



**DEVELOPMENT COMMITTEE**  
(Joint Ministerial Committee  
of the  
Boards of Governors of the Bank and the Fund  
on the  
Transfer of Real Resources to Developing Countries)



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Statement by

H. E. Pascal Couchepin  
Federal Councillor  
Ministry of Economy, Switzerland  
on behalf of Azerbaijan, Kyrgyz Republic, Poland,  
Switzerland, Tajikistan, Turkmenistan, Uzbekistan and the  
Federal Republic of Yugoslavia

## **Implementing the Monterrey Consensus**

In Monterrey, Heads of State and Governments have agreed to a new partnership based on mutual accountability and on a clear understanding of responsibilities. To achieve the Millennium Development Goals (MDGs), deeds must now follow words!

I am aware of the many challenges that developing and transition countries face, I hope that they will be able to live up to their commitments and pursue economic and social policies that will accelerate development. To reduce poverty, countries that have elaborated a poverty reduction strategy or any other development strategy will need to follow up with action. They should direct more budget resources towards priority sectors and strive to reach a minimum standard of good governance - including with respect to human rights and fundamental labour standards. Governments should also encourage the development of a strong private sector, including the regulatory framework, without which there will be no growth and employment opportunities. Developed countries need to rise to the challenge, too. First, they must address problems of policy incoherence and, in particular, move towards more consistency between development and trade policies. Second, they should put more effort into improving the quality and effectiveness of our assistance. This will require faster harmonization and better coordination at the country level, progressive aid untying, more alignment around national poverty reduction strategies, and a fresh look at what they finance and how they finance it. Concerning this last element, I would welcome more detailed analysis by the Bank on whether and how we should finance recurrent costs. Third, they need to scale up assistance to countries that can make good use of it.

I appreciate the Bank's many efforts to advance the Monterrey agenda, as well as its strong commitment to the Millennium Development Goals. In the future, I believe that the Bank should become an engine for improving the quality of aid and its impact - serving as a platform for exchanging "best practices" from field experience and for exploring new ideas. At the same time, improvements and adjustment of donor agency practices - at their head offices and in the field - are urgent. I also appreciate the Bank's efforts to become more results-oriented (but not more bureaucratic) and to better measure results. The demand for factual assessments of results and for what works and what does not work has increased dramatically. Citizens are insisting on greater transparency and accountability. We must learn from "success stories," but we must also be prepared to face up to the failures of development. Special attention, including at the Bank, needs to be devoted to the structures and processes governing evaluation, because evaluation credibility depends on the quality of its governance. Independent evaluation units or mechanisms are a prerequisite of credibility and should be strengthened, while self-evaluation remains an important instrument for feed-back.

It is also crucial that the Bank provide support for countries to monitor progress towards the Millennium Development Goals (MDGs) and to better evaluate the quality of the "aid partnership." This will require capacity building not only for better program preparation and implementation, but also for better statistics and evaluation within partner countries. Capacity building should be done in a pragmatic way, at the country level, rather than

through a new global initiative. Once reliable data are available, we will be able to better monitor implementation progress of poverty reduction strategies and of the harmonization agenda – two key elements of the “Monterrey Consensus”.

Concerning the poverty reduction strategies (PRSPs), the stakes are high. Progress towards the MDGs, as well as the development effectiveness of the Bank’s lending program, will ultimately depend on the genuine implementation of poverty reduction strategies. If the PRSPs fail, the chances of HIPC and poverty reduction to succeed would be seriously undermined. Hence, attention now needs to be devoted to implementation. First, we need to make sure that PRSPs are regarded by governments as part of their core policy-making process, not as a purely formal conditionality for debt relief and new concessional lending. More inclusion of national parliaments and increased participation at the local level would certainly serve this objective; the Bank also needs to be candid in its assessment of the degree of ownership. Second, we have to monitor and evaluate the extent to which strategies translate into medium-term budget priorities and resources truly reach the beneficiaries and make a difference. Since everything cannot be financed at once, prioritisation - which was often forgotten during the elaboration phase - needs to move to the forefront. Expectations about progress will also have to be guided by realistic economic assumptions and appropriate risk assessment. Finally, we need a clear strategy for dealing with the “poor implementers” of tomorrow, some of which are likely to be the “poor performers” of today.

With respect to harmonization, some encouraging progress has been achieved in the implementation of the work programme. In particular, the PRSP has gained wide acceptance, and the focus has now moved to the country level. However, we need to continue our efforts to improve both performance *management* and performance *measurement*. Concerning the former, the main focus should be on harmonizing aid delivery mechanisms, including instruments and approaches, fiduciary processes and reporting structures. Unfortunately, switching from loans to grants in IDA does not necessarily contribute to either harmonization or to the clarification of the division of labour in the aid system. Concerning better performance measurement, we welcome the efforts currently under way. But we need to make sure that we do not fall into activism, creating new structures and new loads onto still weak institutions in the developing countries. The roundtable in Washington has also shown that measuring and interpreting results requires, as a prerequisite, a broad common understanding among development partners of how development occurs. Measuring results is therefore not just a technical exercise about data collection. It is about approaches and instruments.

