STATEMENTS SUBMITTED TO THE SIXTY-SIXTH MEETING
OF THE DEVELOPMENT COMMITTEE

Chairman: Trevor Manuel, Minister of Finance, South Africa

Washington D.C.
September 28, 2002

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NOTE ON THE SIXTY-SIXTH MEETING OF THE DEVELOPMENT COMMITTEE

The Joint Ministerial Committee of the Boards of Governors of the World Bank and the Fund on the Transfer of Real Resources to Developing Countries – the Development Committee – held its sixty-sixth meeting on September 28, 2002, in the Preston Auditorium of the World Bank in Washington D.C. The meeting consisted of a single session, followed by the Chairman’s dinner for members on the same day. The members circulated their statements in advance and are part of this document. The session started at 2:30 p.m. and ended at 6:10 p.m.

The Agenda (Annex B) was adopted at the beginning of the session, followed by the discussion of the two topics (the first entitled "Implementing the Monterrey Consensus," which also includes the WSSD Implementation Plan, and the second, the joint "Bank-Fund Progress Report on HIPC"). The Communiqué (Annex A) was approved during the session and reflects the salient points of this session.

With respect to the first item, "Implementing the Monterrey Consensus," three background papers have been provided. These reports, in addition to reviewing general progress in implementing Monterrey since the last meeting and the subsequent developments in Johannesburg, also address two key issues considered in the Spring, namely, development effectiveness and the scaling-up and enhancing of focus on results.

Prior to this session, a Development Committee Roundtable was held in Paris on September 11, 2002, with representatives of capitals and some other institutional partners to focus on key issues regarding the effective implementation of the Monterrey consensus in order to add additional perspective and help to bring focus to the Committee’s deliberations.
Note of the President of the World Bank, James D. Wolfensohn, to the Development Committee

Introduction

We are meeting just a year after the tragic events of September 11, 2001, at a time of continuing economic uncertainty but increasing international resolve. While the immediate prospects for global economic growth are not as good as they seemed following the recovery in the first quarter of this year, the medium to long term outlook can be brighter and the risks less threatening provided that all countries take the needed actions and implement policies that enable markets to function better. The International Financial Institutions (IFIs) have demonstrated again the important function they play in supporting developing countries cope with a more difficult external environment.

At our meeting in April, we discussed the outcome of the Monterrey conference and reached broad agreement on an approach to implementing the Monterrey consensus including the roles of the Bank and the Fund. We will have the opportunity at our meeting on September 29th to review progress on that agenda. In brief, while much has been done, there are major challenges ahead – for donors and development agencies, as well as for developing countries. You have a set of papers discussing progress and challenges, so I will comment only briefly on this agenda and on progress in achieving debt sustainability for heavily indebted poor countries by implementing the HIPC initiative. I also report below on some of the ways in which we are seeking to work in closer partnership with others as we help take forward this agenda, including progress in implementing the Education For All Initiative, and on some of the specific changes we are implementing in the World Bank Group to strengthen our ability to meet these challenges.

Implementing the Monterrey Consensus

We will be focusing our discussions on progress and challenges in implementing the agenda agreed at Monterrey and reaffirmed and added to in Johannesburg. Papers have been prepared for the Committee on three aspects of implementing Monterrey: an overview progress report; a report on how to strengthen the measurement, monitoring and achievement of results in development; and a report using three case studies to illustrate some of the challenges ahead in turning the aspirations from Monterrey into reality on the ground. We are moving forward on all the seven aspects I identified before the April meeting. I simply want to emphasize here four crucial issues I see as we move forward.

Centrality of the CDF/PRSP Approach: First, we must build on our agreement on the centrality of the CDF/PRSP approach. While there is always scope for improvement, I believe there is agreement that this approach is the practical and effective way to put the Monterrey partnership into effect at the country level. It was clear from our April discussion that there is also consensus on the elements of policies and institutions needed for successful poverty reduction: sound economic policies; an effective legal and judicial system; clear tax and regulatory frameworks implemented by a professional and non-corrupt bureaucracy; a strong and well-regulated financial system; creating the conditions for entrepreneurship, productivity and jobs; and empowering and investing in poor people so that they can participate in their country’s development.
Donor Coherence and Scaling Up  Second, this approach will require a major effort and some important changes by donors and development agencies as well as by developing countries. We must remain committed to the goal of the doubling of aid needed to meet the MDGs, but we must also demonstrate the effectiveness of both existing and new aid resources with results on the ground. We have to ensure that there is better alignment of donor support behind country driven strategies with good performance and policies that produce results, better coordination and harmonization among donors, and better aid absorption, delivery and management capacity in the developing countries. The three case studies illustrate well the immense improvements in effectiveness to be had from donors working in better coordination with each other and with recipient countries. There will be an opportunity to follow up on our discussions on these issues and on enhancing our focus on results, and to review progress, at the Development Partnership Forum being organized by OECD/DAC in December. The issue of harmonizing donor practices and operational policies, discussed below, will be the subject of a High Level Forum in Rome on February 24-25 next year to be organized jointly with OECD/DAC and Multilateral Development Bank partners. Through better aid allocation and alignment, through less fragmentation and improved harmonization, and through less tying of aid, I believe we can have an impact equivalent to a significant increase in annual aid flows.

Results Focus:  Third, central to achieving our shared goals are current efforts to enhance the results orientation of development programs. The paper prepared for the Committee draws heavily on the international Roundtable on Better Measuring, Monitoring, and Managing for Development Results that the Bank cosponsored in June with other MDBs, in cooperation with the OECD DAC. It brings together three stands of the development dialogue of recent years: country-led development and partnership, along the lines discussed above, results-based management, and development effectiveness, including the pioneering work done within the World Bank by the independent Operations Evaluation Department (celebrating its 30th anniversary this year) and the Quality Assurance Group (QAG) launched in 1996 as part of the Bank's renewal. It builds on the simple but powerful idea that development results can be improved by enhanced management focus on them—a thesis amply demonstrated by the major strides we in the Bank have made in the past few years in improving our effectiveness through systematic attention to QAG’s real-time quality assessments and OED's ex-post evaluations. Focusing on country outcomes on sustainable growth and poverty reduction as the bottom line measure of development effectiveness has important implications for developing countries and the support that donors provide them with respect to the knowledge, measurement systems, and capacity they need to manage for results. It also has implications for the architecture of accountability and evaluation systems, especially the need for joint evaluations of donor programs in supporting countries' poverty reduction strategies to complement assessments of individual agencies' performance, including as development partners.

Trade and Market Access:  Fourth, we must follow through on the global commitments made at Monterrey. In addition to following through on the commitments to increase resources for development assistance, as we agreed at our last meeting, action on trade and market access is critical if we are to achieve our development objectives. We need not wait for the WTO agreements to provide duty-free and quota-free access to the poorest. We need to help developing countries participate effectively in the Doha Round. Developing countries also need to do their part to address impediments to trade in their domestic environments, and we need a stepped up program of capacity building to help countries in their efforts.
Implementing the HIPC Initiative

We have been making steady progress in implementing the HIPC initiative, albeit more slowly than many had hoped. Debt relief has been substantial and in most countries has been accompanied by increased spending on health and education. But the global downturn is threatening the outlook for debt sustainability in countries receiving debt relief. For the present, flexibility within the current framework – through the provision for topping up and the use of IDA grants – will be broadly adequate to meet this new challenge. But to make certain that full debt relief is delivered, the international community must ensure the HIPC Trust Fund is financed adequately and all donors and creditors participate in the programs agreed with individual HIPCs. Given the difficulties in raising sufficient finance for the current framework, I believe it will be all the more essential that any proposals to broaden or deepen the HIPC framework further be based on sound principles and accompanied with firm financing commitments from the donor and creditor community.

- Progress in implementing the HIPC Initiative has been steady but slow. Of the forty-two countries under the enhanced HIPC Initiative, six have reached completion point and received irrevocable debt reduction. Twenty are between decision and completion points and are receiving interim debt service relief but are taking longer than anticipated to reach their completion points due to delays in preparing PRSPs and implementing reform programs. And a dozen countries have yet to reach decision point. They pose the most difficult challenge of all, as most are affected by conflict and many have substantial arrears.

- HIPC relief alone will cut total debt stock in NPV terms by 40 percent. When traditional relief is included, this results in a debt stock reduction of nearly two-thirds. The debt-GDP ratio will be lowered from 56 to 29 percent, six percentage points below the developing country average in 2000. In 2001-2005, the decline in debt service for the 26 countries (compared to pre-HIPC) will average about US$1.3 billion annually, lowering the debt service-to-exports ratio from 15 percent in 1999 to 9 percent in 2005, well under half the developing country average. This relief in part will permit an increase in social expenditures from 6 percent of GDP in 1999 to about 9 percent in 2002, almost four times the expenditure on debt service.

- The HIPC Initiative has the flexibility to respond to the recent deterioration in the debt situation of HIPCs. The global economic downturn and falling commodity prices contributed to deterioration in the outlook for many HIPCs. The Initiative can respond flexibly by providing additional debt relief (topping up) at the completion point. With grants and other highly concessional financing, this can strengthen the foundation for sustainable debt levels in the future.

- However, financing for the Initiative remains short of needs, including the potential costs of “topping-up”. IDA’s large unfunded HIPC liabilities must remain a major topic for forward thinking. In the immediate future, the HIPC Trust Fund will need very soon an estimated US$750-$800 million to meet the costs, including “topping up”, of regional multilateral creditors for 34 HIPCs that have either already reached their decision point or are expected to qualify for HIPC debt relief in the future. Recent indications of donor
support of up to US$1 billion therefore need to be converted as soon as possible into firm commitments. A note will be prepared for the Executive Board later this year comparing the current estimates of topping up (after accounting for additional bilateral debt forgiveness) with estimates before such additional bilateral debt forgiveness is taken into account.

- It is critical that full debt relief is not just promised, but delivered by all creditors. Overall, creditor participation in the initiative has been strong. But there are some creditors who have chosen not to participate. And some predatory creditors are litigating against HIPCs to force repayment through the courts. All creditors will have to participate fully if debt stocks of HIPCs are to be reduced to sustainable levels. The Bank and Fund are stepping up their efforts to encourage all creditors to participate within the HIPC framework.

- Suggested modifications to the Initiative providing extra relief would require additional donor financing. Some shareholders and observers believe that the level of relief provided under the HIPC framework should be enhanced and have proposed modifications to extend the existing framework. It is important to note that such proposals tend to imply significantly higher costs, and it may not be realistic to assume that these would be met at a time when the existing framework is not financed adequately.

- Debt sustainability can be assured only if sound economic policies, improved governance and institutions, and prudent debt management accompany debt relief. PRSPs are providing a strong anchor to this process but they must be based on realistic and prudent projections, and supported by the international community through adequate financing on highly concessional terms. In particular, more grants will help ensure that external financing is consistent with the repayment capacity in these poor countries. The recent inclusion of grants in the IDA-13 replenishment will help.

**Enhanced Global Partnerships**

In all our work, we are seeking in the Bank to work more and more closely in partnership with others, using the CDF/PRSP approach as a focus for such cooperation at the country level, and working through mechanisms for cooperation on global issues as needed. I have already noted how we are working in increasingly close partnership with other institutions and donors in strengthening the focus on development results. Such partnership is at the center of the Monterrey approach. We are taking the same approach in all our country and sectoral work, for example in the financial sector and in education. Analyses, including those from the case studies prepared for this meeting, demonstrate the immense potential gains from more effective cooperation among donors, development agencies and countries, with better alignment of donor support behind the priorities set out in sound country programs. I am determined that the Bank set an example as a good partner, working with others in a businesslike way and in every case open to whatever division of labor makes sense and matches comparative advantage, both in our support for country programs and in our involvement in promoting global public goods.
Harmonization of Operational Policies, Procedures and Practices

Encouraged by the Development Committee, we have been participating in an intensive international effort to reduce the burden on developing countries from multiple and divergent donor operational policies and practices. The Committee has a separate Information Note reporting progress on the subject. The work has involved a practical and fruitful partnership with the OECD-DAC, the other MDBs, and developing countries. The Monterrey consensus, with its emphasis on aid effectiveness, has added further impetus to this work. Since April 2002, the technical groups have continued developing good practice standards or principles in the priority areas of the international harmonization agenda: (i) financial management; (ii) procurement; (iii) environmental assessments; (iv) pre-implementation stages of the project cycle; (v) non-financial country analytic work; and (vi) monitoring and reporting. Consolidating and scaling up progress will be the subject of a High Level Forum early next year. The Forum will provide a unique opportunity to build on the large body of work on good practice principles and standards for harmonization that has been undertaken under an action plan endorsed by the Development Committee at its meeting in April 2001. Emerging consensus from this work is already being tested out in a number of pilot countries as part of the preparation for the implementation phase of work to be launched at the Forum. Indeed, the Forum will challenge us--donors and recipients alike--as partners in development to firmly shift the content and direction of the harmonization agenda from a dialogue on aid cooperation to concrete implementation at the country level.

The Development Gateway - A Tool for Improved Coordination of Aid

The Development Gateway portal is one of four programs of the Development Gateway Foundation, an independent organization recently established with the assistance of the World Bank. The Gateway is aimed at building a platform for information and knowledge sharing amongst the development community. It offers information on key development topics and development projects (AiDA), contains an online tender market place (dgMarket) and supports a growing network of country gateways. In particular, AiDA can provide an information platform and communication tool for strengthening coordination and management of donor projects and programs. In collaboration with DAC/OECD, AiDA has already built up a database of more than 400,000 development activities--historical and current projects categorized by country, sector and funding organization.

Progress on the Education for All (EFA) Fast Track Initiative (FTI)

I am pleased to report that following the approval by the Development Committee of the EFA Fast Track Initiative (FTI) in the Spring implementation is now well underway. With the FTI we have began to operationalize the strategy that was endorsed by the Development Committee. The take off point for the FTI is that even for countries currently lagging furthest behind, accelerated progress and achievement of EFA is possible if the right policies are put in place at the country level and if donor support is linked to results in a predictable and coordinated manner.
The 18 countries that have been invited to participate in the FTI have a sound sectoral program as well as a PRSP that would provide a basis for reforms and scaling up. These countries, however, are home to only 17 million out-of-school children. Another 50 million out-of-school children live in five of the high population countries none of which has the basic framework for scaling up. These five countries, were therefore, selected to constitute a parallel track that would provide analytical and capacity building support to help them build a firmer foundation on which to base progress.

FTI has generated broad based international support as a strategy to scale up progress on MDGs. The differences that are emerging are on the pace at which the pilot should be scaled up and the size of the pilot, with some donors feeling that a pilot of twenty-three countries is too large.

The attached annex gives a detailed progress report on the first five months’ experience in implementing the initiative.

