Statement by Heidemarie Wieczorek-Zeul
Federal Minister for Economic Cooperation and Development
Germany
Selected Issues Related to Cooperation Between the IMF and the World Bank in Low-Income Countries

The recent visit of World Bank President Wolfensohn and Managing Director Köhler to Africa has shown once more the far-reaching changes that have taken place between the developing countries and IMF/World Bank, but also the donor community as a whole, since the HIPC Initiative was first initiated. Responsible policymakers in the developing countries have welcomed the HIPC/PRSP Initiative as an opportunity for true partnership and for economic and social progress that is designed under the developing countries' own responsibility. Debt relief, the elaboration and implementation of PRSPs, and the designing of bilateral and multilateral development cooperation in accordance with the developing countries' national strategies are the strategic foundations on which a partnership for effective poverty reduction can develop and must prove itself. In parallel, we need to work to further improve the global framework for improved integration of the developing countries into the global economy, that is, in particular, for industrialized countries' opening their markets further for developing countries' products. The German government adopted a Program of Action for worldwide poverty reduction in April which is committed to this strategic objective. The EU Commission is currently drawing up a similar program.

However, I would like to warn against expecting too much in the short term: fighting poverty and its causes requires patience and perseverance, as well as courageous political and economic policy changes in many developing countries and in the area of international relations. And we need to consider our support and contribution systematically as part of a shared international mission, and implement it accordingly.

The positive impact of many current programs and initiatives which we discuss at conferences like today's depends crucially, not least, on the development of the world economy. The current decrease in the industrialized countries' growth rates, which has resulted in changes in the growth forecasts for all regions and country groups, highlights that fact. It is therefore essential that the global economy be revitalized. The industrialized countries thus need to act in line with their responsibility for stable and sustainable growth.

Implementation of the HIPC Initiative and Progress on the PRSP Process

Since our last meeting, the implementation of the Enhanced HIPC Initiative has greatly accelerated. The staff and management of the World Bank and the IMF, as well as the staff of the authorities of the HIPC's themselves, deserve our thanks for that.

The priority task is now to deepen the PRSP processes. Our goal should now be to support quality PRSPs through intensive accompanying support and by fostering a participatory drafting process. It is encouraging that in many developing countries the process of drafting the PRSP has launched for the first time a public political debate on poverty and on ways of fighting it. This is a new experience for many countries, and the organization of participatory processes is accordingly difficult in some cases. However, there can be no doubt that the PRSPs have
launched constructive pro-poor political processes in many countries. What will be vital in future will be to deepen and institutionalize participation, strengthening, not least, the role of parliaments.

Initial experience also shows that in many developing countries there is an insufficient technical and administrative basis for drafting and implementing poverty reduction strategies. Capacities for poverty analysis, the collection of data, participation, and monitoring must first be developed - also with support from the donors. This particularly applies to the monitoring of pro-poor spending in public budgets. The monitoring of pro-poor public expenditure and the assessment of its impact is of eminent importance for further strategy formulation and for giving the approach pursued the requisite legitimacy, both in the country in question and for the donors providing support. In the interest of the developing countries and the supporting donors, there should be transparency in every single case as to the deficits in the area in question and the activities that can be used, and the timescale envisaged, to remedy the situation.

On an interim basis the establishment of poverty funds can be used to facilitate tracking of poverty related expenditure.

However, as the PRSP process is institutionalized and the results of implementation are subjected to review, more general economic policy or legal issues must be given more attention in the PRSPs as well in the medium term if they seem relevant to poverty reduction and to strengthening equitable economic growth. The IMF's programs in poor countries (PRGF), which have thus far concentrated mainly on macroeconomic stabilization, should give more attention, based on close collaboration with the World Bank, to issues related to socially and ecologically balanced economic growth and to the distribution effects of the programs. This appears vital with a view to achieving coherent PRSPs which focus on the causes of poverty and describe medium- and long-term options for overcoming them. The World Bank and the IMF should therefore also increase their efforts for ex-ante analysis to assess the poverty impact of structural reforms and macroeconomic policies.

German development cooperation supports the PRSP concept, and bilateral country programs are increasingly designed to be PRSP support programs. Moreover, we are directly supporting - in some cases in close collaboration with NGOs/churches - the drafting of PRSPs in 14 countries, and especially the participation of civil society.

In addition to paying close attention to the contribution that debt relief makes to poverty reduction, we should take special care to ensure that the debt sustainability that has been reached will be safeguarded in the long term. This requires robust growth of exports and functioning debt management in the debtor countries. The Guidelines for Public Debt Management are a good basis for relevant efforts and should thus be welcomed.

