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(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

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Representing the constituency consisting of Armenia,
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Millennium Development Goals

It is fair to say that implementation of the MDGs and the Monterrey consensus poses serious challenges to the international development community.

The first challenge is to manage the conflict between the bottom-up and top-down approach - between country ownership in policy and target setting and a degree of centralised control to ensure that all developing countries work towards achieving the MDGs. I believe that PRSPs should be seen as a country-specific path towards the MDGs, taking into account a country's particular situation and policy priorities. The MDGs have done much to help us focus on results and mobilise broad support for development. But, as a matter of principle, they should not be used as a condition. Multilateral organisations should not ask developing countries to write annual reports on MDG implementation. Where possible, the PRSP progress reports could also include information on progress made towards achieving the MDGs. We should not place extra burdens on developing countries with limited monitoring and reporting capacity.

The second challenge is for donors to solve the dilemma arising from the need to allocate scarce ODA to achieve the MDGs. Donor countries and development agencies might feel the urge to increase allocations for the priorities reflected in the MDGs - health and education, for instance. But financial support also needs to go to a whole range of other policy areas that are covered by the PRSPs, such as pro poor growth, private sector development and infrastructure. It is the fact that countries spend too little on ODA that creates this dilemma. And it is therefore important that all OECD countries comply with the 0.7% standard.

For now, I believe that the MDGs should not be seen as targets on which to focus all our financial efforts. Instead, they should be seen as a set of interdependent, global indicators of overall development progress. By adopting the MDGs as isolated targets we would be oversimplifying the extremely complicated development process. Balanced, coordinated action is required. In many areas at the same time. Donors should therefore meet their commitments, and continue financing PRSPs.

Scaling up actions in support of achieving the MDGs

It is the nature of the development process that leads me to share some of my concerns at introducing vertical funds to support individual MDGs, like the Global Fund for AIDS, TB and Malaria. Vertical funds may distort the complicated process of setting national priorities. Or they may undermine the integrity and sustainability of national budgets, in particular when they are supply driven. They can lead to parallel bureaucratic implementation structures. It is better to scale up actions targeting the MDGs by extending and accelerating existing plans, using existing instruments.

The Fast Track Initiative (FTI) for Education for All could serve as a model. It is based on developing countries' nationally integrated education plans, embedded in their PRSPs. I would, however, like to underscore that such FTIs should be based on partnerships, locally as well as internationally. And they should be regarded as the responsibility of the entire international community, including the World Bank, bilateral donors and the UN family. I regret that donors

have not committed enough additional funding to cover the needs of the FTI. And it will be crucial to ensure that some flexible funding is available to finance sound sectoral policies in countries with good PRSPs but few donors. These funds are essential for achieving the education MDG. And they are of particular importance if we are to eliminate gender disparity in primary and secondary education by 2005.

Water & Sanitation

The third World Water Forum in Kyoto acknowledged the need to scale up our efforts to achieve the MDGs for water supply and sanitation. I believe that we will only obtain the investments needed if developing countries cooperate closely with the private sector, including small-scale providers. Public-private partnerships are therefore essential to achieving these MDGs. To promote them, the public sector needs to create an enabling environment. Organised to ensure that improved water services benefit the poor. An international debate on the conditions governing public-private partnerships should be started as soon as possible. The Netherlands is willing to take the initiative to bring all relevant parties together for such a dialogue.

HIV/AIDS

The World Bank is the main funder of HIV/AIDS programmes. It plays a key role in the multilateral strategy to fight HIV/AIDS, especially now that some US \$1 billion have been earmarked for HIV/AIDS under the IDA grant window. The Bank now occupies a dominant financial position. Current low levels of expenditure may lead to possible spending pressure in the remaining IDA -13 period. But neither of these factors should lead to a situation in which the importance of coordination with other multilateral organisations is overlooked or underestimated. Fortunately, the Bank is one of UNAIDS' co-sponsors and has a good working relationship with the UN at head office level. However, I am concerned about cooperation at country level, where coordination between the World Bank and other UN agencies needs to be improved. I call on the Bank and other UNAIDS sponsors to work more closely together in the country level theme groups. I call on them to use the new UN Country Team Implementation Support Plans to the National Response (UN-ISPs) to align AIDS programmes to countries' HIV/AIDS strategies and to improve coordination.

