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On behalf of Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovakia, Slovenia, and Turkey
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Slower Growth and Higher Uncertainty Slow Down Development Results

This Spring Meetings of the Bretton Woods Institutions have been convened during politically and economically precarious times. The world economy is subjected to slower growth and more uncertainty than we had envisioned when we met last. Internal and external conflicts are the enemies of sustainable development. A world without strife is the primary precondition for enhancing the lives of poor people in the world. Uncertainty creates disincentives for orderly progress, another precondition for making the playing field of development more level.

Slower growth and higher uncertainty are, however, to some extent counteracted by progress on the side of macroeconomic management. Inflation and interest rates have come down spectacularly. This has led many countries to prepay some of their outstanding debts to the World Bank. In combination with less lending due to more uncertainty impeding longer-term investment demand, this development is also responsible for the fact that developing countries have become net capital exporters. While possibly rational from the individual country’s debt management point-of-view, this is a perverse result given the dire need for investment in developing countries.

Progress with Achieving the Millennium Development Goals is Unsatisfactory

The focus of our discussions during this meeting revolves around the limited progress made with respect to the Millennium Development Goals (MDGs). Progress with the MDGs is generally disappointing, if not alarming. Aggregate figures showing quite high probability that income poverty might be halved by 2015 hide the fact that Africa will fall far short and that progress in Southeast Asia is also very limited. The positive fact that the world’s most populous country, China, is making much progress in this area overshadows the shortfall of many other countries. Human development indicators are even further off-track: lack of necessary expenditure allocations for health and education in less developed countries, as well as severe governance problems account for that. In addition, we are learning, in addition, that progress on individual MDGs is highly inter-related: e.g., success registered in the fight against HIV/AIDS prevention reduces child mortality and maternal health, gender equality in primary education and better access to potable water and sanitation improve overall health indicators and the ability to participate in gainful employment. Thus, we need broad-based programs attacking poverty on a variety of fronts.
While we need more growth as a major pre-condition for the fight against poverty, growth alone will not be enough: specific attention will have to be paid to distributional issues and relevant pro-poor expenditure allocations. Developing countries will have to do a lot more and a lot better, if significant progress on achieving the MDGs is to be accomplished.

Responsibility for the disappointing record to date of achieving the MDGs, however, also falls on developed countries. Lack of progress is also due to insufficient ODA flows. Empirical research shows that the funding gaps are very large: indeed, it is highly probable that a doubling of present ODA flows of around $50 billion per year will be needed. The commitments made to date do not even come close to this figure. In addition, industrial countries must give developing countries better access to their markets, especially in agricultural goods, textiles and apparel. Research shows that increased trade is an important driver of growth. Thus, not only more South-South trade, but, because of the much larger size of the market, larger South-North trade flows are required. The consensus achieved in Monterrey, Doha and Johannesburg urges us to make faster progress in this area.

Better Development Results Require Better Collaboration and Division of Labor of Development Aid Agencies.

The International Financial Institutions, together with the UN and other aid organizations must follow up on their mutual declarations on further harmonization of aid procedures and better collaboration, as witnessed by the recent Forum in Rome. They must go beyond verbal declarations of good behavior and radically weed out overlap, institutional competition, attribution fixation and the concomitant reporting overload, in favor of a new pattern of division of labor according to each agency’s comparative advantage. The new financing initiatives, launched recently by a number of donor countries, are laudable, but must be integrated into this new framework of international collaboration. Otherwise, they lead to yet another layer of procedures and add to the existing quagmire of institutions. We should seriously think about reducing the excessive number of agencies, as well as programs and projects, which are stepping on each other’s toes in the development area. In addition, IFIs themselves must follow the same standards of accountability and transparency as they require from their client countries.

The New MDGs Monitoring Scheme Will Help Sensitize Development Partners on Progress

Last year the DC asked the Bank to devise an effective scheme of monitoring MDGs progress. We are grateful to Bank staff and collaborating agencies for the proposals on our table. While the UN is responsible for overall MDGs monitoring, the Bank has a significant role to play with respect to contributing to this effort and reporting on problem policy areas, in addition to incorporating progress reports on MDGs in its general survey work of recipient countries. Special need arises to also monitor not only the quantity of aid flows, but also their quality. Much more work is necessary on data collection, especially with respect to human development indicators in the borrowing countries and in trade policies in the industrial countries. This necessary monitoring effort will become a test case for international and inter-agency collaboration. We must make best use of existing data sources – diverse as they may be; we must disclose each agency’s information to the public and we must make concerted efforts to produce
more and better data – and analysis. This analytical effort will also greatly benefit from better collaboration and interaction and less duplication. More and better data, however, might lead to more accurate, but possibly even more pessimistic results, than we have today. We must be aware of that and not let ourselves be overwhelmed by such findings.