We have now reached a critical stage in the FTI, a stage with implications for the prospects of achieving the MDGs. Client countries have responded positively and purposively to the initiatives. Country commitment will be hard to sustain unless additional effort and well-defined needs for external support are quickly financed. So far donors have not come forward with the necessary long-term funding needed and have yet to develop the level of flexibility in funding that is required to truly accelerate EFA. Many are cautious about providing recurrent financing which is a critical bottleneck to scaling up, others are unable to provide budget support, and most need to modify practices for better harmonization. We are reaching a point where several countries will have fulfilled their side of the development compact anticipating additional financing. The challenge now for donors is to find solutions for coordinating their efforts to maximize the EFA efforts and move forward on their side of the compact.

Bank-Fund Collaboration

We remain committed to strengthening and deepening the very special relationship between the two Bretton Woods institutions. In August 2001, the Boards of Bank and Fund discussed and endorsed a new strengthened approach for Bank-Fund cooperation set out in the joint paper *Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality*. Together with our IMF colleagues, we have now begun implementing this approach, which will facilitate more coherent and effective support to countries by both institutions. Both boards have reviewed progress made. In April of this year, Fund and Bank management issued joint staff guidelines to operationalize the strengthened collaboration framework in a systematic way. Under the new, enhanced framework, Bank and Fund staff engage upstream at the regional/country team level to develop a shared perspective on the country-led reform program, on reform priorities, and on the division of responsibilities—with a “lead agency” designated for each policy area. The enhanced collaboration also includes transparent reporting in the Board documents of both institutions on reform priorities, program


2 India, Pakistan, Bangladesh, Democratic Republic of Congo and Nigeria
conditionality, and progress in implementation of the agreed programs. We have begun rolling out the enhanced framework for Board communications with the first country programs documents coming to the Boards.

**MDB Collaboration**

We have also been maintaining our program of closer collaboration between the multilateral development banks as described in my note for the Committee’s April meeting. In addition to the joint work noted above on the results and harmonization agendas, we are beginning to make progress in coordinating and synchronizing production of country assistance strategies/business plans; we will be reviewing and revising MOUs drawn up on cooperation between the Bank and the regional banks; we worked together for the third year running in producing this summer’s Global Poverty Report, indicative of a growing trend towards joint analytic work; and I will be continuing with the schedule of more frequent meetings and video conferences with other MDB Presidents over the months ahead.

**Financial Sector Work and Standards and Codes**

The framework of crisis prevention has been significantly strengthened by the focus on standards and codes. Cooperation between the Bank and the Fund in Financial Sector Assessment Programs (FSAP) and Reports on Observance of Standards and Codes (ROSCs) over the last years has been close and constructive. Based on these programs countries are in a better position to identify vulnerabilities and to take action to strengthen their financial sector and corporate governance, based on sound accounting and auditing systems, and insolvency regimes. As of end-August 2002, close to 300 modules have been completed, covering 83 industrial and developing countries. About half of these modules have been prepared in the context of the FSAP. The most pressing challenge continues to be to help countries to tackle the weaknesses identified by mobilizing the technical and financial resources to strengthen capacities. To respond to this demand and to put in place a systematic mechanism for follow-up, the Bank has been working together with the IMF, Canada, Switzerland, the United Kingdom, the Netherlands and other donors to establish a Financial Sector Reform and Strengthening Initiative (FIRST). I would like to thank donors, which have pledged some US$ 51 million over the initial four-year term and invite others to join. FIRST will provide grants for technical assistance and capacity building to low and middle income countries aimed at addressing financial system weaknesses and enhancing developing opportunities in these countries.

Combating money laundering and the financing of terrorism is a global concern and an important priority for the World Bank. These criminal activities undermine the integrity and functioning of financial systems, posing risks to good governance, financial stability and development for our client countries. Together with the IMF, we have stepped up collaboration with the Financial Action Task Force on assessments of countries’ compliance with the FATF 40+8 Recommendations. These recommendations will be added to the list of standards and codes for which the Bank and Fund would prepare ROSCs in a framework of close collaboration with the FATF, conditional on certain actions by the FATF at its October 2002 plenary. We have an ambitious schedule of AML/CFT assessments as part of FSAPs in the year ahead. The Bank is expanding the provision of technical assistance and training to our client countries to help strengthen their regimes to fight money laundering and the financing of terrorism. We are incorporating AML/CFT issues into Country Assistance Strategies and technical assistance
programs where relevant, with particular focus on countries where weaknesses in the integrity of the AML/CFT regime poses a significant governance and development risk.

**Strengthening The World Bank Group’s Contribution**

As background to our discussions of these global challenges, I want to report on steps we are taking to strengthen the World Bank Group’s contribution toward meeting them. The strategic framework that we put in place almost two years ago has proved to be both robust and responsive and has allowed us to pursue our objectives while adapting to a changing environment and evolving client needs. Our day to day emphasis will continue to be on implementation of that framework, with special attention during the coming months on the following key areas: monitoring and managing for development results; strengthening management and oversight of global programs and partnerships; enhancing and exploiting the potential offered by the Development Gateway; assisting client countries to improve their trade and investment climate; and - more broadly - continuing to work towards achieving the Millennium Development Goals, strengthened by our discussions and commitments at Monterrey and Johannesburg.

In the year ahead, we will press on with implementation including translating strategic directions into monitorable actions that will enable us to deliver on our commitments. We will have an opportunity to review our progress on key actions at the 2003 Spring meetings. Let me now review our specific plans in a few broad areas.

**Support for Low-Income Countries**

I strongly welcome the landmark agreement reached by donors this summer on IDA’s thirteenth replenishment. Under IDA13, roughly US$23 billion, representing an increase of 18 percent over IDA12, will be channeled to the world’s poorest countries over the coming three years. This will underpin and help us scale up our efforts in the Bank to support these countries over the years ahead. And in addition to the increased volume, IDA13 includes two valuable improvements in the quality of IDA assistance.

- **Grants:** By expanding the use of grants for countries and programs, IDA will increase the overall concessionality of its financing. Grants are expected to comprise about 18-21 percent of IDA13 resources, and will be focused predominately in the poorest as well as giving special support to post-conflict and debt vulnerable countries.
- **Focus on Results:** IDA13 will establish results based performance measurement to help ensure that we use IDA resources to make the greatest possible impact on poverty reduction.

We are working with member countries and the IMF to implement the PRSP approach that is based on CDF principles in all low-income countries that are ready to do so. This is key to putting Monterrey principles into practice at the country level. The joint IMF-World Bank progress report for the Development Committee reaffirms many of the strengths and challenges identified in the March 2002 Review of the PRSP. As the focus shifts from preparing PRSPs to implementing the strategies they set out a number of challenges are emerging, many of them identified at the last meeting of the Development Committee when Ministers looked forward to “continued progress in extending the participatory processes for the elaboration and monitoring
of PRSPs, implementing pro-poor growth policies, enhancing collaboration to strengthen public expenditure management and to improve poverty and social impact analysis; and, amongst multilateral and bilateral development agencies, in better aligning their programs with country strategies”. Other areas requiring increased attention include better prioritization of spending, more focus on intermediate indicators, and more parliamentary involvement. The annual country budget process is key to converting the strategies in PRSPs into practical results and we will therefore be working closely with others to provide coherent support for stronger country public expenditure management processes.

Too many low-income countries have not yet put in place the policies that are needed for aid to be effectively used, challenging the Bank and the rest of the development community to find approaches that work in such environments. Unable to benefit from aid, the misery of their people deepens, sometimes with regional and even global repercussions. I therefore welcome the Board’s support for the recommendations of the World Bank Group Task Force on Low-Income Countries Under Stress. Management will push forward in the directions suggested by the Task Force: (i) extensive and more frequent economic and sector work to support policy change and capacity building, both within and outside the government; (ii) more regular updating of country assistance strategies, and Senior Management and Board reviews; (iii) strengthening the incentives to managers and staff for work on high-risk, low-reward programs; and (iv) working more closely with partners that have comparative advantage in these precarious environments. For example, we have agreed a collaborative framework for piloting joint work with UNDP in four countries. And, we are preparing a workshop with OECD/DAC, UNDP, EU, donors and civil society, in October, to discuss approaches to poor-performing countries. These activities are intended to create a network of policymakers concerned with improving development prospects in countries with exceptionally weak policies, institutions, and governance.

Recognizing the concentration of the world’s poorest countries and persistence of poverty in Africa, the Bank has also been providing support to the New Partnership for Africa’s Development (NEPAD) which aims to promote growth and sustainable development, eradicate poverty, and halt the marginalization of Africa in the globalization process. The Partnership recognizes that peace, democracy and good governance are preconditions for investment, growth and poverty reduction, and that Africa must eliminate the obstacles to sustained growth in order to achieve the MDGs.

**Support for Middle-Income Countries**

At the April 2001 meeting of the Development Committee, Ministers agreed with the conclusion of the Task Force on the World Bank Group and the Middle-Income Countries that the Bank Group should stay systematically engaged with all IBRD-eligible countries, and should enhance its analytical and financial assistance to meet the needs of this diverse group of countries. Key country challenges for achieving higher growth and poverty reduction include the strengthening of social, structural, and sectoral policies, the improvement of countries’ investment climates, the development of complex infrastructure, and the attainment of broad and stable access to capital markets. In all of these areas, the Bank Group is able to provide a combination of analytical and financial assistance that is of unique value to clients, and that leverages finance from elsewhere. The Bank is also responding to increasingly strong demand from middle-income countries for the knowledge that will enable them to build the policies and
implementation capacity that help ensure that finance is well used. For example, MENA and ECA have regional knowledge strategies, including work with WBI on knowledge economy issues. The Development Gateway and GDLN provide strategic delivery systems for knowledge sharing among middle-income countries. Regions are also working to ensure that knowledge instruments and services are packaged together with lending.

We are strengthening the Bank Group’s engagement in middle-income countries on several fronts: (i) preparing and updating country assistance strategies in more countries that are temporarily not borrowing from IBRD; (ii) underpinning CASs with integrative diagnostic analyses (including a Fiduciary Assessment of country systems for public expenditures, procurement, and financial management, and a Development Policy Review to assess country priorities on the basis of a cross-cutting review of the social, structural, and sectoral agenda); (iii) continuing to explore and consider new lending products that match the needs of middle-income countries—such as the recently introduced Deferred Drawdown Option for use with IBRD adjustment loans; and (iv) enhanced collaboration and division of labor with the IMF, other multilateral development banks, and other development partners.

Private Sector Development and the Roles of IFC and MIGA

The economic growth and opportunities flowing from private sector initiative and investment are crucial for progress in poverty reduction. This, and the role of the private sector in achieving environmental objectives were major themes of the Johannesburg Summit. The Bank Group is committed to helping our members’ efforts in this area. In this context, the roles of the IFC and MIGA have become more important in recent years, yet the two institutions face increasing challenges, as private sector flows to developing countries declined sharply, and as strategic investors have withdrawn from many of these markets. The IFC’s role has become particularly important in helping members deal with the volatile environment for private flows, and with the increasingly important issues of ensuring that economic growth contributes to positive environmental outcomes, and that its benefits reach out more broadly. IFC is also giving special emphasis, in collaboration with the World Bank, to SMEs given their dominant role in employment creation in the developing world. Last financial year IFC approved nearly US$500 million in SME investments. It is also directly supporting and catalyzing a broad based effort to help improve business environments, strengthen capacity of both financial and non-financial domestic intermediaries, and build capacity in SMEs through training and technical assistance.

MIGA's General Capital Increase Subscription period was extended until March 2003. The successful completion of the GCI will further increase the Agency's ability to play a proactive and counter-cyclical role at a difficult time for global foreign direct investment flows. I urge all members who have not completed their subscriptions to do so. This is particularly important in order to achieve the voting parity, stipulated in MIGA's Convention, between Category One and Category Two countries.

Institutional Governance

We have given much attention in recent years to improving the governance and accountability of the Bank and have implemented reforms ranging from support towards improved effectiveness of the Development Committee itself to wide improvements in
transparency and disclosure including in the budget process. I am also aware of the widespread desire to strengthen the voice of developing countries, which have so large a stake in our success or failure. In the IDA-13 process, selected developing countries were asked to participate in key discussions for the first time. To ensure better and broader participation in the preparations and discussions on the Development Committee deliberations for this Fall, including on the Monterrey agenda, a roundtable was held on September 11. In addition to representatives of Development Committee members, representatives of key agencies including the UN, the DAC/OECD, the EU and the Commonwealth Secretariat participated. I understand that those attending that meeting suggested that developing country voice at the Bank and Fund is an issue the Committee might address at a future meeting. While it is a matter for our shareholders, I hope members of the Fund and Bank will agree that it would be useful to examine options for strengthening developing country representation to better reflect the stake they have in the our institutions.

**Conclusion**

In the past year, Doha, Monterrey and Johannesburg have all contributed to solidifying a global consensus on partnership for development that holds a great promise. Our task now is to convert these broad commitments into concrete and monitorable actions. With our strategy established, our focus will continue to be on implementation and scaling up of our efforts. In particular, we will work with our partners to find better and more effective ways to help clients build their policies and institutions.

In the Bank, our focus would be to work with all our partners as we implement these agreements and scale up our efforts to meet the challenge set by the Millennium Development Goals. We must act on our promises now with a sense of urgency and with a sense that this is our responsibility and our destiny. The time for action is now. The opportunity is here.
ANNEX A

Progress on the Education for All (EFA) Fast Track Initiative (FTI)

The five months of FTI implementation have yielded concrete results but also several important lessons.

At the country level FTI has helped catalyze national EFA efforts around EFA, with the direct involvement in several of the countries of the head of state. The indicative framework, in particular, has proved to be a useful instrument to guide policy dialogue on existing national education plans by helping focus the discussion on critical bottlenecks and by providing a framework to sharpen the costing of existing plans. Working in close consultation with partners, all the FTI countries are currently engaged in a process of reviewing their national education programs in the context of the FTI outcome-based parameters, identifying key constraints and assessing what it would take to accelerate progress. Twelve of the 18 will have plans revised and costed by end of October. We are encouraged by the boldness of vision emerging from these discussions, the search for strategies to reach difficult to reach pupils and the overall attempt to deal with intractable delivery problems and to “get it right”. The Africa and LAC regions have established regional FTI forums for sharing lessons and harmonizing core practices.

At the technical level, the FTI has pushed us to sharpen our analysis of what works and to re-evaluate our monitoring and evaluation mechanisms. We have begun to put in place measures for gauging progress within relatively short time periods and are in the process of establishing a baseline on financing, delivery, enrolments and outcomes.

