Statement by The Rt Hon Clare Short MP, Secretary of State for International Development and The Rt Hon Gordon Brown MP, Chancellor of the Exchequer
United Kingdom
In a year which has seen the Financing for Development Conference in Monterrey, and which will see the World Summit on Sustainable Development in Johannesburg, it is appropriate that we should be looking here at what development has achieved, and what are our next challenges. There is no doubt that, over the last 30 years, we have made significant progress. In developing countries, people are living longer, more children are surviving, more people are literate, and more people have access to clean water. Aid is working although its effectiveness could be improved further. The challenge for our generation is to adopt the lessons we have learned from the successes of development and apply them on a much larger scale so as to extend the benefits to the rest of the world’s poor. But, if we are to meet the Millennium Development Goals, a step change in progress will be essential. These Goals were carefully chosen. They are achievable, but reaching them will require a significantly increased development effort from the whole international community.

Monterrey was a milestone in international work on development finance. The conference highlighted the most pressing issue of our time – 1.2 billion people living in extreme poverty - and the need to commit a stronger reform effort and more and better used resources to tackle this scourge. Developed and developing countries agreed a partnership in which developing countries commit to improved economic and social governance and the international community commits to action on trade, debt relief, and aid. This foundation must now be built on with concrete actions – a genuine investment of energy and resources – if we are to make tangible progress towards our shared objective of eliminating poverty.

We believe the commitments made by all EU colleagues and by the US to increase aid spending by $12 billion pa from 2006 was an important contribution towards the extra $50 billion of official development assistance required to meet the Millennium Development Goals and a step towards the UN’s 0.7% oda/GNI target, but more is needed. Over the last decade, the overall share of aid in rich countries’ GNI has fallen to shamefully low levels: from 0.33% in 1990 to 0.22% in 2000. These pledges made in Monterrey will reverse that trend, and signal a new recognition of aid’s vital role in development. All donors should hold to meet or exceed these pledges but we must also increase the value of existing aid by ensuring that funds are channelled towards the poorest and used to back reformers. A redirection of existing aid in this way would increase its poverty reducing effectiveness by 50 per cent.

**The Poverty Reduction Strategy Approach**

At the country level, it is the Poverty Reduction Strategy (PRS) process that must provide the framework for donors and governments to deliver both parts of this compact. We welcome the Review of the PRS Approach and the opportunity given for all participants to contribute. It is clear from the Review that the Poverty Strategy process is providing the foundation for a fundamentally new approach to policy making, with the emphasis on country ownership, results and accountability for delivery to all stakeholders.

The success of PRSs will depend on both the quality of developing country policies and the donor response. PRSs provide the foundation for a new donor relationship but, as a group, we are not moving fast enough to deliver our side of the bargain. Our
slow response threatens the credibility of the whole process. We must actively seek ways to reduce transaction costs, improve the predictability and timing of aid flows and the effectiveness of conditionality. We urge the Bank to show stronger leadership by extending its good practice examples of aligning Country Assistance Strategies to PRSPs, and by choosing aid instruments appropriate to meet PRS objectives. We also urge the Bank to work closely with the IMF in reviewing the transaction costs associated with all their instruments, with a view to streamlining them. The Bank and Fund could also usefully take on greater lead in monitoring the effectiveness of the multiplicity of conditionalities faced by a country from all sources.

But the Review has also made clear that there are weaknesses and risks to the process. Some PRSs have been poor in assessing the causes of poverty and in setting out the sources of growth. The international community, led by the World Bank and the IMF, must step up its work to support countries in elaborating policy options and analysing their poverty impact. Work on Poverty and Social Impact Analysis has been slow, but we welcome the Bank and Fund’s commitment to strengthen this area and we look forward to a joint review of progress before the Annual Meetings. We also welcome recent work by Bank staff on effective approaches to PRSs in conflict-affected countries. This is important work in setting the basis for post-conflict Heavily Indebted Poor Countries to reach Completion Point and in influencing the development of Bank strategies.

Following the most recent fall in commodity prices, it is increasingly clear that such shocks present a real risk to the delivery of PRSs, and the design of effective responses must be factored in right from the start. Therefore, we strongly welcome the Bank’s commitment to support improved scenario planning in PRSs. Continued improvements in public expenditure capacity are essential, and we welcome the Bank’s recent efforts to rationalise the tools for assessing public expenditure systems, to focus on clear action plans for capacity improvement and to share this work with development partners. But we remain concerned about co-operation between the Bank and the Fund in this area and look forward to a report on co-ordination before the Annual Meetings.

