**BOARDS OF GOVERNORS • 2003 ANNUAL MEETINGS • DUBAI, UNITED ARAB EMIRATES**

WORLD BANK GROUP
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
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Report to the Boards of Governors of the Bank and the Fund
by the Hon. **TREVOR MANUEL**,
Chairman of the Joint Ministerial Committee of the
Boards of Governors on the Transfer of Real Resources to
Developing Countries (Development Committee)
at the Joint Annual Discussion

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Mr. Chairman, Mr. Kohler, Mr. Wolfensohn, Governors, ladies and gentlemen: as Chairman of the Development Committee, I am pleased to report to you on the Committee's work during the two meetings held in 2003.

The central focus of our meetings has been on implementing the strategies, partnerships and actions agreed in Monterrey and Johannesburg to achieve the Millennium Development Goals. The partnership set out in Monterrey identified clearly the need for strengthened efforts by both developed and developing countries, as well as international institutions. For developing countries, three areas in particular were emphasized: improving the environment for investment and private sector activity, strengthening governance, including public financial management and increasing human capital through broader and more effective delivery of basic services to the poor. For developed countries, increased market access, debt relief and increases in the volume, predictability and effectiveness of aid were highlighted.

We have asked the Bank and the Fund, working closely with institutional partners, to provide us yearly with a global monitoring report to allow the Committee to regularly assess progress and to reinforce accountabilities among developing and developed countries, as well as the international agencies, for the policies and actions necessary for achieving the MDGs. As part of this process, we urged the Bank to continue to improve the Country Policy and Institutional Assessment (CPIA) methodology and the transparency of its application and to help facilitate statistical capacity building, especially for those countries most at risk of not meeting the MDGs. We will receive the first full report at our next meeting.

The centrality of the Poverty Reduction Strategy approach in defining country strategies and providing a country context in which donors and international agencies can align support has been emphasized throughout our discussions. At our last meeting, we reviewed progress in the implementation of this approach. We welcomed the increasing openness of policy dialogue with all stakeholders, the improved focus on sources of growth and the investment climate and the policies needed to reduce poverty, greater realism and better prioritization, increased pro-poor public spending as well as efforts to strengthen public expenditure management. At the same time, we recognized that PRSPs are charged with multiple and sometimes competing objectives. The challenge now is to achieve successful implementation, including through much more effective donor alignment and harmonization around national strategies. In particular we issued a strong call for swift progress in implementing the results agenda and the agreements in the Rome Declaration on Harmonization.

We have stressed that, as part of the Monterrey partnership, sound policies by developing countries must be supported by adequate and appropriate financing. Ensuring this and enhancing aid absorptive capacity through policy and institutional reforms is critical to the virtuous cycle of actions needed to meet the MDGs. We urged all countries, without delay, to take specific steps to meet their commitments to provide additional aid resources by 2006. We have also asked the Bank, working with the Fund, to examine various policy options to mobilize the substantial additional resources that are needed to scale up progress towards the MDGs, and to report to us at our Spring Meeting.

Trade remains of crucial importance to growth and poverty reduction. The ambitious targets set for the Doha Development Agenda are a necessary precondition for our strategy to meet the MDGs. Developed countries must do more to liberalize their markets and eliminate trade-distorting subsidies, including in the areas of agriculture, textiles and clothing. It is in this context that we particularly regretted the disappointing outcome of Cancun and we urged all participants to put the process back on track as soon as possible. We welcomed the Bank and Fund's pledge to support countries to benefit fully from a more liberalized trading system and urged the Bank to continue to tailor its lending activities to support country-owned trade initiatives.

The Committee has reviewed progress under the HIPC initiative and reconfirmed its commitment to its implementation and full financing. The achievement of long-term debt sustainability will require actions on the part of HIPC countries as well as development partners. We have requested further work on providing additional relief, where appropriate, at the completion point. Some HIPCs face a continued challenge to reach the decision point and we have encouraged further staff efforts to assist these countries. We expect to review a Bank/Fund report on a forward-looking framework for debt sustainability in low income countries at our next meeting, and we have also encouraged further staff work on ways to help reduce the vulnerability of these countries to exogenous shocks.

Infrastructure makes an important contribution to economic growth and reaching the MDGs by improving the investment climate and supporting the development requirements of low and middle income countries. We therefore have welcomed the Bank report on the infrastructure action plan, as well as the follow-up to the recommendations of the World Panel on Financing Water Infrastructure and we have asked the Bank Group to work with member countries to secure its early implementation and we will return to this issue at a future meeting.

Finally, as called for at Monterrey, we have continued our discussion of innovative and pragmatic ways to enhance the voice and effective participation of developing and transition countries in the work and decision making of the Bank and the Fund. There is no single approach to accomplish this, but rather action is required over time across a range of issues. Strengthening the responsiveness of the Bretton Woods Institutions to country-owned strategies and priorities through the PRS approach, complemented by on-going efforts to promote greater openness and transparency, decentralization and staff diversity all contribute to this objective.

Our Executive Directors have made some progress on measures to enhance capacity in developing and transition EDs' offices and in capitals. We welcome this work and urge its completion by next Spring. We have urged developing countries to take up their full subscription to IDA and noted that the IDA-13 Mid Term Review and IDA-14 provide a timely opportunity to enhance borrower participation in the IDA replenishment process and its Board's decision-making.

As to the most challenging issues of voting structure and composition of the Boards, it is recognized that these will require time and effort to arrive at the necessary political consensus. We are committed to continue our efforts on these matters. For our consideration at the Spring Meeting, we have asked for a framework specifying the precise issues concerned, a schedule, and a set of procedures which will provide the basis for our discussions at future meetings of the Development Committee.

On a final point, Mr. Chairman, at both meetings we have, of course, noted the significant challenges posed by the present situation in Iraq. We have called on the Bank and the Fund to play their normal role in Iraq's redevelopment.