The experience of collaboration between donors supporting the initiative has been mixed. The FTI has unbundled the EFA concept into a set of practical and specific actions around which donors could deliver on their Dakar commitments and constructively debate the development agenda. FTI has promoted intensified collaboration between all the key partners in education and generated a global momentum for education buoyed by support from NGO and civil society groups. Most of the key donors in education are active FTI partners. Several donor consultation meetings have been held (April, May and July) and a major Consultative meeting is planned for end of November. The lively discourse and disagreements that have characterized these consultations, in particular on issues such as the selection of FTI countries and on modalities for evaluating progress, have helped the FTI partners confront and address many development issues that are too often glossed over. Four of the partners (Canada, Germany, UK and UNESCO) have agreed to fund positions in the FTI Secretariat, which is currently housed at the World Bank.

Adequate funding from donors for the FTI has still to be secured. So far only two of the active partners have made specific commitments to provide incremental funding for FTI – Netherlands which has already provided Euro135 million and Germany which committed during

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3 The parameters (indicative framework) include adequate levels of domestic financing for education, optimal levels of education quality and efficiency, and increased levels of learning achievement and school participation especially for girls.
4 FTI Partners include UNESCO, UNICEF, Canada, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Sweden, the UK, the US and the European Union
the last Development Committee to fund three of the fast track countries. The G-8 Summit endorsed the report of the G8 Education Task Force which in turn highlighted the need for strengthened country commitment, a stronger and better coordinated response from donors, and the establishment of an effective monitoring and evaluation program. The report, however, did not address the issue of modalities and levels of increased donor support. While several donors pledged increased support to education in Kananaskis (Canada, UK, Japan, US) none have yet specified how that support would be provided.
Statement by the Managing Director of the International Monetary Fund, Horst Köhler, to the Development Committee

Introduction

The Fund is firmly committed to helping all its membership share in the benefits of globalization, through its work on promoting sustained economic growth and international financial stability. The report to the IMFC sets out the Fund’s agenda for change in light of the evolution of the global economy. This report summarizes the Fund’s assessment of the world economic outlook and appropriate policy responses. It also considers the items on the agenda of the Development Committee—moving forward the Monterrey consensus and fighting poverty, implementing the enhanced HIPC Initiative to provide debt relief to heavily-indebted poor countries, and fighting money laundering and the financing of terrorism—and the Fund’s work program in these areas.

Global Environment and Policy Response

Overall Outlook and Policy Response

Following a surprisingly strong first quarter, concerns about the pace and durability of the global recovery have risen in recent months. Financial markets have also weakened, with equity markets having fallen sharply since end-March, accompanied by a depreciation of the U.S. dollar; financing conditions for a number of emerging market borrowers, especially in South America, have weakened further; and current and forward-looking indicators for the United States, Europe, and several other regions have fallen short of expectations. That said, there are still good reasons to expect a pickup in growth in the period ahead, and it is encouraging that the global financial system has proved remarkably resilient to the substantial shocks of the last year. Overall, I expect the global recovery to continue, but at a weaker pace than earlier anticipated, and with downside risks appearing to predominate. Correspondingly, policymakers will need to remain vigilant, and if incoming data were to suggest that the recovery is faltering, additional monetary easing would need to be considered.

As described in some detail in the World Economic Outlook, recent developments in financial markets are likely to have a negative effect on growth in most advanced economies in the short run, in some cases (including the United States and United Kingdom) partly offset by continued buoyant housing markets. The bursting of the equity market bubble has caused stresses in specific financial institutions, notably in Japan and Europe. However, as described in the IMF’s Global Financial Stability Report, the system as a whole has remained resilient, in part because the flexibility and depth of markets has allowed credit risk to be widely distributed. Nonetheless, uncertainties have continued to rise, and financing conditions for higher risk borrowers have become much more difficult.

Against this background, global growth is projected to be 2¾ percent in 2002 and to 3¾ percent in 2003, underpinned by the turn in the inventory cycle and continued accommodative macroeconomic policies. The 2002 projection is the same as that in the April World Economic Outlook: this reflects stronger-than-expected first quarter outturns in several

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5 See “The Report of the Managing Director to the International Monetary and Financial Committee on the IMF in a Process of Change.”
regions, while from the second quarter onward, the pace of the recovery is expected to be weaker than earlier anticipated, reflecting the adverse developments described above.

Regional Outlooks

In the United States, the adverse impact of lower equity prices will be offset in part by lower long-term interest rates and the depreciation of the dollar, as well as rising housing wealth. However, the upturn will be considerably slower than earlier thought, and much depends on the pace with which private investment picks up and on the resilience of household consumption.

Recent indicators in Japan suggest that the economy, aided by a pickup in net exports, may be bottoming out; we expect a modest rebound during the rest of 2002 and in 2003. However, domestic demand remains very weak, and the outlook remains contingent on a further strengthening in global activity.

In the euro area, domestic demand has also proved weaker than expected, especially in Germany and Italy, with the tepid recovery to date driven largely by net exports. While rising household earnings, lower inflation—partly as a result of the stronger euro—and improvements in labor market performance over recent years should support demand looking forward, much again depends on the external outlook.

In emerging markets, the outlook has become increasingly diverse. Key influences include the hesitant recovery in advanced economies; heightened perceived risk by international financial market participants and a retrenchment in capital flows, particularly to sub-investment grade borrowers in Latin America; and significant economic and political uncertainties in some major economies with large external financing requirements.

- The sharp deterioration of economic conditions in many parts of Latin America over the past six months is of concern. The pressures facing a number of countries in the region mainly reflect circumstances and developments in individual countries, including domestic political developments, spillover effects, and in some cases concerns about policy sustainability. However, some regional economies have been quite resilient to recent pressures, and investor have continued to discriminate among various credits, thus benefiting higher grade credits.

- In contrast, activity in emerging Asia has picked up markedly, with substantial improvements among countries most oriented to the information technology sector, and relatively limited contagion from developments in Latin America. While external developments remain key, there are signs that domestic demand—initially strongest in China, India and Korea—is now picking up more broadly. Rising intra-Asian trade, including with China, is also contributing to regional stability and growth.

- Growth in countries in central and eastern Europe and in the Commonwealth of Independent States has been relatively well sustained during the global slowdown, with robust domestic demand—and in EU accession countries, strong inflows of foreign direct investment—offsetting external weaknesses. GDP growth in Turkey has also exceeded expectations, although political uncertainties and continued high interest rates remain sources of vulnerability.
• In the *Middle East* and *Africa*, commodity price developments continue to have an important influence on conditions and prospects. Energy exporting countries are clearly being helped by the recent strength of oil prices, but this same strength—together with continued low non-fuel commodity prices—will adversely affect energy importers, including many of the poorest countries. Growth in these regions is also being held back by regional security concerns and conflicts, the spread of the HIV/AIDS pandemic, and the current severe drought in southern Africa, which are exacting huge human and economic tolls.

At the present juncture, the outlook remains subject to unusual uncertainty. A faster-than-expected pickup is possible, for instance if productivity growth in the United States were to surprise on the upside, but overall the risks appear predominantly on the downside.

Against this background, policymakers in both industrial and developing countries will need to be particularly vigilant. The main policy priorities are the following:

• Macroeconomic policies in the large advanced economies will need to remain accommodative for longer than had been anticipated earlier in the year, and need to be prepared to respond to any further deterioration.

• Among emerging market economies, policy priorities vary widely. Where there is room for policy maneuver, the macroeconomic stance should, in general, remain accommodative. But in countries facing external financing difficulties, policies focused on the restoration of financial market confidence should be the priority.

Notwithstanding the increased short-term risks, attention needs increasingly to focus on medium-term policies to support growth and reduce macroeconomic vulnerabilities:

• There is a pressing need in many advanced countries, as well as in emerging market regions, to improve productivity and potential growth. This would improve countries’ resilience to economic shocks, better enable them to meet the challenges arising from aging populations, reduce global dependence on U.S. growth, and foster an orderly reduction of global imbalances. While reform priorities vary, further labor, product, and financial market reforms are needed in the euro area to support economic adjustment and to take full advantage of the scope for increased area-wide efficiency and integration arising from the introduction of the euro. In Japan and—for different reasons—emerging Asia, prospects for sustained growth need to be supported by measures to further strengthen banking and corporate sectors.

• There is a clear need to strengthen corporate governance and transparency in the United States and elsewhere, including through effective implementation of recent reforms.

• A strengthening of medium-term fiscal positions is also widely needed. In industrial countries, this would help prepare countries to meet the challenge of aging populations. And, especially in emerging markets, fiscal consolidation would help reduce vulnerabilities arising from high public debt.

Finally, it is critical to remain focused on the overarching goal of poverty reduction. In this connection, it is encouraging that growth in Africa, China and India—which account for the
bulk of global poverty—has remained relatively resilient during the global downturn. That said, in Africa and India, growth rates remain well below those needed to achieve the target of reducing poverty by 2015.

Implementing the Monterrey Consensus

There is now unprecedented agreement among the international community on the urgent need for a concerted and coordinated effort in the battle against poverty. The Monterrey consensus creates an architecture of mutual responsibility, based on a two-pillar approach, for reaching the UN Millennium Development Goals (MDGs). The Monterrey consensus recognizes that low-income countries have primary responsibility for implementing policies to accelerate growth and reduce poverty, for which good governance is crucial. In turn, the international community must stand behind these efforts with more timely, better harmonized, and more comprehensive support, as well as better trade opportunities.

The Political Declaration and Implementation Plan of the recent World Summit on Sustainable Development in Johannesburg has a broader focus, but in areas where the Fund has a role to play, the Johannesburg Declaration reaffirms the objectives of both the Monterrey Consensus and the Doha Ministerial Declaration. Consistent with the two-pillar approach, much of what is to be achieved will take place at the country level, but enhanced international support will be vital. The New Partnership for Africa’s Development (NEPAD) will also be an important vehicle for helping ensure progress.

Within this framework, the Fund is supporting its low-income country members to:

- develop and implement economic reform programs aimed at accelerating growth and thus reducing poverty. The Poverty Reduction Strategy Paper (PRSP) remains the basic framework for our involvement;
- build institutional capacity to carry out their economic reform agendas; and
- address the burden of unsustainable debt through the enhanced Heavily Indebted Poor Countries (HIPC) Initiative (discussed in section IV).

The Fund’s contribution must be part of a broader effort of increased and better targeted support by the international community for low-income countries with sound policies, particularly in the areas of aid volumes and effectiveness, donor coordination, technical assistance, and market access for developing country exports.

The PRSP Approach

The Fund review of the PRSP process—undertaken jointly with the World Bank—was based on broad outreach with civil society and the international community. The review indicated that this country-owned and results-based approach to development has been widely accepted by both low-income countries and by the international community, including most major development agencies as a more inclusive process and the basis for providing assistance. Some 50 low-income countries are now pursuing country-led development processes under the

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6 See “Review of the Poverty Reduction Strategy Approach – Main Findings” (SM/02/53 Revision 1; 3/14/02).
PRSP approach, of which 20 have completed full PRSPs. The Fund’s main objective is to help countries use the PRSP framework to enhance growth and poverty reduction, while rallying donor assistance behind the country-owned strategies.

The review of the PRGF, also held earlier this year, revealed that there has been a good start in aligning PRGF-supported programs with the associated PRSP.7 This finding was reaffirmed by the recent joint progress report.8 However, much remains to be done in this and other areas. In particular, we will be working in the coming months in the following areas:

- Ensuring that macroeconomic frameworks underpinning PRSPs and associated PRGF-supported programs are designed to address concerns about the realism of projections, how best to accommodate exogenous shocks and changes in aid flows without disrupting macroeconomic stability, and alternative policy options.
- Making faster progress in strengthening public expenditure management, including through incorporating measures in PRGF-supported programs and helping HIPCs implement action plans to strengthen their capacity to track poverty-reducing spending, and incorporating more poverty and social impact analysis in the design of policy reform options.
- Increasing attention to countries’ policies and programs to create an enabling environment that can stimulate investment and growth. The World Bank has the main responsibility in this area, but we are contributing, through, for example, analyzing the macroeconomic foundations for growth, incorporating developmental issues into the Financial Sector Assessment Program, and encouraging the creation of local investor councils.

To this end, Fund staff will continue to engage early on in the PRSP process to provide their views on the Fund’s core areas of expertise, and to assist members in developing their macroeconomic frameworks.

To address the special needs of the transition CIS-7 economies,9 the Fund, together with the World Bank, the European Bank for Reconstruction and Development, and the Asian Development Bank, has been working closely with the authorities and bilateral donors to achieve the goals of the CIS-7 Initiative launched at the 2002 Spring Meetings. The Initiative envisages more country ownership of intensified development and reform efforts, with additional international support available to countries following strong reform policies. The Fund has maintained a close policy dialogue with these countries in an effort to strengthen reforms and ensure progress towards debt sustainability.

Later this year, the Fund will take a fresh look at how it can best meet the diverse needs of its low-income members, including dealing with disruptive exogenous shocks, as well as the needs of countries emerging from conflict. The IMF Executive Board will be considering work on these issues in the coming months.

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7 See “Review of the Poverty Reduction and Growth Facility: Issues and Options” (SM/02/51; 2/15/02).
8 See “Poverty Reduction Strategy Papers – Progress in Implementation” (SM/02/250 Revised; 9/06/02).
9 The CIS-7 countries are Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan.
Technical Assistance

Recognizing that strengthened institutional capacity will be crucial to successful PRSP implementation, the Fund has been providing more technical assistance through missions, short and/or long-term advisors, and courses on current issues related to Fund operations, such as financial programming. It has significantly expanded its network of regional training institutes, programs and technical assistance centers.

Regional technical assistance centers have proven to be an effective way to deliver assistance in the Fund’s core areas of competency, as they place more resources directly in the region, enable greater country ownership of the design of their technical assistance, and allow for country involvement in their governance. The Caribbean Regional Technical Assistance Center was opened in November 2001, based on the experience of the Pacific Financial and Technical Assistance Center. Most recently, two regional technical assistance centers in Dar es Salaam and Abidjan are being established to support countries’ poverty reduction and growth strategies, and they will also provide support for the New Partnership for Africa’s Development. These centers will help African governments build and maintain the capacity to formulate and implement their own growth-oriented, poverty-reducing policies. Based on the experience of these two centers, the Fund will consider establishing three additional centers to cover the rest of sub-Saharan Africa. The Fund is also participating in the Integrated Framework for Trade-Related Technical Assistance, including through preparing studies on trade integration, which could feed into analysis underlying countries’ PRSPs and reinforce work on building trade capacity. Also, since late 2001, the Fund, together with the World Bank and with financial support from the UK DfID and Japan, has launched several regional projects in Africa and Asia to improve member countries’ statistical capacity using the General Data Dissemination System (GDDS) as a framework.

Increased and Better Targeted International Support

The Fund is committed to play its part in the Monterrey framework, but success can only come from a concerted effort by all members of the international community. The low-income countries must themselves move decisively on governance and the steadfast pursuit of sound policies. And, despite recent progress, much remains to be done to increase and better target support by the international community.

