Secondary and tertiary education are also important for development, especially in countries that are well advanced in their progress toward universal primary education. The Bank has a role to play in helping countries to anchor their education programs in the broader development context.

In conjunction with a comprehensive approach, I support efforts to establish a credible financing framework for basic education activities. This can help in the mobilization of adequate domestic and external resources and the allocation of funds where they will be most effective. In total,

financing from donors in this constituency for international education programs has more than doubled over the past several years and this upward trend is likely to continue. Funding, however, is not everything. Effective education systems also require well functioning institutions and strong fiduciary mechanisms.

I support the proposals for the Bank to “fast-track” about ten countries in their efforts to increase access to primary education – there may even be scope for a more ambitious program. In order to make the most progress toward universal primary education, assistance must be concentrated where it can help the most number of children go to school. Financing should consequently be prioritized to countries with a strong government commitment to education and sound policies. Cambodia has been identified as one country where appropriate policy settings are in place to be able to use additional resources, and I hope that it will be included among those countries fast-tracked.

I welcome the role being played by the World Bank to support education activities and its plans to further develop its role through helping countries to design and implement policies and measure results and working with other partners to build capacity and provide financial support. Given the high economic rate of return of primary education, long-term lending from the Bank is an appropriate instrument to support primary education programs.

Heavily Indebted Poor Countries (HIPC) - Progress Report

Twenty six countries have now reached their decision points under the HIPC initiative and are receiving interim relief. Since the last progress report in September, Mozambique, Tanzania and Burkina Faso have also reached completion point, at which debt relief becomes irrevocable. This is real progress, even if a little slower than anticipated. Given the complexity of building up effective mechanisms to ensure that debt relief is used effectively to promote development and reduce poverty, we should not be surprised if the road is not always smooth.

In moving forward, it remains critical that countries persevere with their efforts to implement their policy commitments and macro-economic programs. Where interruptions occur in implementing agreed adjustment programs and poverty reduction strategies, every effort should be made to re-establish a satisfactory track record. This is needed so that there can be full confidence that appropriate policies are being pursued and that debt relief will be used effectively.

HIPC will dramatically improve debt sustainability for many of the poorest countries, reducing the total stock of debt by about two thirds, when combined with other forms of debt relief. Although the global slowdown has had a short-term impact on exports for many countries, it now appears that it may prove relatively milder than many initially feared and that recovery is now underway. Normal cyclical fluctuations in the global economy should not be regarded as a exceptional shock causing a fundamental change in circumstances.

Full creditor participation has always been an important principle underpinning the HIPC initiative. We encourage all creditors to participate in international efforts to provide debt relief.

We support greater efforts by the Bank and the Fund to address the challenges posed to developing country creditors participating in the initiative.

Harmonization of Operational Policies and Procedures - Progress Report

Better coordination between donors and more closely harmonized procedures holds potential to improve the efficiency of aid and bring considerable dividends to developing countries. Differences in the operating policies and procedures among donors impose a considerable burden on the administrative capacities of recipient countries, increasing transaction costs and impeding the effectiveness of aid. This is especially relevant for small states, where capacity is particularly limited. I am pleased by the progress among the multilateral development banks toward greater harmonization, particularly on standardized bidding documents, the signing of memorandums of agreement, and the discussions now occurring in a wide array of working groups. This agenda needs to be pursued vigorously, including through effective collaboration between the broad range of international and bilateral agencies. A number of bilateral donors have probably gone further than the multilateral agencies in harmonizing procedures. In the Pacific, for instance, Australia and New Zealand have conducted joint high level policy discussions, are using common guidelines for in-country training and exploring ways to provide assistance, where appropriate, through a single delivery mechanism.

Better in-country coordination between the World Bank, the IMF, regional development banks, the UN development agencies and major bilateral donors is also important. Experience within this constituency suggests that coordination at the country level has been improving, and Bank engagement in Afghanistan has, to date, been coordinated closely with other donors. Looking more widely, however, there is scope for more. A fuller analysis at the country level of where coordination has worked and where further improvements could be made would be useful for future progress reports.

Anti-Money Laundering Action Plan and Fighting Terrorist Financing – Progress Report

The events of 11 September emphasized the need for intensified international action to combat money laundering and terrorist financing. Concerted international action is already underway, most notably through the OECD Financial Action Task Force (FATF). For their part, the Bank and the Fund should anchor their involvement in such activities in their core mandates by focusing their assistance on addressing structural and institutional weaknesses. I am encouraged by the movement toward convergence and the creation of a single unified assessment methodology that can be applied in a way that is voluntary, cooperative and uniform. Enhanced technical assistance and information sharing is especially useful, particular for many small countries that are constrained by limited capacity. I welcome efforts by the Bank and the IMF to coordinate capacity building activities to combat money laundering more closely with other donors.