**Harmonisation of policies**

Harmonisation of donor policies and procedures is essential to reducing heavy transactions costs. The continued imposition of multiple donor delivery mechanisms marginalizes and undermines governments’ own systems and weakens the incentives to reform and improve the very systems, which are vital for the delivery of services to the poor. We welcome the encouraging signs of progress set out in the report. However, we need to quicken our pace if the action plan is to be achieved. We urge all partners to implement the principles of harmonisation as soon as possible, and urge the World Bank to consult with a view to making the proposed high-level event in early 2003 one sponsored jointly by the Multilateral Development Banks, the UN and the OECD/DAC. We see this event as focusing on putting into practice principles already agreed.

Where necessary, capacity building should be available to support a move to harmonising around developing countries’ own systems. And we must continue to ensure that harmonisation initiatives are themselves fully harmonised – including not
only those of the bilateral agencies, the UN and the Multilateral Development Banks but also of the IMF in areas such as its assessments of fiscal transparency. If good practice guidelines are to make a real difference, we must ensure the participation of developing countries in their development.

The World Bank and IMF have a vital role to play in providing leadership and promoting best practice. The Bank’s recognition of its ability to participate fully in the Sector Wide Approach to development, which has proven more effective than stand-alone projects, is most welcome.

**Increased participation in the International Financial Institutions (IFIs)**

Increased participation and ownership through the PRS process should be matched by enabling developing countries to play a more effective role in the governance and policy making of the IFIs. At Monterrey, the international community agreed to do more to build the capacity of the poorest countries to influence the decisions on policies and programmes that affect the lives of their citizens. The Monterrey Consensus prioritised the identification of ways to do this. We urgently encourage the Bank and the Fund to put forward new, innovative and pragmatic ways with which to take forward this agenda in time for consideration at the Annual Meetings later this year. We should aim for actions that will bring tangible benefits to those that need it most i.e. low-income countries, particularly those in Sub-Saharan Africa.

**Low Income Countries Under Stress**

While we are agreed on the advantages of providing more resources to countries with sound policies and good governance, we cannot abandon the large numbers of poor people who live in countries with governments insufficiently committed to poverty reduction. Our aid effectiveness strategy must recognise that commitment to poverty reduction and levels of performance are a continuum, with a majority of states somewhere between the best and the worst. They need support, encouragement and incentives to change and improve their performance.

The work that World Bank staff are doing on Low Income Countries Under Stress (LICUS) is therefore a vital part of promoting aid effectiveness and poverty reduction. We welcome many of the ideas (in the LICUS paper) and encourage the Bank to take its work forward in partnership not only with other multilaterals, such as UNDP, but also with the bilateral donors who, through the flexibility of their mandates and funding mechanisms, can play a complementary role. The work of the DAC group is of particular relevance. We should look to establish collaborative mechanisms to develop our understanding and to share our ideas with countries and development institutions.

We recognise the overlap between LICUS and conflict. Not all LICUS countries are post conflict, and not all post conflict countries are LICUS. Nevertheless, the Bank’s research shows that the same factors that place a country most at risk of state breakdown – weak policies, institutions and governance – are closely correlated with the risk of internal violent conflict. Finding more effective means of tackling these weaknesses and promoting change should be core to our conflict prevention and resolution efforts.
Most of the world’s internal violent conflicts are in developing countries. The irony of conflict in Africa is that the countries worst affected by protracted violent conflict are potentially the richest. Helping control the interaction between natural resources and conflict – which requires addressing the core governance weaknesses – could help remove a major cause of poverty in the continent.

**Education for Dynamic Economies**

In every country in the world, education is recognised as essential for economic development and poverty reduction. We very much welcome the contribution that the World Bank’s paper has made to our understanding of progress towards the Education development goals: highlighting where more effort is needed; setting out some of the characteristics of a successful education system; and emphasising completion rates as the key measure for assessing progress towards universal primary education. It is clear that to succeed we need education reforms and further domestic resource mobilisation in developing countries, but that we also need enhanced and harmonised support from donors which supports country-led processes.