Trade and investment are key for creating an economic environment conducive to growth which will, in turn, enhance aid effectiveness. For our part, the Fund has refocused its Article IV surveillance to provide more detailed and critical analysis of the trade policies in industrial and large developing countries, with a view to highlighting the impact of barriers to developing country exports. These issues have also been covered in our most recent World Economic Outlook and a joint Fund and World Bank paper on market access for developing country exports. Protectionism in agricultural and textiles trade, in particular, must be overcome for the multilateral trading system to be more supportive of development. Efficiency and dynamic benefits would also derive from more open trade regimes in the developing countries themselves. The Fund will also be conducting a review of its trade policy advice to developing countries in the coming months.

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10 See “Market Access for Developing Country Exports – Selected Issues” (SM/02/280 and Sup. 1).
The Fund is also working with the World Bank, the European Union, and bilateral donors in seeking ways to align the reporting, monitoring, and performance assessment requirements of program assistance with national PRSP and budget processes, as well as alleviating transactions costs for recipient countries while maintaining a strong focus on performance.

*Increasing the Representation of Low-income Countries at the Fund*

The Monterrey Consensus highlights the importance of promoting greater participation and strengthening the voice of developing countries in international institutions and fora. The IMF Executive Board is considering possible revisions in the formulas used to calculate members’ quotas and other approaches that would help address these issues.

*Measuring Progress on MDGs*

Effective monitoring of progress on achieving the MDGs will be crucial to maintain the momentum of enhanced international involvement, ensure accountability, and to identify to countries where policy adjustment is needed to achieve their objectives. The Fund is working with other institutions to help monitor progress in achieving the MDGs. Fund staff were part of the major international agency effort to develop indicators for monitoring the MDGs. The Fund will contribute to ongoing monitoring of MDGs in the areas of growth, external debt and trade, and through its participation in the UNDP-sponsored interagency Millennium project.

*Implementing the Enhanced HIPC Initiative*

The Heavily Indebted Poor Countries (HIPCs) Initiative is another way the IMF and World Bank are working to forward the Monterrey consensus. The IMF and World Bank Executive Boards recently reviewed progress in implementing the enhanced HIPC Initiative, and welcomed the continued progress. About two-thirds of the countries that are expected to require HIPC relief have already reached their decision points, and will receive debt relief totaling US$25 billion (net present value terms), including six countries which have reached their completion points.

Together with associated debt forgiveness, total assistance to these countries represents a reduction in the outstanding debt stock of about two-thirds, or US$40 billion in net present value terms. This will reduce annual debt-service payments for most HIPCs substantially, to less than 10 percent of exports. The debt relief provided to date has helped these countries increase annual social expenditures from around 6 percent of GDP on average in 1999 to a projected 9 percent in 2002 – more than three times the amount of debt service.

Interim debt relief, which lowers near-term debt service costs substantially, is important because many of the 20 countries in their interim periods are likely to take longer to reach their completion points than was initially expected, due to the time needed to prepare broad-based, participatory PRSPs, or because of significant problems in implementing their economic reform programs. In the recent Executive Board discussion, Directors encouraged these HIPCs to stay on track with economic adjustment and reform programs in order to reach their completion points as soon as possible. Further progress in bringing new countries to decision points may also be slower as most remaining HIPCs are facing difficult situations, such as a recent emergence

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11 See “Heavily Indebted Poor Countries Initiative - Status of Implementation” (SM/02/264, August 16, 2002).
from conflict. Wherever possible, the Fund is actively engaged with these countries to develop strategies for moving ahead, and the Executive Board agreed to extend the Initiative’s sunset clause by another two years to allow the remaining countries to build up a track record of sound policy implementation and start the PRSP process.

Our recent HIPC progress report, prepared jointly with the Bank, confirms that debt indicators for many HIPCs remain adversely affected by the worsened international environment. Debt indicators in 15 of 24 HIPCs under review worsened in 2001 relative to decision point projections, largely as a result of the global economic downturn and depressed commodity prices. Based on current projections of commodity prices, the external debt indicators for some eight to ten countries may exceed the HIPC thresholds at their respective completion points. Fortunately, the HIPC Initiative has the flexibility to provide additional debt relief on a case-by-case basis at the completion point, if a careful review reveals that a country has suffered a fundamental change in economic circumstances due to exceptional exogenous shocks. This flexibility was used in the case of Burkina Faso. Over the longer term—beyond HIPC Initiative debt relief—many of these countries will remain structurally vulnerable to exogenous shocks and ensuring debt sustainability will require sound economic policies, good governance and prudent debt management policies by HIPCs, as well as new external financing on sufficiently concessional terms.

A key issue for successful implementation of the HIPC Initiative remains increasing the participation of multilateral and non-Paris Club official bilateral and commercial creditors. Recent pledges by donors to help close the financing gap of the IDA-administered HIPC Trust Fund are welcome, as these will help participation of some multilateral institutions. Early implementation of pledges will be important. With regard to other creditors who are not participating, Fund staff are redoubling efforts to encourage more participation.

The IMF has thus far mobilized financing projected to be sufficient to support its participation in the HIPC Initiative as currently estimated and for continuation of PRGF operations during 2002-05. The available financial resources could also accommodate the relatively small topping up assistance under the HIPC Initiative which may be needed, as indicated in the recent HIPC progress report. Adequate resources have also been secured from a number of countries to subsidize the likely use of the Fund’s post-conflict emergency assistance through 2004. The adequacy of financial resources will need to be monitored carefully, in light of the actual use of these resources and developments in market interest rates, which could affect both financing needs and availability.

Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT)

In light of the events of September 2001, the international community launched an intensified and comprehensive effort to address money laundering and the financing of terrorism. The Fund and the Bank were asked to play an important role in this effort. Significant progress has been made in implementing the action plan for the Fund that was agreed upon last November by the IMFC. Specific actions are summarized below.

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12 Not including resources required to address the external debt problems of Sudan, Liberia, and Somalia, and resolution of their arrears to the Fund.
13 “Communique of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund” April 20, 2002 (PR/02/22 Cor. 1).
The Fund and Bank Boards have conditionally agreed to a 12-month pilot program of AML/CFT assessments and accompanying Reports on the Observance of Standards and Codes (ROSCs) that would involve participation of the Fund and the Bank, the Financial Action Task Force (FATF) and the FATF-Style Regional Bodies (FSRBs). In collaboration with the Bank and FATF, the Fund has developed a single comprehensive methodology for AML/CFT assessments. This work is virtually completed and will provide a consistent framework for conducting assessments, whether carried out by Fund/Bank, FATF, or FSRBs.

The Fund and the Bank Executive Boards agreed to add the FATF 40+8 Recommendations to the list of Standards and Codes useful to the operational work of the Fund and the Bank, subject to four conditions.15 A report from the Fund staff on the completion of the four conditions prior to the commencement of the 12-month pilot program will be presented to the Fund Executive Board following the October FATF Plenary.

Prior to the development of a comprehensive assessment methodology, the Fund and Bank had already become deeply involved in assessments of anti-money laundering and combating the financing of terrorism, with AML/CFT assessments now included in all FSAPs and OFC assessments. In 2002, in the context of the Fund and Bank FSAPs and the Fund’s program for offshore financial centers, the staffs expect to undertake some 20-30 assessments of AML/CFT regimes.

In the period ahead, the Fund and Bank are gearing up to begin comprehensive AML/CFT assessments.16 National jurisdictions have been contacted to identify experts and resources for Fund/Bank led assessments. The Fund and the Bank are working to be ready to begin the assessments in the context of FSAPs and OFC assessments and on a stand-alone basis as soon as the conditions for the 12-month pilot have been met. To avoid duplication the Fund and Bank are collaborating and coordinating with FATF/FSRBs on a schedule of assessments using the new methodology. FSAP teams will draw upon recent FATF/FSRB assessments, where available.

The delivery of technical assistance has been expanded. Since September 2001, the Fund/Bank have completed, initiated, or agreed to provide TA to 39 countries, and TA requests have been received from an additional 14 countries. Moreover, the Fund and the Bank, in collaboration with key external partners, have developed a mechanism for the coordination of TA for AML/CFT.


15 The four conditions agreed by Executive Directors were: (i) the FATF mutual evaluations are to be consistent with ROSC process as set out in the July 2002 Board paper (Section II of SM/02/227); (ii) that the FATF not undertake a further round of the non-cooperative countries and territories (NCCT) initiative, at least during the period of the pilot project; (iii) that the FATF at its October 2002 Plenary finalize the AML/CFT methodology, and (iv) that the FATF endorse the use of this methodology by the FATF, FSRBs and the Fund and Bank.

16 While assessments by the Fund/Bank or by FATF/FSRBs would encompass comprehensive treatment of AML/CFT covering all FATF 40+8 Recommendations, Fund staff (and experts under staff supervision) would not be involved in assessing implementation of criminal laws and the activities of those parts of the non-prudentially-regulated financial sector that are not macro-relevant and do not pose a significant risk of money laundering or financing of terrorism.
Other related initiatives include:

- A voluntary *AML/CFT questionnaire* has been developed and is in use to inform Article IV consultations and to better understand AML/CFT weaknesses worldwide. Through September 24, 2002, 52 responses have been received.
- For research and analysis, a study on informal fund transfer systems (Hawala) has been prepared.
- The Fund’s program of *OFC assessments has been accelerated* and is now targeted for completion by the end of 2003.

Given the high priority that the international community has attached to the Fund’s AML/CFT efforts, additional resources were assigned to AML/CFT work, and resource costs will be further considered in light of experience with the 12-month pilot program as part of the FY 2003-04 budget preparation process.\(^{17}\)

**Conclusion**

The slowing of global growth, the bursting of the equity price bubble in the advanced economies, and increased risk aversion in international capital markets pose difficulties for the Fund's members, which impact particularly heavily on emerging markets and developing countries. At the same time, developments over the past two years have shown that reforms and good policies pay off. The Fund will continue its efforts at promoting reform and supporting policies that will benefit our most vulnerable members, and help ensure that the benefits of globalization are shared more equitably.

\(^{17}\) “Summing up by the Acting Chair – Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)—Proposals to Assess a Global Standard and to Prepare ROSCs” (BUFF/02/122).
Prepared Statements Circulated by Members

Statement by Mr. Ibrahim Al-Assaf, Minister of Finance and National Economy (Saudi Arabia)

The partnership agreement reached in Monterrey commits developing countries to reform and good policies, and the donor community to intensify its support through increasing aid and reducing trade protection. In Monterrey, a consensus was reached that the Millennium Development Goals (MDGs) for attacking poverty more directly provide a framework for many of the desired development outcomes. This partnership agreement became the basis for the debate in Johannesburg on how to go about achieving the MDGs or broader sustainable development, and how to measure results. The two papers by the World Bank Better Measuring, Monitoring, and Managing for Development Results and Development Effectiveness and Scaling up: Lessons and Challenges from Case Studies, provide an important contribution to that debate.

The enhanced focus on measuring results could enable countries to improve the design of their development strategies and their implementation to achieve the desired outcomes. At the same time, it could enable donors and development agencies to scale up the transfer of their resources and maximize their developmental impact. Donor resources matter. But, the quest for better development results should begin with the developing countries themselves.

The Poverty Reduction Strategy Paper (PRSP) process provides low-income countries with a common platform for setting out their objectives, strategies, and results, as a basis for starting a dialogue with donors on their willingness and commitment to support these strategies. The progress made to date in developing PRSPs is commendable. But, implementation remains a serious challenge. An important challenge that is identified in the joint Bank/Fund Poverty Reduction Strategy Papers -- Progress in Implementation is how to use the PRSP to provide a clear linkage between country-specific outcomes and the MDGs, and how to set realistic and measurable indicators to better measure results and development effectiveness.

There is no common framework such as the PRSP for the middle-income countries. These countries are more on track for meeting the MDGs, and focus their efforts on specific areas of their broader development strategies that also contribute to economic growth and poverty reduction including the financial, the private and the rural sectors. It would be important to keep in mind that while the intense focus on the MDGs is desirable and noble, it could detract attention from the broader development agenda of many such countries.

Measuring and managing for development results require better statistics and data collection, knowledge sharing and the capacity to monitor and evaluate implementation of strategies and their outcomes. Information and a good dialogue between the donor community and the country could also help the country identify problems that at the time do not seem serious but which over time could become formidable challenges. Such is the case in infectious diseases – HIV/AIDs and malaria, for example -- and resource degradation as in water mismanagement. Being able to identify such problems would be a major step towards taking actions to deal with them. In finding solutions, it would be important to take into account local practices and preferences and to work with and strengthen existing institutions rather than to try to convince governments to adopt 'imported' models that might not be suitable locally, or to try alternative approaches that bypass governments.
Unfortunately, such capacities are badly lagging, especially in the poorer countries. Indeed, as the paper on Development Effectiveness and Scaling up emphasizes, there is a need for capacity and institutional building at all levels - central and local governments, private sector and NGOs - in many of the low-income countries. A major lesson that can be derived from the case studies is that government commitment in the absence of adequate capacity and financial resources might not be sufficient to deliver the intended results. It is equally true, however, that unless the government is committed, capacity and resources might not be deployed for the intended purposes. Commitment, capacity and resources form a virtuous circle. The Bank and the Fund have a great responsibility to help such countries build up the needed capacities. This is particularly important for the IDA-eligible countries in view of the agreement reached during the IDA-13 replenishment that made the provision of additional donor contributions conditional on the achievements of certain targets.

By harmonizing their rules and reporting requirements, donors avoid diverting scarce country capacity from important implementation issues. I have noted from the progress report on Harmonization of Operational Policies, Procedures, and Practices that efforts have shifted from discussions to implementation. I am also pleased to note that the Islamic Development Bank, which has been undertaking harmonization efforts jointly with the Arab Coordination Group over the last decade, plans to participate in the MDBs’ financial management diagnostic work in individual countries. The Islamic Development Bank can bring to this group its vast experience in this field. In addition, the proposed High-Level Forum in February 2003 will be important in creating a common action-oriented agenda and an agreement on measurable targets and mechanisms for monitoring and measuring results. Of course, the participation of developing countries, as is in fact envisaged, will be crucial.

It is true that it is not possible or desirable to attribute country outcomes to an individual donor agency, and that country outcomes need to be evaluated as a group product, which includes the country in question. It is also true, however, that the performance of an individual donor agency can, and needs, to be assessed. In this context, I have noted that within the World Bank, monitoring and evaluation methodologies to track progress on results for investment lending are well developed. But, unfortunately not so for the Country Assistance Strategies, adjustment lending and non-lending services. I am pleased to note, however, that the Bank is proceeding with initiatives to address these gaps, such as the pilots for "results-based CAS" and "CAS Completion Reports", which would provide inputs for assessing quality at entry as well as for evaluations by the Operations Evaluation Department.

