U.S. DEPARTMENT OF THE TREASURY

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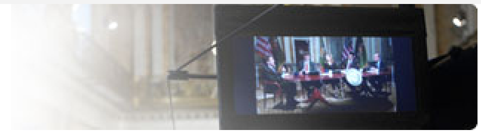

Prepared Statement by Secretary Henry M. Paulson, Jr. at the Development Committee Meeting

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Washington, DC--Over the past five years the world economy has grown at a pace not seen in over three decades. This robust growth has been particularly strong in low income countries and has helped reduce poverty. The world is well on its way to halving the share of people living in extreme poverty. While this is a remarkable accomplishment, progress is neither great enough nor balanced enough for us to congratulate ourselves. The Global Monitoring Report appropriately highlights the difficulties with progress in fragile states, many of which are located in sub-Saharan Africa, and draws attention to the need to ensure that the benefits of growth are equally open to all members of society, both male and female.

While the community of donors recognizes the need for continuing substantial aid flows, one of the most critical of the many lessons we have learned in the 60-year history of the World Bank is that higher aid flows by themselves do not guarantee less poverty. Assuring that our assistance is directed to effective, efficient, well-coordinated projects that can make lasting changes in people's lives remains a key and daunting challenge. It requires intellectual vigor, the willingness to constantly reassess and question the effectiveness of our approaches, and a true hard-nosed dedication to the pursuit of measurable results at all levels of our programs. It also means that resources need to be applied to their most efficient use, and that institutions focus on their core competencies.

Sub-Saharan Africa

We are heartened by the early indications of success with the Bank's Africa Action Plan (AAP). It is too early to determine the long-term effectiveness of the AAP, but there is sufficient evidence that results are moving in the right direction. We are particularly pleased with positive country policy performance, a key ingredient for development results. One area highlighted in the AAP where more work should be done is statistical capacity building. Without data, African countries will always be at a disadvantage in policy creation and adaptation, and private sector firms will be less confident in investing.

As we think about a post-2015 Africa, many areas of activity, such as infrastructure, the private sector, and governance deserve significant attention. While we support the IDA-IFC micro, small and medium-size enterprise facility, the AAP needs a greater focus on private sector support and improving financial sector access. It is the financial sector that provides a loan to start an enterprise, grow a business, or buy a house. Access to capital helps people acquire assets that give them a foothold in the economy – personal financial wherewithal they can leverage into greater prosperity and economic security.

Trade

Reducing trade barriers is also essential for providing people opportunities. The best way to alleviate poverty and raise living standards is through greater openness, so more people can benefit from the expanding global economy. The most important driver for poverty reduction has been the rapid growth of developing countries that opened to trade, notably in several Asian economies. For instance, Mexico's poverty rate fell by more than 20% and its rate of extreme poverty fell by more than 30% between 1994 and 2005 – the years following the passage of NAFTA.

We need to continue pushing forward on the trade agenda, including a successful Doha Round of negotiations, to keep all our economies growing. The case for trade liberalization is clear and compelling. And if we want more people to support it, we need to ease anxieties and help more people realize the benefits of trade. The Aid for Trade agenda launched at the Hong Kong Ministerial can help allay these fears.

Fragile States

Fragile states pose a special development challenge because they are frequently unable to sustain any forward momentum on reforms and growth. As such, fragile states do not typically respond to standard development interventions and require a rethinking of donor engagement to ensure positive results. Paramount among these is careful consideration of resource investment. Due to weak governance and weak institutional capacity, the ability of fragile states to absorb and effectively utilize resources is limited. This is particularly relevant given the potentially negative macroeconomic implications of scaling up in low-capacity countries.

Given the challenges posed by fragile states and the limited applicability of standard development tools to their situations, a new framework needs to be developed to assist donor institutions to engage effectively. Key elements of such a framework include: (1) developing a cohesive definition of fragility that focuses on the sources of fragility and not its outcomes; (2) developing and adopting an approach of selective intervention; and (3) developing a high quality and integrated monitoring and evaluation system.

Governance

Finally, we welcome and support the updated version of the World Bank Group's Governance and Anticorruption (GAC) strategy. We applaud the Bank for an extensive public consultation process, which has helped to sharpen the GAC's approach and has opened the door to new partnerships.

We are confident that the strategy will strengthen the Bank's role in helping borrowing countries promote good governance and fight corruption and in playing a leadership role with global partners. We believe the GAC rightly focuses on the most important issues: building effective and accountable institutions; country ownership; and government commitment to governance and anti-corruption. Further, we support the call to help countries address the problem of asset seizure and repatriation and greater disclosure of assets by public officials. The core proposal to revamp the country assistance strategy (CAS) process to systematically address governance issues in country strategies assumes a continuing framework for fighting corruption in a way that applies central principles to country-specific circumstances. Going forward, we would like to see more use of the Public Expenditures and Financial Accountability indicators within the Bank fiduciary diagnostics and their link to the preparation of country assistance strategies.

Conclusion

The challenge of global poverty can be overcome only when the appropriate resources are married to the right policies. The MDGs intentionally set a very high bar, and achieving them will require that we remain focused in our purpose and efficient in our methods. We look forward to working closely with all our partners to achieve our common goal: to create the conditions and opportunities for the world's poor to improve their livelihoods and overcome poverty.