Progress since the World Education Forum in Dakar (2000) has been unacceptably slow. The fact that 88 out of 155 countries are at risk of not achieving the Universal Primary Education goal highlights this. The Bank Report should act as a wake up call. We can draw a clear conclusion that Sub-Saharan Africa presents us all with the main challenge and we need to address this challenge explicitly. There is an urgent need to galvanise international action over the coming months with far closer cooperation and coordination. The main policy issues are clear and have been agreed. We call for the Bank to continue the work started by their report and the recent Amsterdam conference in conjunction with UNESCO, UNICEF and bilateral donors. In the next few months we should expect finalisation of an action plan, which all parties have signed up to, which takes as its goal the practical implementation of the Dakar commitments and the education development goals. We call for this plan to be discussed and endorsed by both the Annual Meetings in 2002 and the High Level Steering Group in Abuja in November 2002. The plan should also give particular attention to the issue of gender equality.

The paper presents strong evidence that donors will need to respond more flexibly and in a harmonised manner if UPC goals are to be achieved. Notably major support will be needed for recurrent costs. We call on all donors, and particularly the Bank in its leadership role, to use the aid instruments at their disposal as flexibly as possible, to ensure that their support can be used efficiently by countries in support of their own sector priorities and plans. This will be most successfully done through programmatic support (including SWApS and General Budget Support) rather than project based instruments.

**International Development Association Replenishment**

Negotiations on the replenishment of the International Development Association (IDA) and the African Development Fund have been delayed considerably by a proposal to alter fundamentally the nature of these institutions. It is our responsibility to ensure that these facilities can provide sufficient and appropriate assistance to their
borrowers, both now and in the future. We must maintain IDA’s effectiveness and not threaten its future financial sustainability. We must not unravel the progress made through the PRS process to reinforce the accountability of borrowers and set performance benchmarks against their national PRS plans.

**Heavily Indebted Poor Countries Debt Initiative (HIPC)**

Debt relief remains a central plank of poverty reduction programmes. It is therefore of deep concern that the report on the status of implementation of the Heavily Indebted Poor Countries (HIPC) Initiative shows that, of those HIPCs that have qualified for relief so far, up to half could be left with unsustainable debt burdens, even after receiving full HIPC relief. This underlines the urgent need for additional relief at or before Completion Point. We have agreed in our previous communiqués that relief could be provided in ‘exceptional’ circumstances. However, the latest figures show that the problem is far from exceptional. The main cause is lower than anticipated export and GDP growth, most commonly linked to falls in commodity prices, which were not taken into account in the analyses made at Decision Point. We must now address the problem facing HIPC countries in a systematic way. Where a country has demonstrated its commitment to poverty reduction and sound economic management by meeting the Completion Point criteria, it must not be left with debts above the threshold. Without this additional relief, the HIPC Initiative will fail to deliver its goal of debt sustainability.

Non-participation by some creditors remains a threat to the success of the HIPC Initiative. We welcome the measures that Bank and Fund staff are proposing to address the problem - in particular, the publication of regular information on non-Paris Club creditors and the reasons for any non-participation. This will allow the rest of the international community to help HIPC countries to secure this relief. We strongly urge the Bank and Fund to make this information available on their external websites, and to ensure that it covers also major commercial creditors.

We welcome the work that Bank and Fund staffs have done to identify which other IDA-only countries should be considered for debt relief under the HIPC Initiative. There has always been an open list, and all IDA-only countries with unsustainable debt burdens should be considered. We hope that this work will be continued and carried forward, so that those countries that are identified as needing relief can be encouraged to start the HIPC process.

**Money Laundering and the Financing of Terrorism**

The steps being taken by the Bank and the Fund to address the urgent issues of money laundering and the financing of terrorism are important. Today, it is clear that money laundering not only undermines financial and economic systems, it is a powerful agent of destabilisation in other ways also.

A global framework for action against money laundering is emerging. We applaud this development. It offers a real prospect for co-ordinating technical assistance aimed at tackling money laundering and directing it to poor countries, which are often vulnerable and weak links in the chain. Collaboration by donor and lending agencies
with a range of organisations offering specialist expertise will be vital, and we look forward to the outcome of the co-ordinating meeting being held here in Washington this week.

**Conclusion**

In the past, progress towards many of our established goals has fallen short of the standards that social, economic and moral values demand. We must seize the opportunity that Financing for Development has provided and build on it.

No country which is genuinely committed to economic development, poverty reduction and good governance should be denied the chance to achieve progress in education, health and the other Millennium Development Goals through lack of finance. We now have: a clear framework for global action in the Millennium Development Goals; increased oda pledges from Monterrey; and clear lessons on how to secure development effectiveness. We must now focus on implementation and sustained progress towards meeting the Development Goal.