The paper on Development Effectiveness and Scaling up argues, "Financing recurrent costs is a logical consequence of an outcomes focus". While there could indeed be some merit in donors examining such mechanisms to ensure longer-term support, especially in health and education, donors also need to examine whether such mechanisms lead to increased aid dependency and weaken ownership and commitment to a particular program. In any case, such mechanisms may be tried on a case-by-case basis and for the poorest countries. They need to be accompanied with an exit strategy. An important principle underlying scaling up is that it will accelerate progress in key areas while, at the same time, enabling the country to increasingly rely on its own resources.

In Monterrey, large donors committed to aid and trade. While the focus of this meeting is on aid, it would be unfortunate if the need for greater access to industrial countries' markets is sidestepped or played down. Indeed, it is surprising that the recent joint World Bank/IMF paper
Market Access for Developing Country Exports -- Selected Issues was not included on the agenda for this meeting. The paper provides a stark reminder, supported by analysis and data, that the welfare gains from eliminating trade barriers confronting developing country exports, and farm subsidies in OECD countries, far outweigh the gains from current levels of direct aid or the planned increases in such aid. By way of a small set of examples, the paper notes that OECD agriculture received support amounting to US$311 billion in 2001. This is more than six times the current level of aid going to developing countries. In addition the static income gains from eliminating barriers to merchandise trade range from US$250 billion to US$620 billion annually, of which about 30 percent to 50 percent would accrue to developing countries. The full liberalization of world trade in textiles and clothing would boost cotton exports by 9 percent in sub-Saharan Africa - countries in greatest need for better export performance. Finally on numbers, the paper estimates that more rapid growth accompanied by a reduction in protection could reduce poverty by 13 percent in 2015, and make a significant contribution towards achieving the MDGs.

Having said this, I want to commend the World Bank for increasing its focus on trade issues, and for organizing itself with the aim of providing greater technical support and advice to developing countries, especially to those seeking to access the WTO. I am also pleased to see that the World Bank is taking up an advocacy role on trade issues on behalf of developing countries. I would encourage it to continue this effort and to build on it.

Turning now to the issue of anti-money laundering and combating financing for terrorism (AML/CFT), I welcome the progress made in developing the comprehensive framework methodology and look forward to its endorsement by FATF in October. I also welcome the integration of this effort into the Financial Sector Assessment Program (FSAP), reports on standards and codes (ROSCs), and offshore financial centers (OFC). As I mentioned in my statement to the IMFC, however, it would be critical for the Bank and the Fund to provide the required technical assistance to strengthen countries’ capacity to address vulnerabilities revealed through FSAPs and OFC assessments. The Bank and Fund need to be vigilant and avoid drifting into law-enforcement areas that lie outside their respective mandates.

In conclusion, I am pleased to announce that Saudi Arabia has recently donated US$10 million to the international efforts to fight infectious diseases such as HIV/AIDS, tuberculosis and malaria.

Statement by Mr. Bohoun Bouabre, Minister of State, Minister of Finance and Economy (Côte d’Ivoire)[18]

Introduction

Since our last meeting, a second top-level international gathering has taken place, the Johannesburg Summit. Not only did this second summit ratify the Monterrey Consensus but its

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work was also pervaded by the same spirit evident in Monterrey. The message of Johannesburg is clear: economic growth is essential if poverty is to be reduced, but development will not be sustainable if we fail to pay heed to the environmental impact of the actions we are undertaking. Thus the Johannesburg Summit invites us to deepen our discussions of certain questions of general interest that we call global public goods.

For the sake of brevity, I intend, on behalf of the countries in my Group, to limit to a few paragraphs my remarks on each of the topics slated for discussion as this meeting.

Implementation of the Monterrey and Johannesburg Consensus

First of all, let me congratulate the World Bank and the International Monetary Fund for acting as catalysts during the preparation and conduct of the two summits, specifically by providing us with an abundance of very useful documentation. We note that poverty has receded throughout the world. We also welcome the additional allocations of resources announced by our partners, in keeping with their commitments under the Pact for Development concluded in Monterrey. We particularly appreciate the historic mobilization of resources on the occasion of the Thirteenth Replenishment of IDA Resources.

In addition, vigorous support has been given to the initiatives in the area of the debt (HIPC), AIDS/HIV control, and universal primary education. To this list, however, should be added the need to finance basic infrastructure as well as agriculture and rural development, sectors with the highest concentrations of poverty.

In keeping with the four point plan presented by our Chairman, I shall now reply very briefly to the issues raised:

In our opinion, the Development Committee needs to remain closely involved, and the World Bank should serve as implementing agent. To that end, the Bank will have to define a working framework covering a period of several years, and place greater emphasis on results-based management. This has implications for the Bank’s volume of resources. For example, if a sectoral program, with well defined objectives and monitoring indicators, is not to be compromised by the absence of financing, particularly in the case of financing of recurrent costs, it will be necessary to make the Bank’s assistance programs more flexible, in order to allow for adjustments in the amount of financing granted.

Action at the Country Level

We agree with the conclusions of the sectoral studies on education, health, water and community development. Host countries cannot benefit effectively from assistance programs unless they formulate a poverty reduction strategy incorporating such sectoral programs and focusing on well defined development objectives and credible and precise monitoring and evaluation indicators. In this way, each country can be in a position to request programs of assistance from its development partners that are appropriate in terms both of financial support and of consultant and technical assistance services.

We have to admit that such a plan is not without its weaknesses. In certain cases, the country may adopt long-term poverty reduction objectives that are a little too ambitious. In
others, the institutional and human capacity of the entities responsible for monitoring is inadequate.

By improving their capacity for monitoring results, countries can find themselves in a better position in terms of comparing their performance against benchmark standards. This also conforms to NEPAD recommendations and to those of the IDA-13 Agreement.

Coordination Among Donors

In our opinion, the emphasis on results brings with it the need to ensure consistency of strategy between the donors’ support programs and the countries’ own strategies on the one hand, in particular the PRSPs, and the countries’ national budgets on the other. It is also necessary to harmonize donor benchmarks and practices, particularly the setting of monitoring and performance criteria. We believe that the Development Committee has an important role to play in encouraging the harmonization and joint organization of supervision missions, audit reports, documentation, etc.

Role of the World Bank and the International Monetary Fund

We agree with the role assigned to the Bretton Woods institutions in the finalizing of the draft action plan included in the documents submitted to us. The role described for the Bank should facilitate operation of its results-based approach.

Heavily Indebted Poor Countries (HIPC) Initiative

We find that the HIPC initiative to assist the heavily indebted poor countries has in general made substantial progress. We are encouraged to note that a large number of countries in our Group, which have been carrying an excessive debt burden over the past few years, have now cleared certain decisive stages in their debt rescheduling. We also appreciate the postponement of closure of the process leading to the decision point, thereby giving countries the opportunity to expedite the reforms required within the framework of their respective programs.

We also think that the effectiveness of the initiative is heavily dependent on the participation of all creditors. A large number of creditors have yet to make the necessary arrangements with borrower countries that have reached their decision point and are still waiting to see the principle of debt relief translated into reality. This is the case with most non-Paris Club creditors and certain regional bodies. Lastly, we would recall that the exposure of the heavily indebted poor countries to external shocks is still a very real concern for our countries. We appeal once more to our development partners to find a rapid solution to this problem.

Poverty Reduction Strategy Papers

Overall, we are pleased with the PRSP process, which represents a unique framework for designing and achieving the objectives of the millennium, one of which is poverty reduction. We are happy to note that extensive consultations have taken place in most countries within the PRSP framework, involving different segments of the population, and have contributed to greater ownership of those strategies and programs. We also note progress in terms of reporting on
poverty, the defining of objectives and of indicators for monitoring the evolution of poverty, and the appropriateness of sectoral and poverty reduction policies.

Despite this progress, major challenges still remain, in particular the weakness of the capacities available for preparing and implementing the PRSPs. In addition, the importance of trade and of openness to external markets, the weak linkages between donor programs and the PRSPs, and the need for protection against external shocks are, in our opinion, aspects that need to be addressed in much greater depth.

Anti-Money Laundering and Combating Financing of Terrorism

Once again, we reiterate our feeling that money laundering is a matter of worldwide concern. We therefore join our efforts with those of the international community in fighting against this phenomenon, which is affecting the integrity and the stability of the international financial system.

However, our countries hope to receive increased assistance from the Bank and from their partners in order to step up their defenses against abusive financial practices and money laundering and to prevent the possible financing of terrorist activities.

Harmonization of Operational Policies, Procedures and Practices

We note that the first two phases of the harmonization program, which aimed to reduce the transaction costs of aid and to enable the host countries to adopt the efficient operating procedures applied by all development partners, have made very good progress. At the same time, we continue to believe that our development partners should rely on the budgetary and planning procedures in use in the countries themselves.

Statement by Mr. Peter Costello, Treasurer of the Commonwealth of Australia

Implementing the Monterrey Consensus

The Monterrey and Johannesburg conferences have reiterated and re-emphasized 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

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19 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.
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 US$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.

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 emphasize 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 programatic approaches, even potentially pooling funds and providing recurrent cost financing. These are, however, complex issues and effective responses will need to reflect circumstances.

Small States

This constituency has a range of small states, which are subject to particular vulnerabilities. We welcome the work being done by the Bank to address these issues, including through the Small States Forum.

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 US$60 billion in net present value (NPV) terms. Already, HIPC and associated bilateral debt relief totaling over US$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.

Statement by Mr. Pascal Couchepin, Federal Councillor and Minister of Economic Affairs (Switzerland)

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

On behalf of Azerbaijan, Kyrgyz Republic, Poland, Switzerland, Tajikistan, Turkmenistan, Uzbekistan and the Federal Republic of Yugoslavia
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 feedback.

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 program. 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 labor 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.

Statement by Mr. Antonio Fazio, Governor, Bank of Italy

I would like to take this opportunity to welcome East Timor as a new member of the Bretton Woods Institutions and our constituency. This meeting of the Development Committee takes place after a year that has witnessed major challenges for the world economy, but also unprecedented opportunities to promote sustainable development and reduce poverty. At the meetings of Doha, Monterrey and Johannesburg, a consensus has been reached on the mutual responsibilities of donor and recipient countries and on complementary policy actions on all fronts that are crucial for sustainable development: trade liberalization, provision of additional resources to developing countries, launch of initiatives in the areas of global public goods such as environment, communicable diseases, education, financial stability and anti-money laundering.

Implementing the Monterrey Consensus: The Role of the Development Committee.

In order to meet the expectations that have now been generated, there is the need of a “quantum leap” in terms of commitments of developing countries, efforts of donors, as well as innovative thinking and approaches by development agencies. The additional bilateral aid pledged by the EU countries, the US and other, the recent replenishments of IDA and the Global Environmental Facility (GEF), and the entry into force of the Kyoto protocol indicate a concrete willingness to move forward into implementation. The Development Committee can play a crucial role in monitoring and guiding this process. The report on implementation prepared for this meeting provides a good overview of the various initiatives taken in the last six months. We however recommend further progress in three areas.

First, the BWIs should work on preparing a set of concrete indicators and clear procedures that would allow this Committee to periodically monitor progress, identify success and failures, and facilitate the discussion of policy options. The BWIs are best equipped for this task thanks to their extensive country knowledge. In the spirit of Monterrey, monitoring should cover the actions and commitments both of donors and recipients of aid, as well as the policies followed in the areas of import tariffs and domestic subsidies. We attach great importance to monitoring, not only to advance knowledge of the factors that explain successes and failures, but also to create mechanisms of peer pressure that would facilitate policy change towards the
attainment of the Millenium Development Goals (MDGs). We recommend that, at the next meeting of the Development Committee, Ministers be provided with this set of indicators.

Second, implementation regimes should be devised for all countries. We adhere to the belief that country led strategies, such as those embedded in PRSPs and in the CDF, or regional approaches such as NEPAD, provide the best frameworks to enable a country to adopt policy commitments and targets consistent with the MDGs. They also provide a vehicle for improving partnerships with donors and ensure that external support is well integrated in national programs. However, we should not lose sight of poor countries that because of their policy performance have not put in place a PRSP process. The “Low Income Countries Under Stress” (LICUS) host a large share of the world poor and we should find ways to provide some form of support to them. Also Middle Income Countries (MICs) face large problems of poverty and sustainable development. In the future, we would like to see explicit reference to an implementation framework for LICUS and MICs.

Finally, the analysis of country programs should be accompanied by an assessment of global, regional and sectoral initiatives. Global issues raise a problem of coherence among institutions because of the growing interaction between the role of BWIs and that of UN agencies, especially as the Bank will increasingly use grants as an operating tool. In the area of communicable diseases, for example, we should monitor the performance of Bank initiatives and how these interact with global programs such as those of the Global Fund for Aids, TBC and Malaria. For future meetings of this Committee, we encourage the preparation of reports on collaboration among the various agencies, including joint documents.

The Monterrey consensus stressed the importance of global economic governance and the need to enhance coherence and coordination among development partners. This requires improvements in the governance of existing institutions and fora and in the mechanisms of collaboration among them. We think the Development Committee can play a key role in advancing this agenda and we recommend discussing this issue at our next Meeting.

Challenges in Implementing the Monterrey Consensus

As the three case studies clearly show, the implementation of the Monterrey consensus requires actions and initiatives by countries, donors, BWIs, and by all these players together. I will touch on some areas that, in our view, are critical to effective implementation.

Strengthening in-country statistical capacity and monitoring and evaluation systems. We often stress the importance of a strong commitment to reform and of a process to build consensus around the reform agenda in a participatory, transparent and equitable way. Sound national policies and good governance are undoubtedly prerequisites for poverty reduction and sustained growth. However, the quality of reforms depends on the existence of a reliable information base and on appropriate monitoring and evaluation processes. In this context, we fully support the BWIs efforts to strengthen statistical capacity at the country level. We also think that the quality of aid and the development impact can greatly benefit from a heightened focus on measurable results. At the same time, we need to be mindful of the inherent complexities of measuring results. BWIs should make a particular effort at developing performance indicators in critical policy areas that elude standard statistical methods and at promoting dissemination of market
indicators of country performance such as bond spreads, exchange rate premiums, and stock market performance.

Improving the Quality of Aid. For donors, the key challenge is not simply to pour in more resources into ODA, but also to improve the effectiveness and efficiency with which these resources are deployed. Better coordination among donors and harmonization of policies and procedures can greatly enhance the quality of aid and optimise the use of scarce resources. Italy is pleased to host in Rome next February the High Level Forum on Aid Harmonization. I trust that the Forum will succeed in moving the harmonization agenda forward in a substantive way.

Pooling of resources for direct budgetary support to countries may reduce transaction costs for ODA substantially. However, direct budgetary support can only be provided if sound development strategies, good policies and capable institutions are already in place. These prerequisites should be clearly assessed by country assistance strategies. Also, we should not forget that Bank investment projects transfer management and technical know-how and encourage the adoption of best practices. Aid is not only about finances, but also, and more fundamentally, about knowledge. We encourage the BWIs, and particularly the Bank, to adopt a cautious, case-by-case approach to pooling, tailored to country specific circumstances.

