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Statement by the Hon. **SALMAN SHAH**,
Governor of the Bank for **PAKISTAN**,
at the Joint Annual Discussion

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Mr. Chairman, Mr. Wolfensohn, Mr. de Rato and distinguished delegates,

1. It is a great honor for me to address the 2004 Annual Meetings of the World Bank and IMF. Let me also take this opportunity to thank our hosts for their warm hospitality and also express my appreciation for the admirable arrangements for these meetings.

2. We meet at a time that present great opportunity, yet is fraught with great risk and momentous challenges lie ahead. Security issues threaten many countries of the world and rightly demand our focus. Yet we risk loosing sight of a fundamental principle - global security and prosperity are not only intimately linked but are indivisible. We cannot have a secure world when it is full of grave imbalances, where the absolute number of poor are growing and continue to live in abject poverty and despair. Mr. Chairman, only if we succeed in providing hope, can we win the war against terror.

3. The Monterrey consensus was a historic global compact that provided both hope and the framework for a unique partnership between developed and developing countries to serve as a road map to a better world. Never before in the history of global dialogue did we achieve such unity of purpose.

4. However, two and a half years after Monterrey there is little real progress on the commitments made at Monterrey. Even as developing countries continue to strengthen their macroeconomic framework and deepen the process of painful structural reform, ODA levels have increased marginally. On the voice issue peripherally changes have been made without addressing substantive issues that would enhance the voice and participation of DTCs in the decision making process at the Bretton Woods Institutions and the Doha round has yet to move forward meaningfully.

5. We need now to be courageous and far sighted. We know that these are complex issues, yet we must not continue to debate, discuss and analyze. What is really required is the political will to move forward, lest we loose entirely, the momentum gained from Monterrey. That would be an irreparable loss to all of us and our coming generations.

6. Mr. Chairman, unless the levels of ODA are increased to close the financing gap estimated at $50 billion, the MDGs will not be met by most countries by 2015. Let us clearly understand this stark reality and let us act before it is too late.

7. The primary responsibility for lifting our people out of poverty and deprivation rest with us in the developing world. Yet by no amount of reform or any other effort can we bridge the financing gap in time to meet the MDGs unless there is front loading of ODA now. We acknowledge and deeply appreciate U.K.'s efforts in this regard and their tabling the IFF, which has support amongst some donors and nearly all developing countries. Only the IFF has the potential of speedily frontloading ODA and therefore we should focus efforts primarily on operationalizing IFF. Donors who cannot participate in this mechanism will need to scale up their ODA, consistent with their budgetary and legislative frameworks. The target of 0. 7 % of the GNI of developed countries was set over 34 years ago. We must move towards achieving this goal.

8. Yet far more important for private sector led sustainable growth and poverty reduction in the developing world, is the issue of market access. Improvement in investment climates will be given a strong impetus by market access, more than any change procedures and practices. Unless the developed world allows this access and reduces significantly trade distorting subsidies, developing countries will continue to rely on ODA, and continue to be vulnerable to debt crisis.

9. Mr. Chairman, we have to address the gaps between the international economic conceptual framework and practice. We want to achieve MDGs by 2015, yet the requisite increase in ODA is not forthcoming, we want private sector led sustainable poverty reducing growth, under-pinned by investment climates, yet market access is denied, we urge democracy, the world over, yet we fear democracy at the BWIs. We have to address these inconsistencies squarely if we are to really be partners in economic development and transformation, as was our joint vision at Monterrey.

10. On the 60th anniversary of the BWI, there is much to celebrate. The Bank and the Fund have undergone transformation from organizations that prescribed one size fit all, take it or leave it solutions, to institutions that genuinely try to listen and be real partners with developing countries. Mr. Wolfensohn has spearheaded this change and has earned respect the world over for this. We thank him. We welcome the Bank's several initiatives on infrastructure lending to MIC, streamlining processes and procedures. However, much remains to be done. We would like to see more work in a larger number of countries on the fiscal space issue, to accommodate the burgeoning financing requirement of social and physical infrastructure, without which growth will be choked. We would like to see greater harmonization within the Bank Group, harnessing the synergies that exist to provide support for infrastructure development. Our private sectors, too, need to be supported strongly by a far more proactive IFC, as well as MIGA.

11. IDA is doing a tremendous job and playing an enormous role in reducing poverty, supporting growth and reform in our countries. We look forward to a successful completion of the IDA-14 replenishment process, at a level that is consistent with the magnitude of the challenges before us.

12. The world economic outlook is stronger than at most anytime in the recent past but risks to the expansion have increased in recent months. While global growth has become increasingly broad-based geographically, it remains heavily dependent on the momentum generated by the U.S. and Chinese economies. The growing recovery in the euro area and in Japan is relying to a much greater extent on external demand rather than on domestic spending. The developing world continues to contribute strongly to the global recovery, which extends beyond the emerging market economies of Asia and Latin America to encompass sub-Saharan Africa as well.

