Statement by

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The Development Committee meets at a difficult and critical time for development, as a weaker than expected global recovery and political and economic uncertainties continue to impact on the outlook for sustainable growth and poverty reduction in developing countries. Against this background, the need for progress in combating global poverty and achieving the Millennium Development Goals becomes all the more urgent.

The Millennium Assembly, the Doha trade round, the Financing for Development conference in Monterrey, and the Johannesburg Summit on Sustainable Development together set out an agreed road map for how we can make this world a more just, and safer, place. Two years on, we have seen some progress, but much remains to be done.

As Governors of the World Bank and IMF, we have an essential role to play in delivering on the commitments we made at these international summits, both through our own institutions, partnerships with others and work through the multilateral system. The Development Committee’s agenda this Spring has a specific focus on how we measure our progress, and – more importantly –how we can increase it. This is an opportunity to improve our effectiveness.

Monitoring Framework for Achieving the MDGs

In line with the wider international community, the focus of the World Bank’s work must remain on delivery of the Millennium Development Goals (MDGs). We therefore welcome the World Bank’s proposed framework for monitoring policies and actions to achieve the MDGs, and its commitment to collaborating with other agencies on this work. In particular, we welcome the role of the MDG framework in reinforcing mutual accountability against Monterrey commitments. Nevertheless, it will be important to ensure that the framework’s emphasis on policies and inputs does not detract from the overall objective of achieving the MDGs. We must also ensure that there is broad ownership of the framework, and that it is built around robust and transparent methodologies which are widely owned.
The UK agrees that regular reporting against this framework should be central to the agenda of future meetings of the Development Committee. However, Development Committee discussions should also be used to accelerate progress. We therefore look forward to an action-orientated discussion, which will focus on identifying where progress can be driven forward and where there are particular weaknesses in progress to date, with a focus on specific opportunities to address these weaknesses.

**Financing the MDGs**

We must also continue to focus on ensuring additional finance for the MDGs. The best available estimates suggest that meeting the Goals by 2015 requires at least an additional $50 billion a year in development assistance. There is an urgent need to address this financing challenge and that is why the UK has proposed an International Finance Facility (IFF). The IFF would, in return for developing countries pursuing strong and effective poverty reduction strategies, seek to raise development aid from its current level of $50 billion a year to $100 billion a year up to 2015 - the sums needed to meet our goals. We will continue to focus on the financing of the MDGs with a view to making progress by the time of the Evian Summit.

**Sectoral Priorities**

One area where particular progress is needed is in scaling up international efforts to achieve key MDGs in health, education, and water and sanitation. It is clear that additional resources are needed to meet these MDGs but these need to be additional resources and not a reallocation of existing funds. The UK has proposed a new International Finance Facility designed to raise the finance needed to meet the MDGs. The UK will substantially increase its transfers of assistance in support of the goals but we are concerned to do so in the most effective way. We believe that our partners in developing countries need to set their own priorities for achieving these goals through national budgetary and planning processes, including PRSPs. When this is done – and where fiduciary tests are met – we are happy to support such plans in the a flexible and long-term manner. We believe donors should give high priority to assisting with these plans and to supporting lesson-learning and the spread of good practice. We are concerned about the simplistic view that sector-based vertical initiatives are the best way to progress, since these are likely to cut across countries’ own priority setting and ownership. At worst, they can set up a dysfunctional process that requires countries with limited capacity to write additional proposals for funding and account separately for funding thus increasing transaction costs and undermining effectiveness and accountability.

