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1. Impact of Recent Events on Low- and Middle-Income Countries: Response of the World Bank Group (WBG)

The significant direct and indirect impacts of the September 11 events and the increased uncertainty come on top of a world economy that is in the downward phase of its business cycle. This calls for actions to avoid a protracted world recession. In this context, a consistent advance in trade liberalization policies can play a defining role in helping the world economy out of recession and the developing countries out of poverty.

We welcome the new flexibility in the Bank’s portfolio management to increase or accelerate transfers under existing and new operations. We also want to support the proposed enhanced flexibility to redefine the Country Assistance Strategy (CAS) envelope through a short accompanying note when rapid and decisive response to the events is warranted. But on the other hand, we believe this is not the time to use Special Structural Adjustment Loans/Credits; they would add financial pressure to an already stressful situation.

We are also of the opinion that at the present time, with more severe conditions than in the FY98-99 crisis, the WBG should permit countries to increase use of Structural Adjustment Loans (SALs) beyond the 63% level reached during the FY98-99 crisis. SALs would play the double role of supplying timely financing for the emergency while helping advance much needed structural reform, particularly in the area of improving the investment climate.

In addition to the acceleration of resource transfers under existing or new operations, we call to your attention that deteriorating terms of trade and losses in export earnings in low income countries will present an additional requirement of debt relief in line with the Heavily Indebted Poor Countries (HIPC) initiative.

The Bank will have to work closely with other development partners and distribute the work according to their respective comparative advantages. Support will have to be tailored to the needs of low- and middle-income countries, increasing concessional lending in the first case and complementing private sector financing in the second one.

The International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) should be ready to help developing economies in this particular phase of the economic cycle, expanding their activities to counteract the contraction of private financing, especially in the Small and Medium Enterprise (SME) sector.

2. United Nations Financing for Development Conference

We strongly support this initiative, which brings a global perspective to one of the most important challenges facing developing nations. We expect the conference to have lasting influence on the way we approach financing for development and to arrive to a pragmatic set of recommendations.
We welcome the holistic approach to Financing for Development that goes way beyond financial transfers to include trade, governance and reform policies. We also salute the emphasis on country ownership of the development policies, as well as favor the creation of partnerships among the main participants in this process.

Macroeconomic stability, structural reforms, a sound investment climate for private sector development and good governance are crucial for the effectiveness of external financing, for accelerating growth and reducing poverty. We welcome the establishment of a solid legal system where property rights and contracts are respected. Developing countries are increasingly focusing in achieving progress in all these fronts with the support of the WBG, the International Monetary Fund (IMF) and other International Financing Institutions (IFIs).

Internal reform in developing countries is crucial for poverty alleviation. Developed countries have a very important role to play, particularly in opening their markets.

Market access for exports is the most efficient and effective way to accelerate the fight against poverty in developing countries. World Bank studies have shown that trade liberalization and the elimination of domestic and export subsidies in industrial countries can have a significant effect in reducing worldwide poverty and providing the necessary financing for development. Moreover, global trade liberalization has a win-win outcome for the world as a whole, and in particular for the industrial countries.

As much emphasis should be placed in reducing import tariff barriers as in reducing “hidden” non-tariff barriers, such as extreme standards and countervailing mechanisms, in trade liberalization. It is well established that the use of labor and environmental standards as governmental preconditions to open trade are counter-productive; i.e. they neither help trade creation, nor help to improve standards. In most cases the standards are endogenously resolved when the developing country exporter reaches an industrial country market.

We salute the efforts recently made at the Doha Conference of the World Trade Organization (WTO) to bring progress in world trade liberalization, and we expect this will mark the launching of the Development Round of global trade negotiations.

Last, but not least, harmonization of policies and processes of multilateral and bilateral donors is an area in which very little progress has been achieved to date. Here we call for a more active partnership among donor agencies to reduce the transaction costs of aid delivery and to deliver this aid in a more transparent and competitive manner. In particular, we call for the generalization of untied aid schemes and to benchmark procedures in this area to those of the private sector in its normal conduct of international business.

The fight for growth and poverty reduction has to be a joint effort by developing and industrial countries to achieve a more equitable world. We have high expectations on the outcome of the Financing for Development Conference and we expect the WBG to play a
very important role in the implementation of the recommendations of the conference, in line with its comparative advantage.