Financing of recurrent costs, for example, could, in the right circumstances, accelerate progress towards the MDGs. However, country commitment to MDG-related programs is critical. There is a risk that financing of recurrent costs might weaken country ownership and accountability for programs, and encourage aid dependency. Therefore, we see financing of recurrent costs as a temporary measure to be adopted while a country is putting in place the right instruments to mobilize domestic financing. In this regard, private sector participation must be promoted to further complement government’s initiatives. We encourage the Bank, in its work on financing of recurrent cost, to specify the need for clear, time- and resource-bound donor exit strategies, which should allow for progressively increasing country shares of recurrent cost financing.

Defining the role of BWIs in providing global public goods and responding to global challenges. On Global Public Goods (GPGs), the call in Monterrey and Johannesburg for a clearer strategy is yet to be answered in a fully satisfactory way. In particular, the World Bank needs to reflect on its own role vis-à-vis that of other development agencies. We see the Bank as taking a leadership role on GPGs in the design of development programs and projects, with a more direct operational focus. While certainly complementary to the role of specialized agencies, this role of the Bank is very significant. Given the linkages between the provision of GPGs and the achievement of the MDGs, we would like to see the Bank develop a clear action plan on GPGs as part of the implementation framework for Monterrey.

The Education for All (EFA) initiative recognizes that Education is a global public good, and provides a good example of how the under-provision of a typical public good can be addressed through mobilization of international resources and innovative approaches. We support the indicative frameworks that spell out minimum requirements for successful primary completion programs and for gaining access to the EFA program. Further progress must be achieved, and the Bank must deepen its analysis, before the EFA model could be replicated in other sectors.
Given the importance of trade for development, we encourage the Bank to coordinate with the WTO in monitoring key developments in the area of trade and in assisting countries by facilitating access to export markets and building capacity. In this respect, we take note of, and welcome the efforts of BWIs to strengthen their internal analytical capacity on trade issues. Developing countries should focus on improving their regulations and standards for investment and trade, and their capacity to respond to market opportunities. The Development Committee should be kept informed on trade developments and their implication for the attainment of the Monterrey objectives.

**HIPC—Challenges for Countries, Donors and BWIs.** The HIPC Initiative has contributed substantially to working out a coordinated solution to debt sustainability that is ultimately to the advantage of debtors as well as creditors. Progress in the implementation of the HIPC Initiative has been slower than anticipated, but steady. However, the Initiative’s long-term prospects face two major challenges: first, several HIPC countries remain vulnerable to excess indebtedness, even after their qualification, and second, not all creditors are participating to the debt relief exercise, as envisaged.

Achieving and maintaining long-term external debt sustainability is the critical challenge ahead, and the true measure of the success of the Initiative. We appreciate the new proposals by IFIs to review the methodology for assessing medium/long-term debt sustainability with the objective of making more prudent and cautious estimates.

The primary responsibility for maintaining external debt sustainability beyond the HIPC framework rests with HIPCs themselves. While external financing, as well as improved access to world markets for developing countries’ export, are essential elements of support to HIPCs, no amount of debt relief, financial assistance and trade liberalization can compensate for structural vulnerabilities. We support topping-up at the completion point in cases of exceptional events linked to exogenous factors beyond the country control. But it cannot compensate for other shortcomings nor can it be a substitute for sound policies and implementation of reforms.

Additionally, we believe that the commitment to provide new financing to HIPC countries only through credits on highly concessional terms or grants must be reaffirmed. Loans on commercial terms could create problems of debt sustainability. The World Bank and other IFIs should watch this risk very closely and highlight it publicly if it materializes.

Regarding creditor participation, we must emphasize for all creditors to provide their share of debt relief as they committed themselves to do. Italy is writing off 100 percent of its debt, and other countries are doing the same. This debt relief should not be diverted to repay other creditors instead of being channelled to growth and poverty reduction. In this regard, additional bilateral relief should be excluded from the calculation of topping-up of HIPC assistance at the completion point. The HIPC Initiative is a collective exercise and, as such, should engage all the participating countries in sharing the burden in a fair and equal manner.
Statement by Mr. Francisco Gil-Díaz, Minister of Finance and Public Credit (Mexico)

Implementing the Monterrey Consensus

After half a century of development economics experience and research, it seems there is a consensus that the most effective model of development is likely to be private-sector led, with an effective governance framework and endowed with basic physical infrastructure and a critical mass of human and social capital. Moreover, in a globalized world, it should be opened to trade and have access to open markets. The Monterrey Consensus captures these ideas in a development compact of mutual responsibilities and accountabilities between developing and developed countries in a partnership based upon country-owned and driven strategies embodying sound policies and governance together with increased and more effective development assistance. The focus on development effectiveness and scaling up, and the work being made on case studies and on measuring and managing towards quantifiable results will certainly enhance this framework, and will help the development community to identify the countries and sectors where more work needs to be done to achieve the Millennium Development Goals on time.

One aspect of the global environment that received special attention in Monterrey was the functioning of international goods and capital markets. In particular, it was widely recognized that the increasing integration of countries to global markets has produced a remarkable increase in the volume of trade and financial flows to developing countries. However, growing global economic and financial integration has also heightened vulnerability of emerging market countries to external shocks, volatility and, in the worst cases, crises and contagion.

Market stability should be of central concern to the Development Committee in the Monterrey Consensus implementation framework.

Crises and contagion in emerging markets make the attainment of the Millennium Development Goals by 2015 more difficult. Years—sometimes decades—of achievements in poverty reduction are lost in a few months after a crisis starts, and the disease may well spread to other countries (as the cases of Argentina and Uruguay show).

It is much harder for developing countries to bear the risks of market fluctuations than it is for industrialized ones, but they are forced to bear those risks. Usually, the consequences of this burden are disastrous: debt burdens that look moderate, for example, become unbearable after devaluations, and some countries lose years of development achievements in a matter of months. Markets have failed to develop appropriate mechanisms for risk distribution and risk management, and the international economic institutions in this Development Committee should begin to discuss undertaking this role.

From these perspective, the World Bank Group could—and should—play a more active role in crisis prevention and management without invading the mandate and sphere of action of the International Monetary Fund, which focuses on international macroeconomic stability. The development lessons and experience it has acquired over fifty years of implementing projects in over 70 countries across a number of sectors give the World Bank Group the technical credentials to contribute from a microeconomic and sectoral perspective to economic surveillance, crisis prevention and to identify solutions targeted at reactivate economic growth.
Therefore, economic stability and growth are issues that the Development Committee should address to implement the Monterrey Consensus, to reduce the reputational risk that economic crises pose to the international financial architecture and to avoid backward steps in poverty reduction.

According to the Monterrey Consensus, the two pillars that should support sustained growth are a good investment climate and the empowerment of poor people in a framework of good governance. The PRSP/CDF process shows the progress achieved to date in strengthening the second pillar. However, the Development Committee should increase its emphasis to strengthen the first pillar, which is composed of two elements: private sector development and market access. In a recent World Bank study it was shown that trade with North America drove the Mexican recovery much more than the IMF bailout. It follows that creating markets for developing countries’ goods and providing credit to their companies are crucial elements to reactivate economies in crises, especially in solvency ones. This is what countries like Argentina need today and where the World Bank could play an active, counter-cyclical role. We therefore encourage the World Bank Group to increase its work in international trade and private sector development, especially in crises situation where the “real” economy needs a jump-start. At the same time, industrial countries should not give contradictory signals when calling developing countries to be open for trade while erecting non-tariff barriers in their own markets via subsidies, norms or complex anti-dumping mechanisms. Trade should be used as an instrument for economic stability.

PRSP/HIPC Initiative Review

We welcome that the Highly Indebted Poor Countries (HIPC) Initiative is making steady progress. Since the Initiative started, Spain, Mexico and Venezuela in our chair have contributed to close the overall financial gap by searching creative and pragmatic bilateral solutions. Spain has been closely working with Guatemala to solve bilateral claims, as Mexico did with Nicaragua and Venezuela with Bolivia. A multilateral approach led by Spain is also under way with Costa Rica.

We are concerned with the rising costs of the initiative and the increasing financial gap to cover them. Today, the total cost for the HIPC Initiative stands at an estimated US$37 billion in 2001 Net Present Value (NPV) terms for both bilateral and multilateral creditors. Because


24 Spain swapped outstanding claims against Guatemala for this country’s debt against Nicaragua. This swap resulted in an effective debt cancellation of Nicaraguan debt by Spain of US$351, finally solving the debt problems among the three countries. Regarding Costa Rica, Spain is willing to lead a multilateral solution, too.

25 Since the Initiative started, Mexico granted debt relief to Nicaragua through a buy-back with a 92 percent up-front reduction. Venezuela latter wrote-off its claims on Bolivia. Neither Mexico nor Venezuela belong to the Paris club.

26 In the same spirit, two countries in our chair—Nicaragua and Honduras—have successfully completed their PRSPs and have reached the Decision Point under the Initiative. Work is currently in progress in both countries towards reaching the Completion Point.
canceling debt directly affects the capacity of multilateral development institutions to provide concessional lending to the world’s poorest countries, increasing multilateral costs raise a yellow flag to the whole process.

However, the biggest challenge for the Initiative is debt sustainability after HIPC. We are worried about the deteriorating outlook for many HIPC countries that arrive at their Completion Points with unsustainable debt indicators due to exogenous factors outside their control such as global economic downturns, falls in commodity prices and crises in emerging markets. In this regard, we welcome the flexibility the Initiative has to ensure a sustainable exit to debt overhang by providing, when appropriate, additional debt relief at the completion point. Our chair underscores, however, that this should be on a case-by-case basis for countries that have suffered a fundamental change in their economic circumstances due to extraordinary external shocks. Regarding the methodology proposals for this topping up, we see no basis to exclude from the calculations the additional bilateral debt reduction that some creditors are providing. Doing so would fundamentally misrepresent the countries’ actual debt situation and result in inequitable treatment among debtor countries.

A red flag must be raised against many commercial creditors who exploit the HIPC initiative by seeking full payment—and even profits—from insolvent borrowers, while official bilateral and multilateral creditors are making their best efforts to reduce the debt overhang in poor countries. This fact does not only widen the financial gap to sustain the Initiative, but also contributes to increase an already asymmetrical burden-sharing of overall HIPC costs. Our chair wants to be clear on this last point: in our view, the transfer of net-income from Multilateral Development Banks to finance the HIPC Initiative raises severe moral-hazard concerns among “good borrowers”, as their debt-service payments end up being transfers of resources from already poor countries to poorer ones. We strongly encourage all commercial creditors and bilateral donors to fully participate in the HIPC initiative, as many countries in our chair have done.

Moving forward, we believe that the best approach to HIPC should be a constructive one that triggers real economic growth. HIPC relief provides a sound basis for an exit from unsustainable debt, and ensuring it requires actions and reforms by HIPC countries and the international community overall, stressing partnership among all parties involved and harmonization of policies and procedures from donors. Moreover, while HIPC countries must continue their commitment towards economic and social policies and institutions and private sector development, as embodied in their PRSPs, developed countries must answer with open markets and free trade, as it is estimated that gains from trade exceed by far the most ambitious debt relief scheme. It is trade more than aid what these countries need.

Harmonization of Operational Policies and Procedures

The harmonization of policies and operational procedures is certainly an essential contribution to development effectiveness when we bear in mind that the development community has currently over 333,000 projects in more than 140 countries. The core of this harmonization exercise must therefore be the coordinated effort to boost productivity with the aim to improve development effectiveness. This principle must guide work in borrowing countries—by reducing the time and costs of addressing the multitude of donor requirements—as well as in donor countries and institutions—by minimizing duplication and other costs.
Moreover, following the lessons in development effectiveness after half a century of Bank operations, we recognize that the harmonization exercise may also contribute to ownership of the development strategies by the client countries. We therefore welcome the Bank becoming more engaged with other development partners to improve coordinated support to country-led assistance strategies.

In this light we welcome the progress in harmonization and call for moving faster to the next ambitious steps.

_Proposed Action Plan for Enhancing the Bank’s Ability to Help Clients in their Fight against Money Laundering and Financing of Terrorism_

Our chair strongly supports the joint effort by the World Bank Group and the International Monetary Fund to intensify work on Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT).

We strongly support the preparation of a single comprehensive assessment methodology for compliance with AML/CFT measures, and we believe that a full evaluation of its implementation is essential for everyone on a voluntary basis. In particular, we believe that voluntary nature of the process should be stressed, because the international development community must avoid to imply any kind of new conditionality with AML/CFT assessments, especially since they are not performed on every Paris Club member. In this regard, we welcome the fact that the United Kingdom approached the Financial Action Task Force (FATF) to visit them and carry out an assessment of their compliance with the forty FATF recommendations for AML and the eight special recommendations on CFT, alongside and to the same timetable as their Financial Sector Assessment Program (FSAP). We encourage other industrialized countries to follow the UK to give transparency to this initiative. Furthermore, we call the World Bank and the International Monetary Fund to work on incentives to stimulate a positive voluntary response to the assessment of each country’s compliance with AML/CFT in their financial systems.

_Statement by Mr. Suchart Jaovisidha, Deputy Minister of Finance (Thailand)_

_In Monterrey Consensus_

In Monterrey, we pledged a greater resolve to address the challenges of financing for development through strengthening partnership, improving the conditions for investment and growth, promoting greater integration of developing countries into the international financial and trading systems, enhancing ODA flows, reducing the transaction costs of aid, addressing debt comprehensively and enhancing a common approach to global public goods. We agreed to keeping fully engaged nationally, regionally and internationally to ensure proper follow-up and making the most of existing institutions in pursuing this pledge.

The time has come for us to focus on the achievements and implementation of the global commitments made in Monterrey, especially on ensuring that ODA and trade agendas are

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27 Representing Brunei Darussalam, Fiji, Indonesia, Lao PDR, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, and Vietnam
delivered as promised. We welcome the individual and collective announcements made to significantly increase ODA, as well as the successful conclusion of the IDA-13 replenishment, which agreed to increase the overall level and concessionality of financing.

Even more crucial is delivering global commitments with respect to increasing trade and market access opportunities for developing countries. Trade in many cases is the single most important development catalyst for many developing and transition economies. We urge that greater and faster progress be made in opening markets and phasing-out trade-distorting subsidies in industrial countries, particularly for agriculture, textiles and labor-intensive manufactures. We are particularly pleased with the World Bank’s strong support for building information and negotiating capacities for developing countries on this issue, and we look forward to receiving even greater espouse from the Bank in our preparation for the next WTO Ministerial meeting in Mexico in September 2003.