What is important in addition is to continue to keep close track of the HIPC's debt situation, including the development of their terms of trade, which continues to show a very negative trend for the majority of poor countries as a result of high oil import prices and low prices for other
export commodities. A one-off analysis at the completion point is not enough. Since the general framework is constantly changing and thus contradicting the assumptions on which the reform programs, PRSPs, and debt relief were based, the debt situation of the HIPCs must be analyzed regularly. Periodic debt sustainability analyses, which should be brought to the attention of the Boards, should serve to create an early warning system so as to prevent renewed unfavorable developments.

I would like to emphasize once more in this context our support for a review of the volume of debt relief at the completion point, so as to be able to make adjustments in the case of severe external shocks. Moreover, creditors should be willing to provide new funding at the most concessional terms possible.

**Support to Post-Conflict Countries**

The issue of suitable forms of support to post-conflict countries and their inclusion in the Enhanced HIPC Initiative are topics which are closely linked with each other.

We must definitely be aware that the pace of implementation of the Enhanced HIPC Initiative cannot be maintained if countries which would, in terms of figures, be eligible for debt relief are experiencing long-standing, mostly internal, military strife. In many cases, there are also violations of fundamental human rights. Granting debt relief in such a situation would neither stand a chance of making a sustainable contribution to poverty reduction nor would it be justifiable to our taxpayers. Rather, what is needed here are political initiatives to develop mechanisms for peaceful conflict resolution. Only if the conflict is resolved politically will there be a basis for reconstruction of the country and for sustainable development and poverty reduction.

Once a certain degree of stability and peace has been reached, however, donors and creditors must not let the window of opportunity pass, they need to provide flexible and quick support for reconstruction. The World Bank found that 50% of post-conflict countries are faced with renewed conflict within 10 years. This means that 50% of these countries are simultaneously pre-conflict countries. We need to act upon our moral responsibility and become active to prevent this forecast from becoming a reality in future. Efforts to foster democratization play a special role here, since it is well known that democracies are much more rarely involved in conflicts than dictatorships. By supporting sustainable, socially equitable development, the Bank also gains an important function with a view to conflict prevention. Projects and programs which are supported with World Bank Group instruments should therefore be subjected to an ex-ante assessment of their impact on potential conflicts.

Support to post-conflict countries requires a mix of providing new funding and resolving debt problems. Ways must be found to resolve payment arrears, which should however not delay the provision of assistance. Another goal should be to make available appropriate resources for a consistent program of political and economic reconstruction. Since each post-conflict country is
faced with a different situation, we support case-by-case solutions for the settlement of arrears. New assistance should be provided on the most concessional terms possible. We therefore also take a positive view of making more flexible use of IDA grants for post-conflict countries. For regular IDA borrowing to be started, there should be a system, tailored to the situation of post-conflict countries, for analyzing and assessing the quality of the country's policies and institutions (Country Performance and Institutional Assessment System).

For most post-conflict countries, the Enhanced HIPC Initiative offers an important long-term opportunity. However, we should not overestimate its short-term impact. As can be seen from the existing arrears, many post-conflict countries have de facto paid hardly any debt service at all over the past few years. This is why debt relief frees up barely any budget funds on paid basis. Yet in order to reduce payments due it is important to launch the HIPC debt relief procedure. We therefore support the proposals that have been made for a shorter track record of reform programs needed prior to the decision point.

In parallel, the PRSP process should be started as quickly as possible. I believe that the participation of civil society, including what used to be the conflicting parties, is almost even more important for post-conflict countries than generally. The drafting of PRSPs thus also offers a potential, through the dialogue it involves, for building a more stable foundation for what is in many cases a fragile peace.

**World Bank Group Strategy in Middle-Income Countries**

A little more than half a year ago, we reached general agreement in Prague that the Bank should continue to play a significant role in the MICs and that this would be in the interest of all of us. The MICs are home to the majority of the poor of this world. Their further development makes a decisive contribution, not least, to international stability, and this is why we are in favor of the Bank continuing its active involvement in collaboration with its partners. In the MICs, too, the Bank's Country Assistance Strategies should be supported by a clear development strategy for poverty reduction of the countries themselves. Unfortunately, however, the DC paper does not meet all our expectations and leaves some questions open which will need further work. Ownership - this is a fact that has come to enjoy universal recognition - constitutes a decisive prerequisite for successful cooperation on poverty reduction. This is why the elaboration of borrowers' own development strategies should be used as a basis for formulating the Bank's CASs. Many countries have already laid down their development goals and policies, including well-founded poverty reduction strategies, in national documents as it is. There is no reason why the drafting of special strategy papers should be mandatory if existing documents meet certain minimum standards and if they provide, in particular, a convincing description of the poverty reduction strategy. However, where this is not the case, submitting a consistent development strategy paper should be made a prerequisite for cooperation. As a foundation for the Bank's country strategy, it must be clearly discernible how that strategy is rooted in the policy of the country in question. This is a logical consequence of the crucial importance of ownership for external support to be successful.
All experience gained with aid shows that the main factors for the promotion of growth and for poverty reduction are good policies and good institutions. So the quality of policies and institutions should be reflected in the volume and orientation of the assistance provided. The idea is of course not to have an allocation mechanism similar to the one that has been introduced for IDA - the circumstances differ too much. But it is necessary to make the quality of recipients’ policies more clearly a criterion for determining the kind and volume of assistance. This point should be given attention as deliberations continue on how to design the instrument of Development Policy Reviews.