13. The risks to the favorable outlook have both a short-term and a medium-term dimension. Among the former, the volatility of oil prices, despite strenuous efforts of the major oil exporters to stabilize the market, is a matter of concern, especially where possible supply disruptions are associated with geopolitical developments in a major producing region. The movement towards a higher interest rate environment in international capital markets has implications for private capital flows to the periphery countries. The large and persistent payments imbalances among the major industrial countries create risks of disorderly exchange rate and interest rate movements; together these factors generate a high degree of uncertainty that is inimical to the prospects for investment revival in several regions of the developing world.

14. Among the medium-term risks perhaps the most significant is the perverse direction of official capital flows, in the form of accumulating dollar reserves, that is the counterpart of growing U.S. external and fiscal imbalances. Only second to that is the negative transfer of official resources from the multilateral development finance institutions to their borrowers in the developing world; even net disbursements have turned negative in the case of the World Bank Group in the last two years at a time when there are enormous needs for infrastructure finance and other capital investments in their client countries.

15. Given this background, current proposals for reform of international financial arrangements being released as "trial balloons" appear to us to bear little relation to the magnitude and character of the problems confronting the poorer countries. It is being suggested, for example, that the International Monetary Fund, our premier monetary institution, gradually withdraw from its financing responsibilities to its low-income members and instead devise a kind of signaling instrument (called a Policy Monitoring Arrangement) to providers of debt relief and to serve as a "gate-keeper" for other sources of funding. We don't think it is yet time for IMF to give up its traditional role. Moreover, there is no precautionary type of facility envisaged that would help emerging market countries prevent

temporary difficulties from turning into full-blown capital account crises. Nor are there any moves to improve upon the Compensatory Financing Facility to help other countries deal with exogenous shocks.

16. In the same line of temporizing reforms, the World Bank is being pushed to convert loans into grants, with no clear assurance that there would be truly additional official funds to cover the resulting gaps in projected re-flows of its "soft-window" resources. Grants must be funded incrementally; otherwise, they will cut into the Bank's resources for development lending in the years ahead. As we approach the MDGs, we need to strengthen, not undermine, the Bank's ability to provide scaled up assistance to poor countries.

17. A debt sustainability analysis (DSA) is being proposed as a framework for determining the ceilings on external debt that each low- income developing country could carry, with the rest of its external funding requirements for attaining the Millennial Development Goals (MDGs) to be met, presumably, through grants. While this clearly represents an advance on the "one-size-fits-all" criteria that were incorporated into the HIPC Initiative, there is again no assurance that grant funds would be forthcoming to fill the gap that has already emerged for several countries that have reached their "completion points" but find their remaining debt burdens to be in excess of the DSA thresholds. These thresholds are meant to apply not only to HIPIC-eligible countries but to the generality of low-income countries, thereby opening up a void that will require large amounts of grant money.

Pakistan

18. A few words about Pakistan:

    Pakistan's economic scene and prospects have undergone a sea change in the last five years. Exchange rates and foreign exchange reserves, inflation and interest rates, fiscal and current accounts…all point to stable and improving macroeconomic performance. External debt, though still high, has declined appreciably as a proportion of GDP, as has the debt service burden, thanks to lower interest rates, debt re-profiling and prepayment of some expensive debt. We are targeting a growth rate of 8% in the medium term. Implementation of wide ranging structural, institutional and governance reforms, which were initiated in the face of most difficult challenges, are on track and beginning to show results. Growth rate has reached its historical average of 6% plus. Domestic capital markets are buoyant and access to international capital markets has been restored. The stage is also set for Pakistan to exit from IMF's PRGF at the end of this year.

19. These measures, supported by the IFIs, have enabled the Government to substantially increase social expenditures. Yet no one can deny that, going forward, the challenge remains formidable. The benefits of growth must be meaningfully shared by, not just trickle down to, the poor. While we remain

committed to relentlessly pursue our poverty reduction strategy and make progress toward the MDGs, we also need to improve the investment climate in the country. Enhance the competitiveness of the economy, to compete in world markets, foster private sector development, and boost FDI to expand the economy and generate employment. We cannot do this alone. We need scaled up support of the Bank Group, and I do mean the whole of the Bank Group—IDA, IFC and MIGA—to mobilize substantial incremental resources. Now that the country has demonstrated a better than expected economic performance, we look forward to a substantially bigger envelope under IDA14, in order to sustain the momentum going into a second generation of reforms.

20. Mr. Chairman, developing countries today are faced with a huge challenge and tough choices. The challenge is to lift their people out of poverty. And this requires investing in growth that provides quick economic returns, and jobs and incomes to the poor. Without economic expansion, poverty reduction will remain an illusion.

21. Mr. Chairman, let us, as developing and developed countries work together to create hope, towards global peace and prosperity, the twin yet inseparable goals.