Taking the three sectors in turn, the UK has had concerns that the Education Fast Track Initiative was precisely producing such results. We are pleased that it has now been made clear that instead of asking developing countries to write new proposals, the Initiative should focus on helping them to work up or implement sound sector plans within the framework of PRSPs. This will encourage donors to harmonise and simplify their support for these plans, and help us all deliver on our collective pledge at Dakar three years ago that no sound plans for Education for All would be left unfunded. It is also important to face the reality that the major obstacle to progress is lack of commitment to sound plans for Education for All in the countries with large numbers of children out of school.
In the health sector, we are working with the World Bank and CIDA to help mobilise a greater effort. In May, there will be a high-level meeting to agree principles for taking forward a harmonisation-based agenda for accelerating progress towards the health MDGs. This agenda will address actions at global, regional and country levels - and will place the overall focus on primacy of country leadership and the PRS process.

With regards to water and sanitation, it will be important to build stronger partnerships between public and private sector to establish good regulatory arrangements, commitment to equity and tap the investment potential and increased capacity the private sector can provide. We urge the international community to do more to make use of this resource, whilst emphasising that it is up to developing country governments to determine the best balance between private and public sector engagement and assess the institutional and regulatory environment necessary to ensure quality of delivery.

**Voice and Participation**

Financing for Development in Monterrey established a compact between developing and developed countries. A clear element of that compact was the need for the IMF and World Bank to “continue to enhance the participation of all developing countries and countries with economies in transition in their decision-making, and thereby to strengthen the international dialogue and the work of those institutions as they address the development needs and concerns of these countries”. This sentiment was echoed in the Johannesburg Plan of Action.

We all have a role to play: shareholders; the BWIs; and developing and transition country partners. Enhancing “Voice” is not only an important step in our partnership with developing and transition countries, but it also makes a strong contribution to increasing the effectiveness of the development effort. The UN Human Development Report 2002 highlighted the need for international institutions to be made more effective and accountable to their stakeholders. Developing and transition countries constitute the overwhelming majority of IMF and World Bank membership and are deeply affected by their decisions. Yet their ability to influence these decisions is limited. Therefore, the international community has a clear mandate, interest, and responsibility to take action on this issue.

There has been considerable debate on these questions since the last Annual Meetings, and we welcome the recent World Bank/IMF staff work on Voice which has contributed to this debate. Clear practical steps are now required on three levels: shorter-term capacity-building assistance for the most over-stretched Executive Directors and constituencies; medium-term institutional change; and longer-term change around the more challenging structural issues. We would like to see the agreement of a package to deal with short-term capacity support at the Spring Meetings. This has been considered by the Boards of the World Bank and the IMF, and we look forward to immediate progress. There has also been discussion of a multi-donor Fund to support the analytical capacity of IDA-eligible delegations, which we will seek to establish shortly after these Meetings. But this is only the first step. To achieve our goal, we must also consider the tough institutional and structural issues to enhance “Voice”.
Within the BWIs, the process of change to enhance transparency and dialogue must continue. The existing Quota Review process in the IMF provides a context in which shareholders can approach these issues, with for example consideration of increasing the basic vote, to take forward the voice agenda. We would also support the establishment of a temporary consultative group focused on enhancing “Voice”, tasked with setting out clear policy options for the medium to longer-term process of change.

Country Policies and Strategies

If developing country reforms and poverty reduction strategies are to be effectively implemented, it is essential that developing country governments themselves are in the lead and are properly accountable to their people. In recognising the central importance of country ownership, the Poverty Reduction Strategy (PRS) process has represented a fundamental shift in our approach to development, and we welcome the progress made by a wide range of countries in developing PRSPs with support from the World Bank and other donors. We also strongly encourage middle-income countries to develop a similar nationally-owned strategy to address poverty. However the PRS process will be fully effective only if donors act on their commitments, and align their own and programmes behind poverty reduction strategies.

The World Bank’s new results-based Country Assistance Strategy (CAS) is a useful move towards operationalising alignment with PRSs, and we encourage other donors to follow their example. However, we are concerned that the results/indicators frameworks included in early results-based CASs are excessively complex. These impose excessive burdens on monitoring for both the World Bank and developing countries. They also risk diluting the key benefit of the results framework, which is to change World Bank incentives and reporting to strengthen the focus on results during implementation.