In principle, we take a positive view of the proposals for expanding the use of programmatic lending. By making increased use of program instruments, cooperation efforts can focus more closely on systemic issues and on progress on the reform agenda. However, this shift in the mix of instruments is not suitable for all countries, and we are still a long way from having clarified the prerequisites of making increased use of programmatic lending. It is undoubtedly helpful in this context that the Bank wants to put one focus of its country-based analytical work on public budget, procurement and financial administration systems. Moreover, the increased use of program aid must not result in an indirect opportunity for circumventing environmental and social safeguard policies that have been agreed. In this context, it will become increasingly important to gradually help the policies behind these standards to become rooted in the countries themselves, that is, to create ownership in this area too. One example to be noted in this context would be the recommendations of the World Commission on Dams, which should be incorporated, in terms of their substance, in the World Bank's guidelines and should also be taken into account in the policies pursued by the borrowing countries.

I think that the proposal to complement program assistance with the introduction of a deferred drawdown option is interesting in principle. It would be possible in this way to better ensure the continuation of social and structural reforms even in times of crisis in countries which are more advanced and cover most of their financing needs in the international capital markets. However, before this new instrument can be introduced I believe there is a need for clarification and coordination, especially, not least, as regards similar instruments of the IMF. The new instrument must however not be misinterpreted as a form of liquidity support.

Generally, partnership and collaboration with the IMF, regional development banks and other donors need to be further strengthened. The most recent financial crises in a number of MICs have shown just how important it is, in particular, for the Bretton Woods Institutions to work together. But such cooperation is also essential in normal times, so as to contribute to macroeconomic stability in combination with continuous social and structural reform. Closer collaboration and a conscious division of labor between the International Financial Institutions is also needed in order to analyze economic and social development and structural problems and in order to assess reform policies. Increasing use can - and should - be made of the capacities of the countries themselves for the purposes of analytical work.
Leveraging Trade for Development - the Role of the World Bank

There is no doubt that trade and economic integration are of tremendous importance for development and sustainable economic and social progress. Yet there is no generally applicable blueprint that would show each and every country the perfect path to integration into the world market. Calls for liberalization are no replacement for a development strategy. This is why we would welcome even greater involvement on the part of the Bank in integrating trade issues within the context of development and poverty reduction (PRSP) at the national, regional and international levels.

As tariffs and quotas are reduced, "behind-the-border" trade-related measures, that is, general economic policy measures, are becoming more and more important. We support stronger Bank involvement in trade-related issues outside the realm of classic trade policy. In particular, I would like to encourage the Bank to help the developing countries integrate trade policy measures into their poverty reduction strategies. However, this is a difficult task. We should be aware that there are some conflicting goals in the various areas of reform: classic trade policy, trade-related economic policy, stabilization. For instance, the implementation of trade liberalization may fail if the requisite institutional basis has not been put in place. The timing and sequencing of reform activities need to be tailored to local conditions. The German government welcomes the fact that a more differentiated view of the contribution of trade reform to development has come to prevail and encourages the Bank to adapt its operational activities in line with this new understanding.

We also welcome the World Bank's new position with regard to regional integration and encourage the Bank to take a more active role in this area. Regional integration can benefit the countries involved in many ways. It is true that regional integration can be an interim step towards multilateral integration. But there are further economic arguments for regional integration. We should not forget that regional suppliers are often disadvantaged in comparison to suppliers from outside the region; I would like to refer to the tariff barriers between neighboring countries, which continue to be relatively high, and transport and communication infrastructures, which are in many cases severely deficient. The risk that trade with third countries is put at a disadvantage through regional integration is put into perspective by this fact. Nor should one forget that it is often easier to harmonize standards and rules at the regional level than within a multilateral framework.

Global Public Goods

At our last meeting in Prague we emphasized that the World Bank should concentrate on a number of selected topics as regards the improvement of the availability of global public goods. We believe that this concentration continues to be necessary, and the selection of topics related to specific global public goods is not the only way in which such concentration becomes manifest - it is equally important to apply in every case the criteria agreed in Prague (value added; catalyze other resources; comparative advantage; international consensus) for deciding whether the Bank should become active. It would have been desirable to explicitly mention
these criteria in the progress report and to provide evidence of how they are being implemented in the various areas.

