BOARDS OF GOVERNORS ● 2005 ANNUAL MEETINGS ● WASHINGTON, D.C.

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

J

INTERNATIONAL MONETARY FUND

Press Release No. 10

September 24–25, 2005

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

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

It is an honor and a privilege to participate in the Annual Meetings of the Board of Governors in this "Year of Development". I would like to express my gratitude to the Bretton Woods Institutions and the United States government for their hospitality and excellent meeting arrangements.

Since the last Annual Meetings of the World Bank and IMF in September 2004, a number of important international events including the G-8 Summit in Gleneagles in July and the UN Millennium Declaration Review Summit in New York last week have deepened consensus on key elements of the development agenda. And we have witnessed the renewed commitment of countries and multilateral institutions to write off debts, reduce poverty and pursue the achievement of the Millennium Development Goals. Donors have renewed this commitment most notably in the form of IDA14 Replenishment and the G8 Debt Relief Plan for the poorest countries. These, and other, financing commitments are a welcome response to the considerable progress that the recipient countries have made in improving their policies, institutions and governance.

Yet, the challenge to achieve the MDGs has become more daunting as another year has gone by and 2015 has drawn closer. It is now more likely that many countries will miss the MDGs, largely because of missed opportunities for investing in pro-poor growth and human development. There simply has not been enough concessional money around in the multilateral financing system to scale up development assistance to make a real difference. What is needed is a large increase in concessional assistance and net resource transfers to poor countries. The Bank and donors have a shared responsibility to find ways and means to urgently increase the net transfers.

The G8 Debt Relief Proposal is indeed a welcome initiative in that direction. However, it needs to be implemented in a manner so that the financial integrity, resourcefulness and future lending capacity of the IDA, IMF and AfDB are fully protected. This would require binding commitments from donors to reimburse fully the cost of debt write off to the institutions concerned. The additional resources thus becoming available to IDA should be allocated to all IDA-eligible countries based on its existing performance based allocation system. Attaching new conditionality to these resources would have the undesirable consequences of slower utilization thus undermining the objective of increasing net transfers.

We welcome the World Bank's initiative to develop the Africa Action Plan. Funded with adequate resources, this plan offers considerable promise and potential, and a real opportunity to improve the lives of people in the world's most under developed region. We wish the African people and governments, the Bank and the donors every success in its implementation.

One of the great challenges developing country governments face is to pursue growth with equity. We believe that growth will only be sustainable if it is coupled with equity. The people have to be the drivers of growth and participants in the growth process. We in Pakistan have launched the "KHUSH HAL PAKISTAN" programme to implement community driven development initiative across the country to realize the MDGs focusing on the weaker and more deprived communities. This program designed to upgrade rural and urban infrastructure improves the quality of life of the poor, also provides resources for health, education, skills development and microfinance facilities to encourage full participation of all segments of society in the development of the country. We look forward to the support of MDBs, particularly the World Bank in partnering in this initiative.

Growth and private sector development are intrinsically linked. Without market access, the potential of private sector in developing countries cannot be fully realized. It is important that private sector contribution to economic output is maximized. But it is equally important that that output also finds markets on the basis of fair competition. Agriculture subsidies, non-tariff barriers in rich countries and restrictions on the free movement of service providers deny poor countries' producers market access on fair terms. We applaud the advocacy role that the Bank is playing in promoting free and fair trade. The Bank can and does influence the policy direction in developing countries and helps them with behind-the-border reforms. In the absence of any leverage over rich countries, advocacy is the only means through which it can bridge the gap in policy and perceptions between developed and developing countries. We would urge the Bank to step up advocacy for a successful conclusion of the Doha Round.

After long years of neglect, the Bank did well to formulate the Infrastructure Action Plan in 2003. In Pakistan, the Bank has already scaled up its assistance programme including enlarged support for investment in infrastructure. We appreciate the progress that is being made in its implementation. And we note that infrastructure lending is planned to be increased by one billion dollars a year in the next few years. However, we think that it may not be sufficient to meet the growing infrastructure deficits and investment needs of developing countries. We urge further scaling up and also leveraging it to mobilize private investment through public-private partnerships (PPPs), making full use of the facilities and instruments available with IBRD, IDA, IFC and MIGA, including equity investment, guarantees and local currency loans. We believe that the Bank Group is in a good position to help recipient countries mobilize resources for infrastructure investments without undue exposure to foreign exchange risk, since infrastructure services are priced in domestic currencies. Finally, we encourage the Bank Group to increase its support for municipal infrastructure through municipal fund activities.

Finally, a word about voice and participation of developing and transition countries. This is an important part of the Monterey Consensus. **We appreciate the work that has so far been done on this aspect at the Bank and the Fund. However, this work has not led in any directions where concrete actions can be implemented to achieve a real enhancement in voice of developing country shareholders.** We are convinced that any measures that fall short of increasing developing countries' voting power would be inadequate to achieve the purpose. I urge fellow Bank Governors to come to an understanding on how to settle the issue of voice through voting power.

Before I close, let me update the audience on Pakistan's economy. **I am happy to state that Pakistan's economy continues to gain strength**. The fiscal year ending on June 30, 2005 has been an eventful one. The economy has mounted a strong recovery with a sustained improvement in prospects. The most important achievements of the year include: high real GDP growth of 8.4%, supported by a strong growth in large-scale manufacturing (15. 6%), a sharp pick up in agriculture (7.5%), a continuing robust performance in service sector (7.9%), and an extra ordinary strengthening of consumer demand; a double-digit 12 % growth in per capita income reaching $736; investment upturn gaining a stronger footing, particularly private sector investment , which remained buoyant owing to a rare confluence of various positive developments; strong growth in consumption of energy reflecting rising level of economic activity; fiscal deficit remaining almost on target at 3.3% of GDP; high rates of export and import growth; sustained high level of workers' remittances at $4.2 billion; continued accumulation of foreign exchange reserves and a stable exchange rate; a sharp decline in public debt (61.7% of GDP) and external debt burden (32.5% of GDP); and most importantly, the passing of the Fiscal Responsibility and Debt Limitation Act 2005 mark important milestones for the country.

Notwithstanding the significant improvements in these economic parameters, we are not complacent. We are aware of the challenges lying ahead. The main challenges include sustaining the growth momentum with macroeconomic stability; creating employment opportunities; raising the income levels of our people; and improving the country's social indicators in sync with the strength of the economy. In order to address these challenges, the Government has a clear roadmap and a workable strategy in place.