Progress on development of Poverty and Social Impact Analysis (PSIA) has been encouraging over the past year. Both the IMF and the World Bank have a due diligence requirement to undertake PSIA of key reforms, and pilot PSIA undertaken by DFID and the World Bank in 12 countries. At present, PSIA is not routinely carried out for major reforms in World Bank and IMF programmes, although the Bank intends to set out plans for PSIA it will support in its CAS, including PSIA of IMF-supported reforms. The World Bank and the IMF should work with country governments and other stakeholders to develop a matrix of planned reforms requiring PSIA, identify a lead agency (not necessarily themselves), establish a timeframe, and agree a process of dialogue with stakeholders on reform design.

We also welcome the recent Bank/Fund report on Collaboration in Public Expenditure Management (PEM). This report provides a good basis for progress in PEM, proposing a new framework based on country strategies to improve PEM, supported by streamlined and harmonised Bank/Fund work, with routine assessment of progress. It will be important over the following months for staff to develop a clear workplan to deliver accelerated progress across low-income countries in this area, including agreeing support to country strategies, building country capacity, and developing an appropriate assessment framework, ideally built on an expanded HIPC tracking approach.
We support the high priority that the World Bank is giving to the issue of Low Income Countries Under Stress (LICUS). This is the area where the whole international development system is weakest. We know how to work where reforms are taking place, but we are not strong in assisting countries to achieve the MDGs where governance is failing. This is important because over 500 million people live in countries with poor performing governments: if we cannot begin to address their situation, we will not achieve the MDGs. The UK will continue to work closely with the LICUS Unit in the World Bank, as well as the newly established Learning Group in the DAC, to pilot new approaches, to understand what works, and to meet this difficult challenge for the development community.

Aid Volumes and Aid Effectiveness

Effective strategies should be supported by effective aid. This, in turn, requires significant increases in both the volume and efficiency of development assistance. The UK’s own aid budget will be increased from £3.4 billion in 2002/03 to £4.6 billion in 2005/06; and last year we made our largest ever contribution to IDA, committing £900 million over three years. We urge our partners to make commitments to increasing their aid, and to match or exceed the EU pledge to increase development assistance to an average of 0.39% by 2006.

And these additional resources will need to be made to work for the benefit of the poor. Experience has shown that public and donor resources are most effectively and efficiently used in countries with sound policies, institutions and governance. We remain committed to supporting low income countries improve public expenditure management and reiterate our belief that aid should be focused on where there are large numbers of poor people and in backing reform. Increased effectiveness also involves giving developing countries committed to reform greater freedom to use their resources efficiently, and to plan ahead. The UK has untied all development assistance, and is increasingly providing long-term budget support to back up PRS plans. We urge other donors to join us in these moves, and also to increase their financing of recurrent costs and provision of long-term commitments.

Harmonisation of donor practices will be another key component in securing the gains in aid effectiveness needed to deliver the commitment made at Monterrey. We welcome the active engagement of the World Bank in the good practice work endorsed in February 2003 by the High Level Forum in Rome. It is essential to build on this work and give effect to the commitments made in the Rome Declaration, in particular through the rapid and wide implementation of the good practice standards on harmonisation. We look to the World Bank and Regional Development Banks (RDBs) to play their full part in this implementation, and in the monitoring and reporting processes now being developed. We welcome clear recent evidence of the World Bank’s willingness to do so, in particular its active and on-going engagement with the RDBs in furthering harmonisation of procedures; its recent easing of constraints to pooled funding; and its modification of audit policies to reduce burdens on partners.

Harmonisation initiatives taken by the World Bank in partner countries are also welcome. It will be important for the World Bank to ensure that these are coherent with initiatives already under way, and respect the primacy of partner governments in leading aid co-ordination and harmonisation. The UK experience of the Harmonisation in Practice initiative in Zambia has
been positive in this regard, with the World Bank supportive of the lead taken by the Government of the Republic of Zambia, together with seven bilateral donors, to improve aid effectiveness through harmonisation of procedures and improved donor co-ordination.

