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Development Effectiveness, Partnership and Challenges for the Future

The last two major international conferences – the Millennium Assembly of the United Nations and the International Conference on Financing for Development, which concluded just recently - pointed out the challenges to be tackled by the international community in the interests of a safer, more peaceful and more just world order. Poverty reduction, active efforts to shape the process of globalisation and the preservation of peace can only be achieved by means of a true partnership based on shared responsibility. With the conferences in Monterrey and Johannesburg, we are offered this year with a unique opportunity to lay the foundations of a more just world order. The opportunity must be seized.

There is now international commitment to the development goals and a growing international consensus on the need for a substantial increase in ODA. Monterrey marked an important turning point, with the EU countries' commitment to raise ODA to an average of 0.39% by 2006 and the USA's announcement of an increase in its ODA.

While increased ODA is a vitally important factor in reducing poverty and achieving the international development goals, it cannot, on its own, guarantee that the goals will actually be achieved. Undoubtedly, development co-operation has had a number of measurable successes, and the reforms of recent years have enhanced efficiency greatly. There is now a consensus that poverty reduction is our foremost goal and there is agreement on the importance of country ownership and good governance in the development process. We have cast off the traditional definition of poverty, which focused purely on income, and now look at poverty as a complex economic, social and political phenomenon. If efforts to reduce poverty are to be successful, they must be holistic, incorporating the dimensions of empowerment, opportunity and security in equal measure. We have established, in the PRSP, a mechanism that respects these principles and increasingly allows the development process to be supported rather than dominated. Donors cannot initiate development but merely support it.

Now we must carry out the reforms that we have begun to their logical conclusion. This means relentlessly exposing the failings of the past and drawing the right lessons from the experience
gained. In doing so, we must leave traditional approaches behind - development problems cannot be solved by rolling back the state and increasing privatisation. In many areas, the state, and its institutions and legal provisions, need to be strengthened. We are seeing states failing for a multitude of reasons. Yet where the state's monopoly on the use of force is being eroded through the "privatisation" of violence, there is a great danger that the world will be confronted with violent excesses and acts of terrorism.

There is broad consensus that successful poverty reduction and development is founded both on the creation of a good investment climate but also on empowering and investing in poor people. In this regard, it is crucial to find solutions that fit each individual country.

I believe we should be guided by four lessons learned:

**Many developing countries are in a state of extreme political, economic and social uncertainty: they are lacking the rule of law, rules-based administration, macroeconomic stability and a stable external framework.** Failings in these areas will have an adverse impact on decisions on investments and how they will be funded. It is vital that uncertainties in these areas be reduced in order to mobilize local resources. One example in this context is capital flight, which stems mainly from a lack of confidence in political and economic stability. Arbitrary decisions and a lack of transparency in the legal framework can also prevent existing resources from being used in a productive way. The informal sector and the subsistence economy therefore offer no advantages to the poor but merely represent an attempt on their part to get by despite the shortcomings of the legal and institutional environment.

**Institution-building must become the central focus of development co-operation. Strengthening institutions must be at the heart of national development strategies.** Liberalisation and privatisation are not ends in themselves: they must be components of a coherent development strategy. Institutions are the tools used at various levels of society to ensure that political and economic activities abide by certain rules. Strong and efficient institutions reduce uncertainty. Setting rules is the task of policy-makers, and a legitimate set of rules can only be established with the broad participation of the public. Creating an institutional
and regulatory framework is therefore a political process. The PRSP initiative takes account of this: it is the broad participation of civil society that makes the qualitative difference compared with traditional approaches to development.

Institution-building is, due to its political nature, a lengthy process. It is now generally accepted that institutional reforms were, in the past, neglected in favour of reforms that could be rapidly implemented. In the past, therefore, the privatisation and liberalisation of the economic process, focusing for example on financial markets, was often rushed through even though the required institutions were not in place. This increased the vulnerability of these countries, heightened uncertainty and had a negative impact on the investment climate. It should also be borne in mind that a country cannot implement all reforms at once. The pace of institutional development must therefore set the pace for the reform process as a whole.

The task of international co-operation is to secure a stable environment for the developing countries. It is not only at national level that efficient and stable institutions are required in order to improve the investment climate in the developing countries. At an international level, too, institutions and rules must be established that shield the developing countries from external shocks and enable them to mobilise their internal resources for development. Here, I would like to note four points in particular:

- The indebtedness of many developing countries makes them extremely vulnerable to external shocks and is detrimental to the investment climate. The HIPC initiative must therefore be systematically implemented and the legal questions in cases of de facto insolvency have to be resolved.
- Developing countries must be given the opportunity to diversify their exports and become less dependent on the export of just a few primary commodities. That is why it is so important that in the industrialised countries agricultural subsidies and import tariffs on manufactures are further reduced.
- The financial crises of recent years have shown how vulnerable the developing countries are to short-term financial transactions. The international community must continue to look
closely at this issue. The IMF and World Bank must examine ways of helping the countries concerned to better regulate short-term flows of capital; none of the possible options should be rejected from the outset.

- **Development co-operation must focus increasingly on providing global public goods.** It is in everybody's interest that these goods be in sufficient supply. Developing countries are particularly affected, for example by infectious diseases such as HIV/AIDS, which pose a threat to large sections of the population, or by economic crises caused or aggravated by the interdependence of the financial markets. Development co-operation must come up with innovative solutions in this area. In this context, the question of financing global public goods, including the need for innovative financing instruments, must also be addressed.