We welcome the progress that has been made on the individual issues. One important area is the development and dissemination of information and communication technologies and the dissemination of knowledge that is relevant to development. The related initiatives, including the Global Development Network, the Global Development Gateway, and the Global Distance Learning Network, have made a good deal of progress.

We support the statements made in the DC paper with regard to the financing of global public goods. The World Bank should concentrate its contribution on those areas where activities related to global public goods are clearly linked with the development impact of the Bank's country or regional work, for instance areas directly related to poverty reduction, such as communicable diseases like HIV/AIDS. It is especially important to engage in collaboration - including in the form of cofinancing - with donors which have traditionally been providing grants, so as to reach a higher level of concessionality. We support the idea of making it possible within the framework of IDA to provide grants with the specific purpose of financing global public goods. In summary, we consider the entire complex of global public goods to be an area in which it is particularly important for the Bank to form coalitions and cooperate closely with other partners, both bilateral and multilateral - specifically, not least, with institutions of the UN system.

**HIV/AIDS Action Program**

We note with concern that the HIV/AIDS situation not only continues to cause terrible human suffering but also constitutes, in many countries, an economic and social disaster and a serious threat to development and to progress on poverty reduction. In Africa in particular, which is home to 70% of all people living with HIV, combating AIDS is a key task for securing people's future, and thus also a key task for development cooperation. The most important area for action is to make the issue public and to openly discuss AIDS and ways of infection and prevention. AIDS must cease to be a taboo topic and must be made a focal issue of political debate. Only campaigns of education, not campaigns of silence, will bring about the changes in behavior needed to curb the epidemic. People need to know how they can protect themselves.

It is the right approach to take a realistic view of this crisis, but it would be wrong to be discouraged. Fortunately, the present DC report also contains some encouraging elements. They include, firstly, the political commitment of most countries concerned and their governments, as well as the level of resources that have been mobilized, the number of programs that have already been adopted and launched, and the cooperation between important players, including the private sector and the pharmaceutical industry. The resolution of the legal dispute in South Africa demonstrates that cooperation is sought rather than confrontation. This is a good thing. However, I would like to appeal once more to the pharmaceutical industry to show the greatest possible flexibility as regards pricing and to work with the developing countries to find solutions
that are in the interest of the people. I am glad to note that many companies are increasingly willing to work with us in the fight against AIDS.

Fighting HIV/AIDS is undoubtedly an area in which the World Bank needs to work closely with other institutions, especially WHO and UNAIDS, which are the specialized organizations in this area and should thus play the strategic and coordinating lead role. The World Bank with its financial potential and its know-how has an important complementary function in planning and implementing programs at the country level.

Harmonization of Guidelines and Procedures

The DC document Harmonization of Operational Policies, Procedures and Practices accurately reflects, in our opinion, current activities and discussions on the topic. The improved harmonization of guidelines and procedures in development cooperation has long been an important concern for German development policy.

In spite of the progress that has been made, we have to note that our joint efforts need to be significantly increased if we are to achieve satisfactory results. We expect that increased ownership on the part of recipients as well as processes such as CDF and PRSP, which have the aim of increased coordination of country-level cooperation, will provide effective impetus for harmonization. The fact that the goal of improved harmonization is clearly given higher priority today than in the past is already an outcome of these processes.

It is therefore important for the World Bank to be actively involved in the DAC task force on the harmonization of procedures. We would also like to see World Bank involvement in the task force's individual working parties. With its expertise and the strong position it holds in practical development cooperation, the Bank's contribution is often the deciding one. Harmonization will, however, also require that the World Bank show flexibility with regard to its own procedures.

In our view, the harmonization process should extend beyond the exchange of information and convergence of procedures and ultimately result in common standards for procedures. We therefore expressly welcome the fact that the present paper explicitly favors making this the goal of our common endeavors.

One aspect of special importance is that of harmonization of procedures and increased coordination between the multilateral development banks, which finds its expression in the various Memoranda of Understanding that already exist between the World Bank and several regional banks. Taking account of the banks' comparative advantages in each specific case, an increased effort is needed to identify the potential for mutual complementarity and to make use of it in order to enhance efficiency. The banks should not enter into a competition over conditions, either in terms of pricing or in terms of the conditionality attached to their programs; rather, the individual programs should be consistent as regards the design of their conditionality. This does not mean, however, that there should be no competition whatsoever between the development banks. Recipients should be able to choose between different strategies and solutions for their development problems, as this provides an incentive for improving the quality of programs and will, on the whole, make allocation more efficient.