The UK strongly supports the increased emphasis in the World Bank on results-based management (RBM), and particularly the shift in focus from measuring project and programme performance to measuring overall effectiveness country by country through the CAS. It is important to ensure that in our approach to RBM we are focusing on managing “for” rather than “by” results. Managing for results is forward looking, focusing on what needs to be achieved and using information on progress intelligently to assess what more can be done to achieve these results. Managing by results, on the other hand, is backward looking, rewarding past performance without necessarily analysing the factors underlying performance.

We agree that there needs to be a step change in international efforts to support the development of country level capacity to manage for results, including through adequate investment in the statistical capacity of developing countries. We also support the development of a core set of indicators to measure progress against the MDGs, providing that these are not used to impose specific country level targets, or policy choices on how to achieve MDG outcomes. We also welcome moves towards mutual accountability between developing and donor countries. However, it is essential that this process is not used to impose non-MDG indicators on individual countries, either in the context of the PRS or as part of a donor monitoring framework. We must also ensure that World Bank corporate targets are built up from individual PRSs, rather than being imposed from above.

**Trade**

Sustainable poverty reduction requires more than development assistance. The Monterrey Consensus highlighted the importance of coherence in our policies to developing countries, and nowhere is this more pressing than with regard to trade. Increased trading opportunities for developing countries, particularly for agricultural products, are essential for economic growth; and the current economic uncertainty and the slow down in the global economy make a successful Doha Trade Round even more of an imperative. We urge the international community to provide the necessary political leadership to realise the bold Development Agenda on which we have all agreed.

We are very gratified to see the importance that the World Bank and the IMF now attach to trade issues, and we welcome this development. In particular, the coverage of trade in Poverty Reduction Strategies needs to be expanded to ensure that country-owned PRSP and CAS lending programmes support the trade objectives of developing countries. Expanded coverage should also look at the likely poverty impacts of trade liberalisation, and the complementary policies that are required to maximise the benefits from trade reforms.

**HIPC**

The last year has seen some important developments in HIPC, notably in the area of HIPC financing, where some US$850m in donor contributions to the HIPC Trust Fund has been
pledged. But progress in implementation has been disappointingly slow, with conflict continuing to be a major cause of delays in countries reaching to Decision Point.

A number of challenges remain if we are to ensure the success of the HIPC Initiative. First, we must change the methodology for topping up at Completion Point, to ensure that the calculation of topping up should exclude additional bilateral voluntary debt relief, to ensure fairer burden sharing among creditors and provide truly additional relief to HIPCs. We look forward to receiving the Staff report on this issue in the coming months, and hope that this will assess the benefits in terms of improved sustainability, as well as the costs to the HIPC Trust Fund.

Second, we must continue our efforts to ensure the full participation of all creditors in the Initiative. We welcome the progress that has been made on this issue, and the continued efforts of the World Bank and IMF Staff at moral suasion on creditors. But we are disappointed that the World Bank believes that their current policy precludes them from administering a donor-funded technical assistance facility to provide advice to HIPC countries. We urge Bank staff to explore this issue further, to see whether there is another channel that could provide this support.

In the longer-term, the key challenge is how to ensure continued debt sustainability while enabling countries to finance their poverty reduction strategies. It is not acceptable that countries which have demonstrated a strong commitment to sound economic management and poverty reduction, should be denied access to concessional finance. Many HIPC countries will remain vulnerable to exogenous shocks for the foreseeable future. The solution must lie in topping up debt relief at Completion Point, where appropriate, in a new, country specific approach to assessing debt sustainability, and in a more flexible approach to selecting financing instruments. We are aware that World Bank and IMF Staff are looking at this issue, and look forward to discussing proposed solutions later in the year.

