Statement by Mrs. Eveline Herfkens
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This Development Committee meeting is taking place under exceptional circumstances against the background of a global outlook that is uncertain from a political as well as from an economic perspective. Under these circumstances the mandates of the World Bank, the International Monetary Fund and the other multilateral institutions are even more relevant than usual. The latest World Bank projections show that the global economic slowdown is having a severe impact on the pace of poverty reduction. Therefore, we should use this meeting as an opportunity to reinforce our support for the work of the Bank and the Fund. We can do that in words and in deeds in the form of an increase of Official Development Assistance and by offering greater market access for products from developing countries. I am grateful to the Canadian authorities and the City of Ottawa for their hospitality and for providing the opportunity to give voice to our political will.

The role of the World Bank in the current economic situation

After September 11, severe problems have emerged in developing countries. President Wolfensohn has put the issues clearly: “As many as 40,000 children under the age of five will die and some 10 million more people will be condemned to poverty because of the terrorist attacks in the US on September 11”. The President also noted, "When you have a combination of global downturn and severe drops in commodity prices and a huge reduction in international trade, the people who suffer most are clearly in the developing countries”. I fully support the statement of President Wolfensohn which made clear that it is now or never to increase our ODA to 0,7 % of GNP: “We need three things to cope with the effects of the terrorist attacks on the world economy. We need more international aid, building up by $10 billion to $20 billion more a year to a total of about $100 billion more in coming years; we need the opening of trade for developing countries; and we need continuing co-ordination of monetary and fiscal policies.” It is an excellent development therefore that the EU member states agreed at the Development Council last week on the principle of a timeframe for each and everyone of them to reach the 0.7 % target.

When we look at the required policy action by the Bank, I conclude that, within the scope of its mandate, the World Bank will have to expand its activities in both low-income and middle-income countries in order to counter the negative effects of the global economic slowdown. The IFC and the IBRD need urgently to analyse whether their current financial capacity is adequate to cope with possible downside scenarios.

Providing IMF, IBRD and IDA loans will of course be an element of the response to the economic downturn after September 11. The international community must realise, however, that this is not good enough for many countries. HIPCs need more grants from bilateral donors, as they cannot accept new loans from the international financial institutions without limit. Additional loans for HIPCs may undermine the objective to improve debt management and to avoid a new debt overhang.

That is why I ask the international community, in particular the bilateral donors, to take part in a solution for HIPC countries that have reached their decision points and, while pursuing appropriate economic policies, been hit by terms-of-trade losses due to, or worsened by, the September 11 events. The World Bank has made estimates of the impact of these events on the balance of payment and current account deficits of HIPCs. Many countries will suffer from higher deficits, which they cannot finance themselves, in particular in the current context of an
economic downturn. The Netherlands, therefore, urges the World Bank to set up a special multilateral Trust Fund to support these low-income countries affected by a significant deterioration of their balance of payments. In addition I urge the Bank and the Fund to monitor on a regular basis the impact of deterioration of terms of trade at country level. The Trust Fund should aim at HIPC countries, which conduct good policies and are committed to the full and timely implementation of their poverty reduction strategies despite the difficult circumstances.

Poverty reduction and debt relief
Two years have passed since the enhanced HIPC Initiative, the PRSP concept and the Poverty Reduction and Growth Facility (PRGF) were introduced. From the start we have stressed the importance of ownership, participation, local capacity, pro poor content, partnerships and aid co-ordination. During a technical mission in January 2000, the Utstein partners had an opportunity to discuss these critical issues with the Bank and Fund. We now want to follow up with a second mission, this time to New York, to seek the views of the UN agencies on the PRSP-process. The current reviews of the PRSP and the PRGF provide an excellent opportunity to reflect on progress. The Utstein ministers wrote a letter to the MD Köhler and President Wolfensohn last week to highlight some of our concerns, which we hope will be addressed in the reviews. We remain concerned for instance that insufficient attention is being given to the development of longer-term macro-strategies for growth. We would very much welcome a joint Bank-Fund initiative to help countries develop macro-economic programmes in support of their poverty reduction strategies. Work on Poverty and Social Impact Analyses has been progressing, with several countries now targeted for pilot work. We continue to stress the priority we attach to this work and encourage the Bank and Fund to expand the analyses of poverty impact of key policy changes. IMF co-responsibility is key in this field, but the Bank should take the lead. In order to safeguard the continuity of the PRS process, the Bank and the Fund should also assist PRS countries in formulating realistic fiscal scenarios, including fall-back options reflecting a deterioration in the external environment. At the same time, donors should work hard to align their aid with the PRS’s. I believe there are still too many projects outside the PRSP framework and there is still too little budget support for good policies. I am also concerned about the high demands from donors relating to the content of the Poverty Reduction Strategy. Donors should not expect perfect strategies, which reflect every priority they can think of. Of course, there are key lessons we have learnt in development practice. If a PRSP is lacking in this respect or if it does not comply with lessons learnt, then donors should respond by intensifying their policy dialogue. The response should not take the form of demands by way of extra conditions. In addition, donors should prevent adverse external circumstances from resulting in inadequate Official Development Assistance (ODA). This would make attainment of the Millennium Development Goals more difficult.