I would also like to draw your attention to the AIDS epidemic that is getting out of control in certain Eastern European and Central Asian countries. I want to ask the World Bank to pay due attention to this alarming situation and to provide financial support.

Monitoring actions for MDGs

The complicated nature of the development path required to achieve the MDGs is clearly reflected in the IMF/World Bank proposal for monitoring actions for MDGs. However, I have some concerns about the division of labour between the various international organisations and a possible proliferation of indicators. It is crucial to agree on a division of labour in this large and complex monitoring plan. But it may not be easy. In line with the agreed follow-up to Monterrey, the UN's task is to monitor MDG outcomes. The DC could oversee the monitoring of policies and actions required to achieve the MDGs. The line between these responsibilities is

very thin. And it certainly means that the UN and the World Bank will have to work closely together to compute and interpret the required data.

What is more, we need to guard against proliferation of indicators, given the temptation of individual institutions to continue to apply their own indicators, monitoring systems or indexes. I therefore urge the World Bank, the IMF and other players like the UN agencies, OECD/DAC, the European Commission and the WTO, to work together in developing and finetuning this monitoring proposal. I sincerely hope and expect that we can come up with an agreed set of indicators for monitoring policies and actions by the summer at the latest. The guiding principle should of course be to make use of existing materials and monitoring systems.

Implementation (2nd set of challenges)

This brings me to the second set of challenges: implementation of policy actions by developed countries.

Harmonisation

We have seen promising steps forward in the field of donor harmonisation. This is one area in which donors and recipients have now reached broad policy agreement. The Rome Declaration on Harmonisation serves as a basis for implementing harmonisation measures. With like-minded countries - Sweden, the UK, Denmark, Finland, Norway and Ireland - we have decided to put the Rome agreement into action as quickly as possible. Taking the lead of the Zambian government, we have agreed to undertake joint analysis, review and monitoring. To reduce the cost of doing business with us, we have agreed to use joint coordinators for each sector in which we are active. We also plan to share each other's expertise and to channel more aid through the national budget. Zambian capacity and policies - its PRSP - are the basis for our interventions. We can improve the way we work by enlarging Zambian implementation capacity with better management information systems, for instance.

We, as a group of seven donors, are pleased with the progress we have made in Zambia. I encourage other donors, including the Bank, to join us, not only in Zambia, but elsewhere in the world as well.

Trade

I regret to say that little progress has been made in other policy areas, notably on agricultural reform, in the preparations for Cancun and in making Doha a genuine development round. We need to achieve rapid results in agricultural policy, in access to medicines and Trade Related Intellectual Property Rights (TRIPs) and in special differential treatment for developing countries. An important measure that I favour to improve market access is to extend the Everything but Arms Initiative. First, every OECD country - not only the EU member states - should extend quota and duty-free market access for the least developed countries. Second, more countries should benefit from better market access. Developing countries would then have more opportunities to gain from trade.

HIPC

Expanding trade opportunities is also crucial for growth, fiscal balance and achieving debt sustainability, for instance in Highly Indebted Poor Countries. More generally, the HIPC Initiative calls for further action.

I would like to remind the Bank and the Fund of the conclusions drawn at the last IMFC and DC meetings on long-term debt sustainability. At the last DC meeting I urged the Bank and Fund to look at priorities. They included better monitoring of the balance of payments situation, more thorough analysis of debt sustainability based on realistic macroeconomic projections and capacity building for both debt and fiscal management. Work is under way, but I would call on the Bank and Fund to step up their efforts. I am looking forward to seeing more progress in these areas.

Events in the Middle East have created a volatile external environment. I hope that its effects will trigger better monitoring of the balance of payments situation in developing countries. Many of them will most probably have to absorb unexpected macroeconomic shocks again.

Finally, I am pleased that donors have agreed to fund most of the HIPC initiative's current financing gap. However, the donor community needs to live up to its promise to finance the HIPC initiative in full. Donor resources may also be needed to top up IDA debt relief, and to finance debt relief for Sudan and other HIPCs currently in arrears. This expenditure has not yet been fully included in the calculations.