### **Governance issues at the World Bank**

The main orientation of the *Development Committee* should be adjusted. The *Development Committee* should also be used as a forum to review progress and to encourage change. We need to have a genuine discussion on what results have been achieved, in which countries, and how fast. We also need to discuss how donors are performing and what contributions the Bank itself has made to development outcomes. This will give us a good indication of where the “Monterrey Consensus” is working and

why. The *Development Committee* should increasingly evolve towards a peer review mechanism, where we discuss openly about poor performers – in both developing and developed countries. This could be done against the background of a long-term implementation framework developed by the Bank, which would spell out clear benchmarks for monitoring progress. In view of the inherent time consuming implementation, a review once a year is optimal.

The IDA-13 negotiations also raise a set of governance issues. First, the process in which decisions and compromises are made in restricted forums and subsequently imposed upon multilateral institutions is not satisfying. This undermines the values of the multilateral system – democracy, participation, and inclusiveness at the global level. Second, in future IDA replenishment rounds, there must be a clearer definition of the respective roles of IDA Deputies and Executive Directors. While IDA Deputies should set the broad strategic orientations of IDA, detailed discussions of policies and accountability as well as reporting should be left to the Board of Directors.

### **HIPC and Poverty Reduction**

I am satisfied that 26 countries have already benefited from HIPC. In these countries, debt relief makes a real difference: debt service as a share of government revenues has been cut in two and the total debt stock will ultimately be reduced by about two-thirds. Hence, considerably more resources are available for development expenditures and poverty reduction.

Concerning the financing of the initiative, I welcome the scheduling in late October of a Technical Meeting on the additional financial requirements of the HIPC Trust Fund. I hope that this meeting will permit covering the remaining financial gap of the initiative. The promise of the G-8 to fund their share of the financing shortfall is encouraging. I consider that the financing question should be resolved on the basis of fair burden sharing. Under these circumstances, we stand ready to contribute our share.

Yet, I am concerned about the long-term debt sustainability of the HIPC initiative. Despite the substantial debt relief already provided or pledged, the success of the initiative is at risk. More than half the HIPC countries have higher than expected debt levels. This is not due to some failure in the implementation of the initiative – it is too early to judge that – but mainly to over-optimistic initial economic projections and the evolving external environment. The underlying assumptions of the debt sustainability analyses need to be made more explicit and the economic forecasts on which the projections are based should become more realistic. In particular, they need to better capture the potential effects of the volatility of export earnings. This adjustment is urgent for a more informed debate about the HIPC Initiative and potential policy changes needed in donor and recipient countries.

In addition, I would like to suggest that the Bank produce a study on the impact of new lending, including IDA loans, on debt sustainability. In some cases, higher than expected debt is not only due to over-optimistic export projections, but also to higher than

expected borrowing. In addition, it now turns out that IDA disbursements in HIPC countries during the period 2002 to 2018 are likely to be at least 60 percent higher than initial expectations. I am not fully convinced that such high lending volumes are always justified. Country Assistance Strategies should include lending allocations that ensure that the Bank is part of the solution to sustainable poverty reduction, rather than part of the debt problem.

Beyond the HIPC Initiative, I continue to believe that debt relief is not the optimal instrument to support economic development and to ensure debt sustainability. Repeated debt relief will promote moral hazard. Now and after HIPC, the emphasis must be on poverty-reducing and growth-enhancing policy reforms, capacity building in the field of budget and debt management, and the implementation of borrowing policies consistent with long-term debt sustainability. I agree however that we need to find appropriate means to support post-HIPC countries suffering exogenous shocks. We must also provide sufficient assistance for capacity and institution building to enable countries to implement their poverty alleviation strategies and to achieve pro-poor growth.

I wish also to remind the Bank that the debt situation in certain parts of Central Asia is still dire. The Bank has a responsibility to monitor the debt situation in these countries and to pursue a dialogue with their governments as to how the debt situation can be resolved, especially in the countries that have been most responsive to the policy advice of the IMF and the World Bank. This dialogue must also be continued in the context of the CIS-7 Initiative. We welcome the next CIS-7 meeting in Switzerland next year.

### **Combating Money Laundering and Terrorist Financing**

I fully support the Bank-Fund Action Plan to extend the anti-money laundering assessment methodology to the fight against terrorist financing. As I have said on previous occasions, the Bank's activities should remain within the scope of its comparative advantage, focusing on technical assistance and capacity building. There is also a need for enhanced cooperation with competent international bodies. Finally, assessments should remain voluntary, uniform and cooperative. I am convinced that the "Financial Sector Reform and Strengthening Initiative" (FIRST) will lead to the implementation of measures that will contribute to reducing money laundering and terrorist financing.