Statement by

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On behalf of the constituency comprising Australia, Kiribati, Korea (Republic of), Marshall Islands (Republic of), Micronesia (Federated States of), Mongolia, New Zealand, Palau (Republic of) Papua New Guinea, Philippines, Samoa, Seychelles, Solomon Islands and Vanuatu
Implementing the Monterrey Consensus

The Monterrey and Johannesburg conferences have reiterated and re-emphasised the importance of strengthened country policies to promote broad based growth; greater opportunities for trade; and more effective and increased levels of aid for achieving development goals, including the goal of halving the proportion of people living in poverty between 1990 and 2015.

Sound country policies and strong institutions remain key. The past two decades have seen poverty fall faster than ever before. Since 1990, the total number of people living in poverty has fallen from one quarter to one fifth of an expanding global population. Nevertheless, over one billion people still subsist on less than a dollar a day. And progress has not been uniform. Experience in East Asia has shown that countries that establish an outward oriented policy environment that encourages private sector led growth and allows the poor to embrace the opportunities it provides have had the most success. In contrast, development indicators have not moved forward in some other regions despite many of these countries receiving significantly higher levels of international assistance. The commitments to strengthened governance in the New Economic Partnership for African Development offer particular opportunities for some of the poorest people in the world - the challenge now is to implement them.

Broad based trade liberalization is critical for more rapid growth and poverty reduction. Market barriers and domestic subsidies have made it difficult for many developing countries to take advantage of the potential benefits of trade. This is particularly the case for agriculture, which remains the main source of sustenance for over two thirds of the world’s poor. Agricultural subsidies in developed countries of $350 billion per annum amount to about seven times aid flows. According to World Bank figures, a cow in the EU is provided with almost ten times as much support, on average, as is provided in aid to a poor person in a developing country. If we are to make rapid progress on our development and poverty reduction goals, it is vital that we seize the opportunities for broad based agricultural trade liberalization presented by the Doha round.

The third key element is aid. Its importance is recognized by donors in this constituency, which have collectively increased their assistance by more than 20% in real terms since 1990; have committed new and additional resources for HIPC and associated debt relief; and, most recently, have maintained their burden shares in a very significantly expanded IDA-13 replenishment.

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Aid can clearly generate results in countries with good policies and strong implementation capacities. Given the challenges remaining, however, even more effective use of aid will be vital. While there are clearly difficulties in linking aid inputs to development outcomes with precision, efforts to better measure, monitor and manage for results are critical to maintain and strengthen support for aid as well as to ensure that scarce resources are able to do the most good. The millennium development goals provide a guide, but each country needs to develop its own program of agreed approaches and indicators that reflect its priorities and circumstances. Faster economic growth should be central, as it provides the essential foundation to reduce poverty and meet social goals. This needs to be supported by policy reform and institutional strengthening. In allocating the Bank’s resources, the Bank should emphasise complex and sensitive activities that are important for development but which are difficult for other donors.

Accelerating support for priority areas in well-performing countries, as with the Education for All fast track initiative, can be useful but needs to be set within an integrated and comprehensive approach that recognizes the importance of growth to reduce poverty. Moreover, in developing intermediate indicators and targets to assess performance – such as education spending or pupil-teacher ratios – due account needs to be given to specific country circumstances. Indicators developed for large federal states, for instance, will not always be appropriate for small islands. In addition, accelerated assistance should be linked to actual country performance and needs, and the potential to assist the largest number of people.

A central aspect of improving aid effectiveness will be a more efficient global allocation of aid to countries with strong policy records, and a closer matching of programs to the needs and capacities of developing countries. The World Bank will need to continue taking a lead role in this process. The IDA performance based allocation system has improved the effectiveness of Bank concessional assistance over the past decade. The wide range of exceptions to this framework, however, continues to constrain IDA’s effectiveness. Relatively well performing countries home to half the world’s poor receive only one fifth of Bank concessional lending, while half of all IDA resources are notionally allocated to countries with historically weaker performance levels and in which only a quarter of the world’s poor live. As part of the mid-term review of IDA-13, we look forward to a thorough analysis of the potential to improve IDA’s ability to reduce poverty around the world to the maximum extent. Recent work on the scope for encouraging policy reform in weakly performing countries has also been useful. It is critical that the Bank and the international community continue to engage with such countries, primarily through capacity building, technical assistance and policy dialogue rather than significant financial flows.

Greater donor alignment around country-led development strategies also provides opportunities for further gains in aid effectiveness. In some cases, it may be appropriate to move toward more programmatic approaches, even potentially pooling funds and providing recurrent cost financing. These are, however, complex issues and effective responses will need to reflect circumstances.