Higher ODA would also enable us to deal with the unresolved financial issues of the HIPC Initiative. The HIPC Trust Fund needs new pledges in the amount of $ 700 million by mid 2002, to ensure smooth progress of the HIPC initiative within regional and sub-regional institutions. In addition, the HIPC Trust Fund urgently needs the conversion of pledges into real payments by donors. Delaying payments leads to a decrease in the net present value of existing pledges. I urge donors who choose to pay later to maintain the net present value of their pledges.
Donors made a commitment not to compromise the integrity of IDA when they agreed upon the “pay-as-you-go” approach to cover HIPC financing. This approach leaves IDA with major unfunded gaps in the financing framework as IDA enters into commitments while all the financing in the next few years has to come from internal World Bank resources. Without the required donor contributions, this threatens to undermine the financial integrity of the Bank as fewer additions can be made to reserves. This also erodes the capacity of the Bank to make additional means available to other poor countries from its net income. The Bank has even announced its intention to pre-finance HIPC cancellations of IBRD loans (USD 860 million) out of IDA, despite the absence of compensating donor commitments. I trust that our commitment not to compromise IDA will be fulfilled, but at the same time, I feel a need to remind others every now and then.

The Boards of the Bank and the Fund recently confirmed that it is possible to provide additional debt relief at the completion point to HIPC countries experiencing severe exogenous shocks. However, this option should not be an excuse not to provide additional assistance during the interim period in response to exogenous shocks that threaten to frustrate the implementation of a PRS. Countries facing severe humps in their average debt service ratios (more than 10 percent of the value of yearly exports, for example) should also be in a position to benefit from such additional compensation.

I also urge the Bank, Fund, and donors to take into consideration the domestic debt burden of some developing countries. This burden can still undermine sustainability at the completion point, as individual country cases (Bolivia, Ghana) have shown. African Finance Ministers raised this issue as well, at the Big Table II meeting in the Netherlands, which was organised by the UN Economic Commission for Africa.

Furthermore, the IFIs should step up their efforts to resolve in the HIPC framework the issue of post-conflict countries’ arrears, which are currently estimated at USD 5 billion. Under current rules, these arrears exclude them from participating in the HIPC Initiative.

Finally, the British proposal to include countries from the former Soviet Union in the HIPC Initiative should be supported, assuming that they qualify. The possibility to admit additional countries is of course already part of the Enhanced HIPC Initiative.

All these steps would result in a substantial increase in the costs of the HIPC Initiative. Donor support will therefore have to be increased, before the HIPC Trust Fund faces liquidity and/or commitment constraints.

**Financing for Development (FfD)**

The conference on Financing for Development (FfD) is the perfect occasion to follow up on our good intentions as formulated in the UN Millennium Declaration and the Millennium Development Goals (MDGs). The FfD conference should go beyond promises and declarations. It should result in a political commitment to poverty reduction and in concrete agreements on how to achieve the MDGs.
In the Millennium Declaration, the international community recognized that the fight against poverty is the greatest challenge facing our global governance system. Business as usual is no longer good enough. There is no room for free riders now that we have unanimously agreed that the safety and security of our world demand a global response to the poverty issue.

This is not the time to put our feet up; on the contrary, we will have to pick up pace in order to make it to the MDG finishing line in time. The joint Bank/Fund document on the Impact of Recent Events paints a disturbing picture of developments in low-income countries, in particular the African continent, which is falling even further behind in poverty reduction. The negligible improvement in Africa’s social development indicators sends a sobering message.