Financial Architecture

We welcome recent progress through the Financial Sector Assessment Program (FSAP) and the international standards and codes initiative, and particularly the increased coverage of standards and codes and the stronger focus on developmental issues. This has been key to facilitate the wide participation of countries across all regions and levels of development, and to foster the role of participating countries in setting national priorities and action plans. We also welcome progress made in collaborating with other partners to help countries assess and strengthen systems for debt management.

These successes in diagnosing potential financial system vulnerabilities must now be built on by putting in place appropriate mechanisms for follow-up to standards and codes assessments. We therefore strongly support the launching of the Financial Sector Reform and Strengthening Initiative (FIRST), to which we have pledged US$ 20 million. FIRST is already making a difference in providing follow-up technical assistance, but it remains important that the Bank and the Fund should work closely with recipient countries to discuss and prioritise TA needs in the context of FSAPs.
Progress is also being made in combating money laundering and the financing of terrorism. We welcome the significant work in this area to follow-up standards and codes assessments through appropriate technical assistance, and especially the way in which such programmes have been tailored to specific areas of national concern.

**Private Sector Development**

We welcome the World Bank's programme of work on assessing and strengthening the investment climates in developing countries. We agree that the comprehensive, in-depth surveys are a powerful tool for bringing about necessary reforms aimed at enhancing the levels of private investment in developing countries. We also welcome the role played by MIGA and the IFC in catalysing private investment in developing countries, and urge all countries who have not yet subscribe fully to MIGA to do so as soon as possible. With regards to SMEs, we are aware that SME financing remains a concern, although much progress has been made on microfinance. We look forward to sharing lessons and jointly working on different approaches with the World Bank/IFC’s joint SME Department.

The UK Government welcomes the World Bank Group's commitment to promoting corporate social responsibility. We believe that progress on this can play an important role in enhancing the contribution the international private sector makes to sustainable development. However, there are some genuine concerns that inappropriately focused CSR can be counterproductive and could even discourage development. The World Bank and IFC's programmes in this area are well chosen and directed towards harnessing the interest in CSR to ensure that the benefits of business are shared widely.

We also welcome the World Bank’s support for the Extractive Industries Transparency Initiative. Greater transparency in the oil, gas and mining sectors is a necessary step towards improving the equitable distribution of resources, improving public financial management and enhancing business climates. We expect that the World Bank and IMF will together play a central role in the implementation of the Initiative, and we look forward to reaching agreement on the precise nature of this role later this year. We urge other countries to join us in this work.

**Coherence and Partnerships**

Improved collaboration and co-ordination between the different development agencies is essential if the international community is to work effectively together to meet the challenges ahead. The UK welcomes the World Bank’s recent report on coherence, coordination and cooperation among multilaterals, which is a useful stock-take of ongoing initiatives and progress in this area. We particularly welcome the improved working relationships which we have observed between the World Bank and the WTO, and the OECD. However there is still more to be done to make the World Bank’s various relationships as effective as they might be, particularly with the UN and the RDBs, and to clarify roles and responsibilities. We urge the Bank to be upfront about the challenges that remain, and to set out a concrete strategy to address these over the coming months.
Iraq

We all want to see a swift and successful resolution of the current situation in Iraq. The reconstruction effort will require a coherent and comprehensive response from the international community if the Iraqi people are to be successful in their efforts to rehabilitate and reconstruct their country. We shall continue to work for an international mandate for the political, social and economic development of Iraq through the United Nations, in which the International Financial Institutions should take a leading role. The World Bank and IMF have valuable experience of handling post-conflict countries, and we are committed to working closely with them, and others, as this process moves forward.

We believe the Development Committee has a major responsibility to drive forward development leading to poverty reduction. The analysis has been done, we’re clear on our goals and have a clear consensus on how they can be achieved – we must now focus more forcefully on effective implementation, where necessary challenging convention and overcoming obstacles. Major progress is possible to advance global justice and increase security and stability. It is in the interest of all countries and peoples that we work together to achieve greater progress.