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

The full implementation of HIPC will be a significant achievement. With associated bilateral relief, HIPC will potentially reduce the debts of 38 of the poorest and most indebted countries by
two thirds, or more than $60 billion in net present value (NPV) terms. Already, HIPC and associated bilateral debt relief totaling over $40 billion in NPV terms has been committed to 26 countries. Although several of the remaining countries yet to qualify for relief can be expected to do so shortly, others have not been able to take advantage of the initiative, and appear unlikely to do so quickly, mostly because of conflict. Some countries that have received interim relief have had difficulty implementing their reform programs as required to exit the initiative. The concept of a floating completion point was intended to provide flexibility in such cases to help ensure that reforms become firmly embedded and can provide a sound foundation for continuing debt sustainability.

The decision to reduce debts to 150% of exports at the HIPC decision point provides countries with a buffer before debt levels potentially became unsustainable. Nevertheless, the debt levels of several HIPC countries were anticipated to exceed this threshold at completion point before ultimately falling. In some cases it will be necessary to consider additional debt relief at completion point where exceptional exogenous shocks have caused a fundamental change in a country’s economic circumstances, as was agreed for Burkina Faso. Decisions on top-ups, however, must be informed by robust debt sustainability analyses on a case by case basis. We should also bear in mind that a wide range of countries which have not received access to HIPC are managing despite having comparable or worse debts. In order to provide a full view of countries debt situations, calculations should include the additional bilateral relief that creditors, like Australia, are providing.

We welcome the agreement by IDA donors to meet World Bank costs, totaling $760 million, for those countries which are ineligible to receive relief from internal Bank transfers. Creditors in this constituency are providing bilateral relief as well as contributing to the costs of those multilateral institutions of which they are members. We strongly encourage those creditors yet to accept their responsibilities to do so. Full creditor participation has always been an important principle underpinning HIPC.

Although HIPC is reducing significantly the debt of the world poorest and most vulnerable countries, debt relief can only provide a first step to longer-term debt sustainability for these countries. Debt sustainability depends on a variety of factors, including future levels of borrowing, how productively borrowed resources are invested, access to external markets for exports, and maintaining a policy environment that is conducive to private sector growth, savings and investment. Policy and institutional reforms to encourage growth, trade liberalization and more effective use of aid resources will also be vital to reduce poverty for the 1.2 billion people remaining in poverty globally in HIPC and other poor countries.

*Poverty Reduction Strategy Papers (PRSPs)*

PRSPs have provided a good framework for countries to establish a policy environment that nurtures private sector led growth and investment and gives poor people the opportunity to participate in a market economy. It is encouraging that countries adopting PRSPs have, on average, managed to increase “pro-poor” spending by almost one third, although this should be expected given that most countries concluding PRSPs to date have gained significant additional
resources through HIPC and associated debt relief. In future, measuring the extent to which policy reform arising from PRSPs has helped to increase growth will also be useful.

We support proposals to strengthen the PRSP approach further. Setting measurable and realistic indicators – even if at times these do not fully align with global goals and timetables - will be critical to track policy decisions and development outcomes. The true test, however, will be the extent to which PRSPs go beyond being a requirement for debt relief and concessional lending to become embedded in the policy processes of developing countries. PRSPs should be linked closely to budget processes, provide realistic economic forecasts, and be more robust in setting priorities. PRSPs should complement and strengthen, rather than replace, existing development strategy processes.

**Combating Money Laundering and Terrorist Financing**

The terrorist attacks in New York and Washington emphasized the need for intensified international action to combat money laundering and terrorist financing. We welcome the IMF and Bank’s engagement in a pilot assessment program over the next year and the convergence toward a single, comprehensive assessment methodology that can be applied in a way that is voluntary, cooperative and uniform. Enhanced technical assistance and information sharing is especially useful to support this process, particularly for many small countries, and I am pleased such assistance has been provided to almost 40 countries in the past year.

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

Better coordination between donors and more harmonized procedures holds the potential to improve the efficiency of aid and bring considerable dividends to developing countries. This is especially critical for small states, where capacity tends to be limited. Progress among the multilateral development banks to harmonize procurement, financial and environmental standards has been steady, with the focus now shifting increasingly toward implementation through a range of country pilots.

Perhaps even more importantly, we are pleased with the greater level of policy discussions and coordination that is occurring between the international financial institutions in delivering programs to countries in this constituency. Continued leadership from senior management is likely to be required, however, to embed further an institutional culture in both the Bank and the IMF – as well as among the regional development banks - that values cooperation. High level MOUs between the multilateral financial institutions are a good start, but need to be supported by active coordination in each country of operation. In many small states such as the Pacific Islands, there is a need to invest in building capacity to allow governments to engage with a multiplicity of donors, who are sometimes working at cross-purposes. The World Bank, the IMF and the regional development banks need to continue harmonizing operations and policies to ensure that such administrations are not overburdened.

We appreciate Italy’s offer to host a high level forum in early 2003 on harmonization. This offers considerable opportunities to learn from the experience of others. Australia and New Zealand are, for instance, conducting joint high level policy discussions with a range of Pacific
islands, using common guidelines for in-country training and exploring ways to provide assistance, where appropriate, through a single delivery mechanism. Still, while such programmatic approaches can deliver considerable benefits in some circumstances, decisions need to be made on a case-by-case basis about the most effective aid delivery mechanisms.