**Better Measuring, Monitoring and Managing for Development Results**

We are in full support of the general approach to advance the Monterrey Consensus, which calls, among others, for a focus on results by strengthening development effectiveness and improving implementation capacity for the delivering, measuring and monitoring of actions. This approach places emphasis on country responsibility, as well as coordinated measures by all stakeholders, in order to move the results agenda to a higher plane. And this focus on results is becoming more pressing now given the scarcity of development resources.

Poverty reduction can only be achieved if countries are committed to employing the available resources effectively to generate maximum sustainable growth, and ensuring that the benefits of growth are shared as widely as possible. Naturally, this will require that specific input and outcome indicators be put in place to measure and track results, especially in the broader areas of health, education and investment climate. As well, this results-oriented approach will eventually be the basis to reward better performing countries.

The challenge, however, remains in getting poor performing countries to improve results. Engaging with developing countries to build capacity to assess growth and poverty issues and to determine policy priorities, as embedded in PRSPs or national development plans, and appropriately supporting them with Country Assistance Strategies involving lending and non-lending instruments and ensuring their effective implementations, monitoring progress for results, will all improve the prospects for maximizing development outcomes. We are of the view that the World Bank has a central role to orientate stakeholders to this approach to improve development outcomes of investments made. Importantly, we should aim to reach the poor throughout the world and we call on donor countries and international multilateral agencies to be engaged with all countries, including those that need political reform. The Monterrey Consensus, therefore, requires partnership in the broader sense between developed and developing countries across a broad range of policies and actions, regardless of ideologies.

**Development Effectiveness and Scaling Up**

At our meeting last Spring, we emphasized the need to concentrate on implementation issues in order to achieve the MDGs. The findings of the three case studies give grounds for optimism on the potential for scaling up by doing things better technologically or
organizationally, as well as replicating successful models internally and internationally. More importantly, the case studies reaffirm that scaling up is possible if we remain committed financially to putting the Monterrey Consensus into action.

We agree that at the country-level, country commitment toward sound economic performance and sector-level policies are keys for scaling up. However, in most developing countries, institutional capacity constraints remain a key development issue. We support the call for additional resources at the donor-level, especially for those countries where the building blocks for scaling up are already in place. Where necessary, this should be complemented with more flexible financing modalities.

The case studies, especially on education, demonstrate the practicality to finance recurrent costs which are integral to the success of the project, and we appreciate the World Bank initiative to re-examine this issue. We agree with the caveat that the country’s debt-carrying capacity and the development impact must be taken into consideration in financing recurrent costs. We support the call for a greater role for global coalitions in priority areas, with especially strong impacts on poverty reduction. For example, HIV/AIDS makes countries poorer as millions of human resources are lost to an otherwise preventable disease, and global coalitions, besides playing the advocacy role, can raise additional resources where countries have the least capability to address these on their own. We are pleased that these case studies provide tangible and specific examples that the Monterrey framework of mutual responsibility and accountability provides a path forward, with commitment and actions in realizing the MDGs.

**Heavily Indebted Poor Countries (HIPC)**

We would like to reiterate our statement last Spring that meeting the completion-point triggers will involve huge efforts and these are not easy tasks for many of the HIPCs. HIPCs at different levels of poverty merit special assistance in the areas of policy formulation, effective implementation, and overall financing, besides debt relief. We are of the view that the HIPC Initiative, in its present form, gives insufficient attention to the broader task of generating growth for reducing poverty. We, therefore, are in full support of the recent proposals to modify debt relief, including the close monitoring of debt sustainability; programs to strengthen the capacity of HIPCs for debt management; better disclosure; and broader creditor participation in HIPC relief. We also concur with the proposals to modify the existing framework by linking the debt relief, first to the MDGs, and second to sustainable levels of debt service. All these will bring the initiative closer to the objectives of growth and poverty reduction. The essence of the HIPC Initiative is not just to write off the country’s debt but to bring it to a sustainable level, importantly to use productively the freed debt service resources toward this end.

We are prepared to go along with the proposal to extend the ‘sunset clause’ for another two years until 2004, to allow other eligible countries the chance to be considered for debt relief. However, we express caution that this extension, which is for the third time, should not promote a free finance and dependency syndrome and that the cost be contained in order not to put additional burden on the overall financing of the HIPC Initiative. We are persuaded with the proposal for deepening and broadening debt relief to a broader range of poor countries, including some from our constituency, which have not been able to tap into this facility.
Poverty Reduction Strategy Papers (PRSPs)

We welcome the progress report on PRSPs, which addresses, among others, key challenges emerging from the Joint Staff Review of March 2002. We are pleased to note that to date eighteen full PRSPs, forty-five I-PRSPs and five annual PRSPs progress reports have been completed. The recent review, however, also shows that substantial challenges remain as countries move from the design of PRSPs to actual implementation. The number of extensions of PRSP preparation timetables confirms that early PRSPs often contained overly optimistic macroeconomic assumptions and were not supported by identification of the potential sources of growth and the strategies required to achieve such growth. We therefore support efforts by the Bank and Fund staff to conduct a more thorough analysis of the sources of growth and the policy measures needed to raise growth rates to desired levels, including supporting rural development, increasing agricultural productivity, improving the investment climate, developing a properly functioning legal system, expanding infrastructure, and promoting financial sector soundness. On the external front, we would also suggest attention be given to the issue of market access for the products resulting from development of these growth sources.

Advancing and deepening the PRSP process requires countries to strengthen their institutional capacity. However, the review shows that capacity constraints continue to pose a huge challenge to the already scarce capacity of developing countries. We call upon the donor community to help developing countries build the capacity to assess issues, formulate policies, and implement measures for growth and poverty reduction, delivery of services, public expenditure management, as well as monitoring and evaluating funds expended. The PRSP process shall serve as the basis for greater country-level coordination among donors. We are pleased to note that countries are increasingly involving donors in the consultation process in preparing their PRSPs. We urge donors to contribute to a lower cost of doing business by harmonizing their operational policies, procedures and practices in their involvement with these countries, thus effectively accelerating the development process.

Combating Money Laundering and Terrorist Financing

Given its transnational nature and the crosscutting agenda, AML/CFT will continue to be one of the most challenging governance-related issues, domestically and internationally. We support global efforts in combating financial crime and this requires a cooperative approach involving many partners. We agree that the Bank’s involvement in AML/CFT should be in close collaboration with the IMF, international standards setting agencies, regional AML task force, the UN and others. All these, however, must continue to be anchored in the Bank’s development mandate and focus on helping countries strengthen their financial system against financial abuse without being responsible for enforcement itself. The Bank’s role should be to provide enhanced support for capacity building in the areas of financial governance and legal foundations. Particular attention should continue to be given to assisting those certain small economies that have been providing offshore financial operations to overcome the possibility of a smaller number of clients, reduced revenues, and increased operating costs as a consequence of tighter offshore financial standards of operation.

Further, on fighting for terrorism, some acts of terrorism may actually require remarkably small amounts of money and neither cash transaction reporting measures nor suspicious transaction reporting systems would trigger warnings. In addition, these transactions may not
necessarily take place in developing countries alone, but in developed countries as well. These are challenges to be resolved.

Statement by Mr. JIN Liqun, Vice-Minister of Finance (People’s Republic of China)

The theme of this meeting can be characterized by two words, i.e. “action” and “result”. I would like to make my observations in these two terms.

Monterrey Consensus

Our objective has been brought into sharp focus since the Monterrey Conference and the Johannesburg Summit. What we need now is action, rather than rhetoric. The developed countries should build on this momentum and take immediate actions to implement their commitment, increase official development assistance (ODA), open up the market and reduce and/or write off the debt of the least developed countries (LDCs).

We appreciate the efforts of the Bank and the Fund in this regard. We support the Bank, under the framework of Monterrey Consensus, in placing the Millennium Development Goals (MDGs) high on the agenda as the direction for future efforts. At the same time, we also hope that the two institutions will further strengthen their cooperation and coordination with relevant agencies of the United Nations and bring into full play their respective comparative advantages, and thus provide more effective assistance to the developing members, including, among others, urging the developed countries to open up their domestic markets and helping the developing countries improve their trade capacities.

Another major approach to improve the assistance effectiveness is to enhance the cooperation and coordination between the multilateral institutions and the bilateral donor countries. The two institutions are expected to continue to make great endeavors to assist the developing countries in mobilizing more bilateral aid on concessional terms.

Development Effectiveness and Scaling-Up

We hold that development ownership is the premise for achieving development result. Countries differ in situations, hence their development priorities and strategies. The outcome has much to do with the way a country could formulate its own development strategies in line with the local conditions. In order to achieve intended results, the recipient countries should be given the right to choose and establish rational and feasible objectives. And these objectives must be realistic to the clients’ actual situation in terms of the reform and development stage as well as their project implementation capacity. There is no doubt that experience proven valuable and relevant should be drawn from other countries in mapping out a development strategy.

We welcome the Bank’s case studies in Education for All (EFA), prevention and treatment of HIV/AIDS and other communicable diseases and rural community water supply. Education, public health and water supply are closely-related issues. Resolving these issues have a direct bearing on a country’s poverty reduction and sustainable development. These studies indicate that to address these issues is a formidable task and requires sustained efforts from all
parties concerned, and our objective can be achieved. While the recipient countries’ own efforts are indispensable, the assistance from the international community is no less critical.

For China, as a low-income developing country with a large population, it is a daunting challenge to address the above-mentioned three issues. These objectives can only be achieved through sustained economic growth, continued increase of inputs, the concerted efforts of the whole society, and the promotion of international cooperation. To maximize the development effectiveness, the approach should be tailored to the local conditions in different regions.

The recipient countries, multilateral institutions and donor countries should further consolidate relevant experience and explore ways for better and broader development results.

**Measuring, Monitoring and Managing for Development Results**

We, too, believe that there should be better measuring, monitoring and managing for development results, and that the development strategy should lead to results. The key issue is how to measure the results and in this process care must be taken to avoid imposing yet another layer of unnecessary conditionality. A proper approach to measuring, monitoring and managing for results will play a guidance role in the formulation of future policies, and any mishandling of this approach would be counter-productive to the improvement of development effectiveness.

Firstly, we stress that “practice is the litmus test of a theory”. To measure the effectiveness of development strategy and projects, attention should be paid to gauging the improvement, if any, of people’s living standard, social harmony and stability. Consideration should also be given to the financial, economic and social benefit. Achieving the development goals is a long-term process. It is not realistic to expect one or two projects to do the whole job of economic development cause.

Secondly, the people in the developing countries are the jury to give their verdict on the development results. The recipient country should play a leading role in the project implementation and result-based measurement, with the participation of all the related parties. Development agencies could assist the clients in capacity building for project monitoring and evaluation and for defining measurement indicators.

Thirdly, in measuring development effectiveness, adequate consideration should be given to various external and contingency factors so as to ensure its objectivity and fairness.

We encourage the two institutions to provide the clients with more capacity-building support, help improve their capacity in data collection, processing, analysis and utilization, and thus enhance their overall project management capacity.

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

The Chinese Government has consistently supported the HIPC initiative. We appreciate the efforts made by the two institutions. We are happy to see that twenty-six HIPC countries have reached the decision point and the actual debt relief commitment stands at US$26 billion. We have noted with regret, however, that only six countries have reached their completion points. We therefore urge the two institutions and the international community to continue their
efforts so that more countries could benefit from this initiative. Meanwhile, we are also concerned with the adverse impact upon HIPC countries of the global economic slowdown, depressed commodity prices and regional conflict. We endorse the extension of the “sunset clause” until end-2004, so that more countries could have opportunities to reach the decision point.

*Poverty Reduction Strategy Papers (PRSPs)*

Since the approval of PRSP approach in December 1999 by the two institutions, 18 countries have completed their full-PRSPs and 45 countries finished their interim ones. This has laid a foundation for obtaining prompt assistance from the international community.

We noted that the preparation and implementation of PRSP has, to a large extent, been constrained by the weak institutional capacity in the low-income countries. And in this connection, we call on the donor community to provide more technical assistance, both quantitatively and qualitatively, and improve the institutional capacity of the low-income countries, thus making PRSP a real client-led process with the full participation of all the stakeholders.

The low-income countries’ success in poverty reduction mainly depends on their own effort. Nevertheless, the donor countries have their corresponding responsibilities and obligations. We urge the donor countries to increase their assistance in accordance with the PRSP, coordinate their policies and procedures, minimize project cost, open up their domestic market and create a favorable external environment for poverty reduction in the low-income countries.

*Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT)*

The Chinese Government resolutely supports and implements the UN Security Council’s Resolution relating to AML/CFT. China has signed the International Convention for Suppression of Financing for Terrorism, set up a specific unit for AML/CFT and made relevant laws and regulations. China has also actively participated in the international cooperation in AML/CFT and is committed to work with the Financial Action Task Force on Money Laundering (FATF). We call for an increased representation of developing countries in FATF, and thus strengthening the rationality and authority of its proposals.

We are of the view that AML/CFT-related work should be done under the United Nations, and that the Resolution should be implemented by national governments. The Bank and the Fund should make use of its own comparative advantage to conduct relevant undertakings in line with their respective mandates. We support the two institutions in providing more technical assistance, including training, to the members for the purpose of improving their institutional capacity. However, this should not add to conditionality for lending programs.

*Harmonization of Operational Policies, Procedures and Practices*

We appreciate the effort that have been made by the Bank and all the other development agencies since the Spring Meeting in respect of harmonization of operational policies, procedures and practices. In the next phase, the role of the recipient countries should be brought
into full play, and attention should also be paid to the coordination and consultation between the donors and the clients, so as to achieve the anticipated targets and results.

The harmonization of policies and procedures at the country level should be carried out on the basis of the results from pilot programs, taking into full account the country-specific situations. The key to the success in the next phase lies in streamlining policies and procedures, reducing duplicative and cross conditionalities, minimizing project implementation cost and focusing on results.

Statement by Mr. Jan O. Karlsson, Minister of Development Cooperation (Sweden)

A New Environment

During the last few years, the environment in which the World Bank acts has changed significantly. I would like to introduce by emphasizing three aspects of this changing environment; (i) the global economic downturn, (ii) the "Global Deal", and (iii) the implications of IDA-13.

The Global Economic Downturn

The global economic situation is marked by a considerable uncertainty. There are several factors in the US, in the Euro area and in Japan, which indicate that downside risks for the global outlook still exist. Moreover, the economic situation in Latin America is especially troublesome because of global uncertainties and domestic problems. Financial sector worries stemming from unreformed banking system and burdensome stocks of non-performing loans in some countries still pose a threat to economic growth in some of the Bank’s largest client countries.

While these problems in many cases have large endogenous components, one general trend is the decrease in net FDI flows to developing countries. The turbulence in financial markets and the terrorist events of last year added to the increase in risk aversion due to the general economic downturn in most countries. The concentration of these more stable flows of financing to a few emerging markets also remains a great concern.