A succinct annual progress report on achievements with respect to the MDGs could form one focal point of our future discussions and could also make superfluous a large number of individual progress reports on various Bank activities. It is of utmost importance for our credibility to maintain perseverance and momentum with respect to the MDGs. Appropriate monitoring and reporting procedures will then form the basis for further necessary and corrective actions.

**Emphasis on MDGs Requires Rethinking of Some Basic Rules of Operation**

Putting the MDGs at the center of our attention over the medium and long term will also require us to make adjustments to a number of procedures which we have adopted. Since the MDGs put additional emphasis on service delivery, especially with respect to health and education, funding needs go beyond traditional investment funding. Major cost components in delivery of health and education are recurrent costs, e.g. teachers’ and health workers’ salaries, school materials, health care supplies. Present funding rules by IFIs as well as by many bilateral donors either forbid such funding completely, or allow it only under very restricted circumstances. In addition, grant funding for recurrent costs imposes additional problems. Greater transparency of budget and better tracking of poverty reducing public expenditures should encourage bilateral donors to engage more in budget support and the financing of recurrent costs. It may be well worth to discuss this issue further among ourselves.

**Full Creditor Participation Required for Success of HIPC Initiative**

We are concerned about the remaining creditors that are unwilling or slow to grant their fair share of debt relief to Heavily Indebted Poor Countries (HIPCs). For this reason, we welcome and support the efforts of the Bank and the Fund in addressing this issue and encourage staff and management to pursue the dialogue including through moral suasion. Though debt relief under the HIPC initiative is granted on a voluntary basis, we cannot ignore the fact that the original and enhanced HIPC initiatives have been agreed upon by all shareholders. Achieving the full implementation of the HIPC initiative requires therefore full participation by all stakeholders.

We continue to believe that the methodology currently used by the Fund and the Bank to calculate the amount of topping up is appropriate and that adequate flexibility is built into the Initiative to deal with particular situations on a case–by-case basis.

**Positive Experience of Our Advanced Transition Countries Can Serve as Benchmarks for Poorer Countries’ Development**

As the largest mixed multi-country constituency we will continue to give full support to the Bank in its efforts to fight poverty and improve the living situation of the poor in low- and middle-income countries. We are willing to offer the very positive experiences of the advanced
transition countries of our mixed constituency to other countries and regions. Some of these experiences can serve as best practices for other less developed countries.

**Country-Owned Poverty Reduction Strategies Must Become the Basis on which All Development Partners Base their Joint Efforts**

The Bank and other development aid institutions, together with their partner countries, have come a long way with respect to the development of Poverty Reduction Strategy Papers (PRSPs) for low-income countries as the decisive participatory, country-driven planning instrument for economic and social development. Achievement of the MDGs can and will form part of this new framework – which now is firmly established in borrowing countries as well as accepted in the donor community. The PRSP process – while still incomplete – has set milestones with respect to the participation of civil society at large, of country ownership and as a comprehensive development framework. It has taken tremendous efforts by the countries involved and by the IFIs to get where we are today. It has proven a very robust and suitable instrument both for the individual country’s economic, budgetary and social policy planning processes and for the donor community as a guidepost. We urge all parties involved not to weaken, but to strengthen this framework. Only full participation in setting the priorities of the country will enable broad-based and sustainable development which is “owned” not only by the government, but also by the people and societal institutions in the developing countries.

**Improvements in Voice and Participation of Borrowing Countries Must Focus on Proposals Which Can Be Implemented Quickly**

Part of this process also requires to enhance the capacity of borrowing countries, especially those with very large constituencies and a large number of Bank/Fund programs, to participate more fully in the decision-making processes of the Bretton Woods Institutions, to make their “voice” better heard. A number of proposals on the table are very far-reaching and involve changes in the Articles of Agreement. It is highly unlikely, given discussions to date, that such proposals can be enacted soon, if at all. For the immediate future, we should rather concentrate on those pragmatic proposals which remain within the existing constitutional framework of the institutions and involve improvements in the capacity of Executive Directors to communicate with Bank/Fund staff and their home countries, including more staffing, better technology and research and logistical support. While additional costs must be contained, such resources are well spent. They will improve these constituencies’ ability to fulfill their assigned role already in the immediate future.