The answer to global insecurity is not to take a unilateral approach to security. The only way of guaranteeing common security is to take co-ordinated action within international bodies. This means, among other things, strengthening the voice of developing countries in the international institutions. Our aim must be to integrate as many countries and as many people as possible into a global system of shared security and prosperity.

**The macroeconomic risks of financial co-operation should not be underestimated.** There is clear evidence of these risks: an increase in external debt, appreciation of the national currency, more rapid inflation and rising interest rates. External financial assistance must not crowd out the mobilisation of national resources and the country's own revenue-earning efforts. It is, for example, a matter for concern when external capital flows lead to an appreciation in the national currency, thus making the economy less competitive and causing export revenue to drop. The Fund, and the Bank as well, must undertake an intensive analysis of these risks.

The Bank should, in general, devote greater attention to embedding its measures, i.e. the management of its lending and non-lending activities, in an analytical framework enhancing development effectiveness. The Bank itself has noted that "additional resources for analysis are associated with lower rates of project failure". I believe analysis of the aforementioned
macroeconomic risks should be given top priority. It would be generally helpful if the Bank were to present very soon its strategy on strengthening its "Economic and Sector Work" and on strengthening capacity-building measures, including improved methods of impact analysis. In the future, greater attention must be paid to the impact of development co-operation on the social structures. Such analysis should include unintentional impacts which may possibly aggravate existing conflicts. Development co-operation must also be designed in such a way as to play an active part in conflict prevention.

Action plan on "Education for All" (EfA)

When we think of the two pillars of a viable development process – "creating a good investment climate and empowering and investing in poor people" – it becomes obvious that increased efforts must be made in education. We therefore welcome the DC paper, which sets out a concrete framework for national and international efforts to achieve the goal of "Education for All" in 2015. We particularly welcome the fact that an outcome indicator, “Completion Rate”, has been chosen for measuring progress in education; unlike the input-based indicators commonly used. Such an approach focuses on the capabilities that have been developed and on the results that efforts in the field of education have accomplished. Investment in education is only successful if it enhances people's competencies. These competencies are not generated by the mere transfer of knowledge and skills; they are also dependent on opportunities that society offers people to use them productively.

It is worrying that 59 countries are not on track to achieve the education goals and that a further 20 countries – most in sub-Saharan Africa – are seriously off track. The reasons for this are doubtless manifold. The most important ones mentioned in the DC paper, however, are weak political and institutional frameworks ("governance"), the problem of HIV/AIDS and prevailing conflicts. It has also emerged that, even where income levels are the same, education outcomes can differ widely. This gives an indication as to where improvements can be made but at the same time is clear evidence that education problems cannot be solved by intervention in the education sector alone.
Ultimately, only a coherent poverty reduction strategy can effectively address the many interdependent factors that influence education outcomes. A global action plan is to be welcomed as an expression of our commitment to investing in human development and a means of reviewing progress. It will, however, only be successful if the measures specific to each country grow out of the PRSP process. Experience of PRSPs to date has shown that most countries are indeed giving priority to investments in key areas of human development, particularly education and health. This prioritisation must be backed by coherent sectoral implementation strategies to which the donors can contribute.

We support the proposed development compact for education, which would define our joint efforts and act as a guideline for national and international interventions. A great deal of work needs to be done, however, before we can arrive at a results-oriented and workable plan. One thing still lacking is a strategy for integrating the EfA plans developed in Dakar into the partner countries' PRSPs, and many countries have no workable sectoral implementation strategies.

We are prepared to make a substantial increase in our bilateral contributions towards the funding of coherent EfA action plans over the next five years. As a first step, we will select at least two of the countries selected for fast tracking and become strongly involved there – through policy dialogue with the partner, by providing technical assistance in the formulation of coherent strategies and also through funding, preferably in the form of basket financing.

**HIPC Initiative**

We welcome the progress made on implementing the HIPC initiative, with 26 countries having reached decision point, of which five have now also reached completion point. It is to be hoped that a number of other countries will also reach completion point within the near future. Any acceleration of the process should not, however, be at the expense of the sound drafting and implementation of poverty reduction strategies.

We note with concern the deficiencies in the granting of debt cancellations by non-Paris Club bilateral donors and commercial creditors. I, therefore, call on these creditors to
honour their commitment and make their contribution. I would like to remind you that all bilateral creditors, including those who are not members of the Paris Club, committed themselves within this forum in 1999 to the concept of an enhanced HIPC initiative.

We are aware that the further implementation of the HIPC initiative will also require further funding. In this regard, I would like to ask IDA, as administrator of the Trust Fund, to inform us in due time of the exact amount of funding required to finance the debt relief of the other countries that can realistically be expected to reach Decision Point.

We are very concerned about the findings of the study about long-term debt sustainability. According to the findings, there are doubts whether debt sustainability can be maintained in around half of the countries concerned unless further measures are taken. The idea of a completion–point re-examination of the volume of debt relief is therefore the right approach and should be used systematically. But this is not enough. As the examples of Bolivia and Uganda have shown, developments can take an adverse turn even after completion point. The lessons learned about debt sustainability and debt management highlight the need to monitor debt volumes by means of debt sustainability analyses and to monitor debt management through close observation in the course of World Bank and IMF work within in the country. If necessary, the IFIs may have to provide additional assistance. In order to ensure long-term debt sustainability, the debtor countries need to systematically diversify their exports, with the industrialising countries opening their markets further to assist them in this. This makes the impact of a fall in the price of individual export commodities less severe and reduces the volatility of export revenue in general.

A functioning system of debt management is equally important. The comprehensive report on this subject pinpointed where support is needed. I would, however, also like to call on the debtor countries themselves to use the funds freed up by debt relief to make the necessary investments in debt management.