Enhancing the Voice and Participation of Developing and Transition Countries

Both the World Bank and IMF have made progress in stimulating participation and ownership at country level in recent years. Programmes in many developing countries are now often based on *Poverty Reduction Strategies*. They are drawn up by governments with varying degrees of input from civil society representatives. But an approach based on ownership and participation is equally important in transition countries. As the recent Lucerne conference on the seven poorest countries of the Commonwealth of Independent States pointed out, ownership of the reform agenda by governments and the people is the key in ensuring implementation of policy and institutional reforms.

It is important for developing and transition countries to be able to participate in shaping their own country programmes. But I believe it is just as important for them to be represented and to participate in the central decision-making of international organisations, in particular the World Bank and the IMF. We recognised during FfD that we still face a challenge here. The actual influence of these countries in the Bretton Woods Institutions is often limited. I am therefore very pleased that both the Bank and the Fund have taken this issue seriously and that today we are discussing measures that will enable us to make progress.

We have to realise that individual actions will not increase the leverage of these countries in decision-making. What is needed is a comprehensive package of mutually reinforcing measures.

First, options should be worked out to strengthen capacity in the constituency offices, Central Banks and finance and planning ministries of the relevant countries. Sufficient capacity is essential for effective preparation of policy debates which are of strategic importance to developing and transition countries. We would favour adding extra advisors or assistants to constituency offices. Staff in the capitals should be provided with training and technical assistance, wherever possible from existing capacity-building initiatives, like AFRITACs and the Fund and Bank's excellent in-house learning facilities. Though we believe that the Bank and the Fund should fund activities like these from their own resources, we are prepared to consider contributing on a temporary basis to the cost of these capacity-building activities and associated expenses. Related to countries' capacity is the urgent need for further decentralisation and delegation of Bank and Fund powers to the field level. This will encourage contact between staff and country authorities and will be instrumental in involving capitals in important policy issues.

When it comes to measures that directly affect representation and voting rights, I believe that increasing the number of basic votes would help to strengthen the relative voting power of countries with smaller quotas or capital shares. This option would be more acceptable than an ad hoc quota or capital increase that would be inconsistent with the basic principle that quotas and capital shares should reflect countries' economic and financial position in the world economy.

Multi-country constituencies of both borrowing and non-borrowing countries have a great potential for improving the position of borrowing countries. I believe that our constituency, along with a few others, is a good example of promoting the interests of programme countries. They can benefit from mixed constituencies' substantial share of voting rights, while knowledge transfer within the constituency can support capacity building in the countries themselves. In order to spread the voices of transition and developing countries more evenly over the existing Board seats, we would like to discuss the scope for extending the mixed constituency model. Of course, we will need to take into account the preferences of the developing and transition countries involved. In our constituency, we hold regular meetings to share 'best practices' and to prepare effectively for important policy debates. Whenever possible, the Netherlands also tries to respond to the needs of the constituency countries on a bilateral basis, for instance technical assistance for structural reform processes. I would like to point out that apart from these benefits, multi-country constituencies can act as a bridge, preventing polarisation in discussions between debtor and creditor countries in the Executive Board. In the process, multi-country constituencies enhance ownership of Bank and Fund decisions by all members.

Reconstruction of Iraq

Finally, I would like briefly to address recent developments in and around Iraq. I refer in particular to the other development challenge we may have to face: the reconstruction of Iraq. In my view, the United Nations should play a central role in coordinating international activities. Not only humanitarian aid during and directly after the military intervention but also reconstruction in the ensuing period. Given its wealth of natural resources, Iraq could in principle borrow the funds needed for economic recovery and reconstruction. The International Financial Institutions should play a major role by providing loans and specific technical assistance. We urge the World Bank Group in particular to provide IBRD loans for the reconstruction of

physical infrastructure. We realise that for this to happen, Iraq's arrears at the World Bank and the IMF first have to be cleared.

Since Iraq has an enormous overall debt problem, we would welcome an early discussion on rescheduling within the Paris Club. This could help to free up revenues for post-conflict reconstruction. A decision on debt rescheduling should be based on a sound and widely supported reconstruction programme for the Iraqi economy. Both the World Bank and the IMF have an important part to play.