Until now, many donor countries have failed to meet their responsibility in what I see as a mutual obligation: developing countries with good policies and governance should be able to count on adequate ODA. Apart from internal resources and private investments that developing countries are able to generate, ODA will remain essential for many years. The Zedillo report and the joint Bank/Fund staff document on FfD both calculate that at least an additional USD 50 billion annually is required to achieve the MDGs. That is why it is so important that all members of the international donor community deliver on their commitment to reach the 0.7 percent GNP target for ODA as soon as possible. The agreement, which we reached in Brussels last week, at the Development Council is a significant step in the right direction.

Donor-recipient relations should also change. The “New Partnership for African Development” (NEPAD) provides a new approach based on predictable, long-term, pooled donor resources for a development programme, which is fully owned, pro-poor budgeted and transparent. This Initiative shows that the winds of change are blowing. Developing countries are more often willing to admit openly that the responsibility for development begins with them. They themselves are to be held responsible for the quality of their policies and they themselves have to put their house in order if they want to experience the benefits of globalisation and free trade. Setting up poverty reduction strategies is a valuable but only a first step. Energetic implementation of those strategies by properly functioning institutions is the true mark of a government committed to reform.

I also wish to stress the importance of the position of the low-income countries, and Africa in particular, as shareholders in the International Financial Institutions. These countries need to express their positions more forcefully and their voices need to be heard properly. This is certainly an issue for the Development Committee to reflect on. The IFIs could also undertake actions to strengthen the voices of the poor countries. The constituency system is a great asset as it enables 183 members to be represented by 24 Executive Directors and representatives at the level of the IMFC and DC. Only if the integrity of the system is preserved, can criticism on the “democratic deficit” in the governance structure of the IFIs be countered. Thus, it is important that member countries should not be subject, as borrowers, to pressure in taking positions on the Board, as shareholders.

With regard to the MDGs, I note with concern that there is still too little consensus on the policy actions needed to achieve them. Therefore, it is important to improve coherence, both at national and at international level. We need more co-operation and more coherent views and
actions among international institutions based on the overriding goal of poverty reduction. For this reason, I welcome the Bank’s role in the preparation of the conference on Financing for Development. I hope that this kind of co-operation with the UN system and other partners will be continued in the future. At the national level countries have to be consistent in the positions they take through their national representatives in Washington (Bretton Woods Institutions) and New York (UN system). Sweden and the Netherlands have launched the Philadelphia process, in an effort to improve the coherence between positions taken in the World Bank and at the UN. I would welcome follow-up by other members in New York and Washington. I am also in favour of an expansion to include the UN Institutions in Geneva and the WTO. I believe that improving coherence in this way will help make the international institutions more effective in poverty reduction.

The World Bank document on FfD, which was prepared for this meeting, highlights a number of the above-mentioned issues. With regard to expanding market access, I fully support the emphasis on opening markets in industrial countries and the needed commitment in developing countries to improve the investment climate (the latter should play a key role in the Bank’s new Private Sector Development Strategy). In this context, I believe that trade should be part of every Poverty Reduction Strategy and that the World Bank should assist all PRSP countries in analysing the impact of trade measures on growth and poverty. That is, the Bank should mainstream this more forcefully, rather than developing pilots. Furthermore, the document raises the issue of financing global public goods without making clear proposals. I am not in favour of more grants by IDA for global public goods. The draft outcome paper of the FfD Facilitator contains many recommendations and suggestions that deserve serious consideration, for instance on market access for developing countries. In this regard, I welcome the positive outcome of the recent WTO ministerial conference in Doha, where the WTO member states agreed on initiating a new round of multilateral trade negotiations, which should benefit the poor countries. Some other suggestions in the draft outcome paper, however, such as the currency transactions tax and the establishment of an International Tax Organisation, seem neither practical nor realistic. Systemic issues will be part of the agenda for the Conference. Although there is no harm in discussing possible changes in international governance to make it stronger and more responsive to needs, it should be clear that the mandates of the IFIs are not up for discussion.

Finally, we have commitment from rich and poor countries worldwide. Now the time is ripe to start practising what we preach. No more half diagnoses, no more half measures. The Ministers for Development Cooperation together with the Finance ministers should roll up their sleeves and get to work.