3. Heavily Indebted Poor Countries (HIPC) Initiative / Poverty Reduction Strategy Papers (PRSPs)

The successful implementation of the Initiative continues to be dependent on longer-term debt sustainability in qualifying countries, through sustained economic growth, poverty reduction and the pursuit of prudent debt management policies. In those countries already past their decision points, it will be challenging to remain on track and reach their floating completion points without delay. But perhaps the biggest challenge is to bring the remaining countries, most of which are conflict-affected, to their decision points as soon as conditions permit. Moreover, last September’s events will require an immediate impact assessment in order to qualify additional relief needs that the Initiative might have to consider. In all these efforts, the Bank’s engagement in those countries through Economic Sector Work (ESW) could help them move forward more expeditiously.

HIPC relief will provide a strong basis for debt sustainability and social expenditures. Government poverty reduction through social expenditure, primarily on health and education, is projected to rise, and it is expected to spend more than three times in 2001-02 than on debt service. The effort to halve the incidence of poverty by 2015 will require a concerted increased assistance by the international community, in addition to the domestic-generated savings that can be used to finance this process.

While it is still early to make a full assessment, two years have passed since the PRSP was launched as a prerequisite for concessional financing, and the experience so far is encouraging. In this regard, it should be noted that thirty-six countries have prepared interim strategies, and five countries, including Bolivia, have completed their full PRSP and are involved in its implementation.


Harmonization has been a continuous topic of discussion since the last Development Committee (D/C) meetings. We strongly agree that the development community should collaborate closely to lessen the burden on recipients countries on both fronts:

- On the multilateral front, Multilateral Development Banks (MDBs) working groups examining financial management, procurement, and environmental assessment should continue to intensify their efforts.

- On the bilateral front, we welcome efforts in the areas of financial management and accountability, the pre-implementation stages of the project cycle, and reporting and monitoring; both at the institutional level and focusing on deliverables and action.
We understand that there are risks involved in both fronts. It would be important for the MDBs and bilateral donor agencies to openly discuss the potential difficulties that the process may face.

On the recommendations, first, we emphasize the relevance of the harmonization process in view of its significant impact in reducing the cost of doing business in recipient countries and in multilateral and bilateral institutions.

The harmonization process requires both: (i) using the minimum number of standards, (i.e. streamlining the processes), and (ii) proceeding efficiently, which requires the selection of the best standards.

It is understood that harmonization should not be the result of aggregation of each institutional requirement. It is a “desirable” common set of procedures and practices to be agreed upon by all interested parties.

Second, we believe that each of the working groups will preserve its own path of progress. We expect that significant work on common standards or good practice principles will be completed soon.

Third, we think that one important partner in the harmonization process is the private sector. It might be possible to develop common technical and procedural good standards based on private sector practices.

5. **Progress Towards Education for All (EFA)**

Education is fundamental to combat poverty through increased productivity and income, improving the quality and rate of economic growth. It is also crucial to empower the poor, better positioning them to live fuller lives and face the challenges of the knowledge era. Education has positive effects on health, the environment and good governance, among others.

We therefore call for an expanded role of the WBG in supporting education and supplying innovative approaches to break the vicious circle of low coverage and quality, reduced incomes. In particular, the Bank has to make sure that full coverage is accompanied by good quality education, because it is well known that quality makes the largest contribution to economic growth.

The report shows that the progress to date in achieving EFA goals has been uneven. Education reform is a complex issue that requires the participation of a wide variety of actors situated in a well structured framework to achieve progress. The effort cannot be centered only in “within the school” reforms and financing; it has to go further to encourage participation of the families and to develop the appropriate accountability processes to build up efficient delivery systems.
In particular, we ask the WBG to study in detail ways of organizing accountable delivery systems with a correct structure of incentives for all participants in the education effort; including the government, teachers, as well as families, and alternative delivery sources in the private sector. Furthermore, we urge the Bank to analyze results-based schemes of delivery, including separating financing from the delivery of education. This would permit better outcomes in terms of the quantity as well as the quality of education.

We expect an adequate treatment of this very important topic in the next Development Committee meeting, based on the proposed action plan that addresses all education issues, including beyond-school issues that are crucial to achieve better quality in education.