**Harmonisation of Operational Policies, Procedures and Practices**

The first progress report on donor harmonisation gives a good overview of all the steps and initiatives that are required, within the Bank, among partners and at the country level. Such initiatives should be well co-ordinated to ensure harmonised policies and procedures at the country level. At this level, the Bank’s performance is so far insufficient and results are disappointing. Although one cannot expect immediate results, the Bank could and should do considerably more. Implementation of measures is urgently needed. I urge the Bank to carry out more concrete analyses and pilots and to build partnerships, resulting in best practices for donor harmonisation.
I am pleased that the progress report refers to a number of good examples of work done by others on harmonisation at regional and country level. The report mentions the highly relevant work of SPA (Strategic Partnership for Africa) in the field of common assessments of financial management and accountability. This SPA initiative, as incubator for best practices, deserves to be applied to other countries as well. Initiatives of bilateral donors like the Utstein group in Tanzania are also mentioned. In this country, pilots for harmonisation of procedures and policies at sector level are being undertaken on the basis of national requirements.

At institutional level, I welcome the Bank’s efforts to review its own procedures, in particular the procedures for safeguard assessments and Sector Wide Approaches (SWAps). I am pleased with the proposed review of fiduciary components in eight SWAps, with the aim of focusing the Bank’s operational approach more on the needs of the country concerned. Unfortunately, not all these efforts have led to results in practice. I still receive signals that the World Bank maintains an inflexible approach when it comes to aligning its own operations with harmonised procedures. However, I am pleased with the President’s recent commitment to look into specific problems on a case-by-case basis. In my view, management and the Board through its Audit Committee should review the Bank’s existing procedures with an aim of finding an optimal combination of meaningful fiduciary controls and alignment with procedures in borrowing member countries. I am also concerned that the Bank’s focus is still too much on developing standards, at least in the areas of procurement and financial management, rather than on developing good-practice principles to allow for country-based approaches. National standard procedures based on a country’s own systems and procedures should be applicable for donors in a certain country. This will contribute to more effective donor harmonisation and build institutional capacity, ownership and compliance with procedures as well. In fact, the OED review on aid co-ordination, discussed during the IDA-13 meetings, stressed the importance of country-led partnerships in co-ordination and harmonisation. OED also strongly recommended, and I fully support this, that best practices in these areas should be followed.

At inter-agency level, I am glad to see progress, in particular with regard to the harmonisation of environmental assessments by Multilateral Development Banks, the country analytical work and the work of the OECD/DAC Task Force on Donor Practices. This task force is leading the work on the pre-implementation stages of projects, and on developing good-practice guidelines for Financial Management Frameworks. Therefore, I encourage the Bank to adhere to the OECD/DAC Donor Accountability study, presented in June, which has identified feasible options for co-operation and harmonisation. Finally, I appreciate the Bank’s efforts to collaborate with donors in carrying out Country Financial Accountability Assessments (CFAAs) in nine countries. This also applies to the proposal to co-operate with UN agencies in the areas of procurement and financial reporting arrangements.

**Education for All**

I am pleased with the excellent overview of where we currently stand. The DC document confronts us with a harsh reality: the development targets for education will not be met if we continue 'business as usual'. We have already lost the battle for gender equity in the classroom by 2005. Despite the usual rhetoric (e.g. by the G-8), little action has been taken to keep the promises that were made in Dakar.
In this context, it is good news that the Bank has decided to increase lending for education and plans to take a lead role in the international debate with the aim of delivering on our collective commitments. I am pleased that the report emphasises the importance of the quality of education. In the end, it is not only the number of schools that counts, but what pupils learn as well. Central to the Education for All goals is the opening of opportunities for both individuals and communities to advance and break through the vicious circle of poverty.

I fully support the idea of “a new framework for accelerating EfA”. This is entirely in line with the discussions we are currently having with the Bank and other (bilateral) agencies. Our focus in these discussions, and I would like to stress this again, is country efforts to achieve national education targets. The role of the international community is primarily to assist in developing good education plans with a clear poverty focus and finding ways to finance these plans on a sustainable basis. At international level, this should be done within a coherent framework promoting harmonisation among all parties: the banks, the UN agencies and the bilateral donors. At the national level, this should be done through partnerships between all stakeholders within government and civil society. This DC meeting and the next Spring Meeting offer good opportunities to stress once again that a lack of finance should never be the bottleneck in implementing the education plans of developing countries. This commitment is crucial to ensure that we achieve the targets of Education for All.