A Global Deal – Monterrey, Doha and Johannesburg

Recent multilateral conferences such as Monterrey, Johannesburg and Doha, express a global deal. In the deal, the developing countries themselves have the prime responsibility for their own development. In this responsibility lies the recognition that there are options from which the developing countries must choose to maximize the effect of policies to reduce poverty and sustain growth. The international community also has responsibilities in supporting these actions, not least by reducing trade barriers and granting market access to exports from both low and middle-income countries. We, as donors, have reaffirmed our commitment to aid and to further enhance the effectiveness of aid, with actions such as harmonization on the part of the donors and commitment to good governance and sound macroeconomic policies on the part of the client countries.

28 On behalf of the Nordic and Baltic Countries.
The Johannesburg conference underscores the interconnection between the environment and economic and social development. However, prioritization is necessary to achieve progress. The Monterrey Consensus in particular outlines the political framework and the need for all actors to set their priorities.

**IDA-13 and the Bank as the World’s Largest Distributor of Aid**

The recently concluded negotiations on IDA-13 will have as a result that the World Bank will be the single largest provider of grant financing to many developing countries. This is a development viewed with mixed emotions in my constituency. The long-term financial cost of grants is a key issue to IDA as an institution.

**Challenges for the Bank**

This changing environment will be challenging for the Bank, both in general terms and more specifically for MIC and IDA-countries. Let me start with the general challenges:

The role of good governance and sound macroeconomic policies in developing countries as agreed to in the global deal is crucial and it is therefore important to support governments adhering to these policies.

A new global environment calls for a strong multilateral system, with a strong role for the Bretton Woods Institutions. As for the World Bank, this vision includes development, economic growth and social stability as well as a setting in which multilateralism is adhered to as the fundamental way of reaching our goals. In order to keep its focus the Bank will have to set its priorities and strive to continuously improve its capacity in these fields. A strong and efficient multilateral system requires close cooperation and coordination. The Bank should not – and must not – take the lead in all areas.

**Implementation of Monterrey, Doha and Johannesburg - Achieving Results**

At the last DC-meeting, most of us agreed that we have learnt a lot on “what works” and “what does not work” concerning development cooperation during the last 50 years. We agreed that focus should now be on implementation. We support the Bank to continue to contribute to the implementation of Monterrey, Doha and Johannesburg. While doing this, there is a need to further sharpen the way we manage, measure and monitor for results, in order to achieve results. We note that implementation and monitoring and data reliability issues require close collaboration and clear division of labor between Bretton Woods Institutions, the UN and WTO.

The most important determinant of results at the country level, as expressed in the global deal is the policy and governance decisions of developing countries. Of primary importance is the adaptation of sound macroeconomic principles and commitment to alleviate poverty. In support of this work the Bank need to continue allocating resources based on performance. While we strongly support conditions on prior actions, we caution against relying too heavily on over-determined ex ante conditionality. We welcome the initiative to strengthen statistical capacity in recipient countries as well improving the results- and quality systems within the
Bank. These efforts are welcome parts in order to sustain effectiveness and achieving the Millennium Development Goals.

The Nordic Baltic Constituency want to support the efforts made by the Bank and IMF to help countries analyze the consequences for the poor of various policy choices through for example Poverty and Social Impact Analysis, PSIA, where quantitative and qualitative methodologies are combined. We do, however, regret that the introduction of PSIAs is proceeding rather slowly and we urge the World Bank to accelerate this work.

Results at the country level also depend on the quality of national institutions. We know a lot about how to effectively build and support institutions, but we do not know everything. The sequencing of reforms, necessary conditions for particular institutions and ways to make them work more effectively are fields where more research is critical.

I would like to underline the importance the Nordic Baltic countries place on the fight against corruption at all levels. We know that corruption is a serious threat to economic growth and development and that it makes aid less effective and sometimes even counterproductive. Transparency of public finance management is of paramount importance: people need to have more possibilities to hold the governments accountable for the use of public funds. We need to further explore ways to support development in countries with a solid stance on good governance, while not forgetting the poor in countries with less satisfactory track record. It is important to steer scarce resources to countries that are conducive to growth and poverty alleviation while focusing on policy change and capacity building in other countries.

While supporting allocation of resources based on performance, the Nordic Baltic Countries have also been concerned about poor performers. There is obviously a need to distinguish between those that perform bad due to ill will and those that do so due to lack of capacity. We welcome the discussion on the role of the Bank in relation to these countries.

The Balance Sheet of the World Bank

Turning our attention to the balance sheet of the Bank, we recognize that the prospects of a weak and delayed recovery also mean that the Bank is affected. The trade-off between increasing its exposure to borrowers in difficulties and thereby increasing the risk in the Bank’s portfolio is ever so obvious. The Bank has a rather high exposure to a few client countries already, and any allocation decisions will have to be measured primarily against its risk-bearing capacity, taking into account the over-arching goal of reducing poverty and the fundamental principle of allocating resources to where they would be most effective in achieving this goal.

As a special case, I would also like to voice a few concerns for future reference when it comes to the implications of our discussions on how we manage lending and the Bank’s exposure to countries that are close to the concentration limit. Weighing even a small increase in risk for the Bank against extending financing above the concentration limit, we believe that there is little room for the latter.

While the World Bank is rather unique in that most of the clients in the non-accrual portfolio, in history, have come back to meet their principal payments, there is still a risk that a
large borrower, in the future, might have difficulties doing so. We welcome the opportunity to discuss and assess the risk-bearing capacity of the Bank this fall.

*Harmonization of Operational Policies, Procedures and Practices*

Efforts on harmonization of operational policies, procedures and practices must be scaled up. As an example, we believe that the Bank should roll out its new Bank approach towards Sector Wide Approaches, where donors take a collective approach to financing of a particular sector in a country. In a number of countries and sectors, governments and their bilateral partners are waiting for full World Bank participation in these processes. However, there are some unfortunate examples of countries where the Bank has not progressed very far in aligning its program to an existing Sector Wide Approach.

Furthermore, participation in SWAPs also benefits from a speeding up of the decentralization process within the Bank. We support the high-level meeting scheduled to take place early next year.

Partnerships are put to the test in Poverty Reduction Strategies. The Nordic countries have expressed strong support for the PRS-process and started internal processes aimed at aligning our bilateral programs with the Poverty Reduction Strategy Papers. We expect other partners to do the same, particularly the World Bank which we feel has a special responsibility to "take the lead" in adjusting its working modalities to fit into the PRSP. We welcome and acknowledge that significant changes in the right direction that have taken place.

We welcome the pilot project on Combating Money Laundering and Terrorist Financing and the cooperative nature of the approaches suggested. This is an important step in our efforts to build a safer world and strengthening the financial system. We also reaffirm our commitment to the role of the World Bank in promoting and working towards strengthening corporate governance and necessary reforms in the banking sector in many countries.

*IDA-Countries*

Concerning IDA-countries, the World Bank is already the largest creditor. With the IDA-13 agreement the World Bank will also be the single largest provider of grants. The central modus operandi of the Bank remains the provision of loans for developing purposes on market or concessional terms. The guidelines for allocating grants under IDA-13 must be complemented with clear priorities and operational rules. It is also important that the Bank utilizes the grant element with the accumulated effectiveness of the wider multilateral system in mind.

Loans, by their inherent structure of disbursement and repayment, sharpen the responsibility of the borrower, and create a natural incentive to put the money to a more productive use. IDA loans incorporate the positive aspects of the discipline that debt provides in all financial systems, in developed and developing countries alike. For the poorest countries, external shocks and structural weaknesses in the economy create a rationale for concessional lending as well as for aid financing, which in many aspects is complementary to loans.

With all the new grants finance, the process of strengthening monitoring and managing for results is welcome. We welcome the enhanced assessment process in IDA for monitoring
country performance through the Country Policy and Institutional Assessment, CPIA. We find that it would be a constructive initiative of the developing countries if they agreed to make these CPIA reports public.

IDA depends, for financing, to large degree on reflows of loans. The increased grant element will result in diminished reflows, for which we must fully compensate IDA. Donors must take long-term responsibility for IDA. In this respect, pay-as-you-go is not the most feasible solution. We urge all stakeholders to aim to come up with a more responsible solution at the mid-term review, instead of leaving it to coming years to find a solution to the challenge of smaller and smaller reflows.

**Middle-Income Countries**

The recent economic events in Latin America show that there is still a need both to stay engaged in Middle Income Countries, at the same time as it is a reminder of the high vulnerability of emerging economies. In other regions, MICs are also struggling to muddle through. A majority of the world’s poor live in the middle-income countries. These people are most vulnerable to global economic downturns, since the emerging economies to a larger degree than many of the poorest countries are integrated with the world economy. We believe that the MICs themselves to a large part are responsible for reducing poverty in their countries. We note that there are important lessons to be learnt from countries such as India and China, in light of the dramatic reduction in poverty, in these and several other countries the last ten years. We remain committed to the strategy for MICs and we support an active implementation of the strategy, while taking into account the risk-bearing capacity of the Bank.

The increased exposure to a few MICs means that the Bank is more vulnerable, but also that there may be scope for a wider outreach to other MICs. The Bank has an additional role to play in increasing the share of financing to MICs with low or no present borrowing from the World Bank.

What determines the demand for World Bank financing and advisory services in middle-income countries? Besides the availability of finance from other resources, two main answers must be the cost of doing business (including administration, the time cost of processing, the cost of different safeguard mechanisms, etc.) and the array of available instruments. Although we think there may be room for tailoring instruments such as risk-mitigating tools to the specific demands of client countries, this is not enough. We need to continue to analyze and discuss the cost of doing business with the Bank, keeping in mind the very positive effects of crucial safeguards such as environmental assessments.

Summarizing, we call for implementation – this is the fundamental conclusion from the discussion on development effectiveness. As one key aspect of implementation we call for progress on harmonization, beyond merely applying the same standards and forms for all donors. On IDA-13, we stress that the use of the grants element will have to be carefully evaluated. Furthermore, we call for donors to find a responsible solution for the long-term financing of IDA, addressing the lack of reflows from loans. Finally, we stress the need for caution, reflection and contingency planning at this time. We remain highly concerned with the financial soundness and the risk-bearing capacity of the World Bank.
Statement by Mr. Sergei Kolotukhin, Deputy Minister of Finance (Russian Federation)

Implementing the Monterrey Consensus

The report on the progress made in achieving the Millennium Development Goals and on the participation of the Bretton Woods institutions in implementing the Monterrey Consensus is informative albeit somewhat formalistic. Most points it makes were discussed long before Monterrey and at subsequent fora. We expected a more candid analysis of the issues still to be resolved and a frank assessment of the factors impeding the implementation of Consensus decisions.

We are pleased to note, however, that the Bank and the Fund are actively monitoring the extent to which individual countries have been meeting the Millennium Development Goals and are increasing their cooperation with the United Nations. It is also encouraging that they have begun to focus on the need to improve statistical systems in poor countries, for such improvements will provide a more objective picture of world poverty and its causes. Participation by the Bank and the Fund in an international dialogue on tax policy and in evaluations of the investment climate in various countries could be also of great benefit.

We support the efforts of the Bank and the Fund aimed at improving donor coordination, developing a common analytical base, and enhancing the predictability of resources allocation in tandem with tracking budget expenditures in recipient countries. Despite significant difficulties in this area, we can confidently expect that these efforts will bring about positive and tangible results in terms of enhanced effectiveness of the international development assistance system.

We welcome the improved dialogue with WTO regarding poor countries’ access to markets of developed countries as well as the establishment of a special trade department within the Bank. However, the trade issue poses a host of complex problems. It is important to note that despite all declarations of Monterrey about access to the markets of developed countries and reduction of access-distorting subsidies, practical policies have by no means always been consistent with these intentions. This applies particularly to agricultural subsidies.

Also, we still do not see solid results from the efforts of the Bank and the Fund to strengthen the financial architecture and prevent crises. The actual outcomes in this area indicate, at best, that these efforts have not been productive enough.

Improving the Effectiveness of International Development Assistance

The Monterrey consensus implies strong focus on results of development assistance and necessitates critical analysis and a revision of established approaches in this area. Although the issue of aid effectiveness has been under discussion for a long time, the document prepared by the World Bank for this session is the first to formulate it so clearly and openly. Its conclusions and recommendations are based on rich experience in implementing aid programs in various countries and sectors. We fully concur with most observations made in the document, especially since many of them square with the experience of the Russian Federation.
In particular, it is clear that the key conditions for sustainable development and for solving social problems are sound economic and social policies, adequate institutional capacity at every level of government, proper public expenditures prioritization and control, and involvement of civil society in setting up development programs’ priorities and monitoring their results.

To enhance and scale-up effects of individual projects, countries must involve existing administrative structures directly in their implementation. Although establishing parallel structures to implement individual international aid projects may in some instances help accomplish various immediate tasks, in the medium and long term this approach does not contribute to improvement of existing institutional capacities and carries additional costs.

We fully agree with the observation that the limited resources allocated for development assistance are not always being spent in the most productive way. Improving cost-effectiveness of this assistance and getting maximum possible results from each available dollar is of critical importance. Specifically, a considerable share of the resources allocated for technical assistance is spent on foreign consultants, whose selection is often outside the control of the recipient country. Thus, the country is unable to monitor the quality of the services it receives. Aid effectiveness could be substantially increased by using local expertise and better controlling the cost and quality of services financed with assistance funds.

In order to improve the effectiveness of resources, they should, whenever possible, be linked directly to the level of government structure where they will be used. The actual outcome of aid redistribution, however, depends on the administrative structure and the relationship between the central and local governments in each country. As the document correctly points out, any program funded with international aid can succeed only when it is consistent with the existing system of governance and takes into account the budgetary linkages among the various levels of public administration. Moreover, one of the most important political priorities in many countries is to increase responsibility for, and oversight of, the disbursement of financial resources at every level. Aid programs should not conflict with these priorities, particularly where sovereign guarantees are involved.

The proposals for more flexible financing arrangements for development programs deserve special attention, particularly the proposal to move away from the rigid linkage of such financing with capital investments. This complex issue should be carefully studied and an acceptable, balanced solution should be found. We should also enhance predictability in allocation of donors’ resources, for example, by creating insurance mechanisms to cover unexpected costs and bridge temporary interruptions in aid flows.

We fully agree that increased aid effectiveness requires improved coordination and harmonization of the efforts of all donors on a country level. We should not, however, underestimate the difficulties of meeting this goal. It is no secret that bilateral assistance in many countries remains largely tied and is used as a tool to meet the economic and foreign policy objectives of donor countries. Nor can we disregard possible resistance from influential interest groups which may oppose easing such tying arrangements. Accordingly, the first step toward better coordination and synchronization of donor activities could be to depoliticize the assistance to a certain degree.
At the same time, from developmental point of view there is a strong case for eliminating fragmentation and poor coordination in donor activities and enhanced focus on results. Perhaps an appropriate institutional mechanism could be established by using the experience and institutional capacity of the World Bank, which has coordinated donor activities with success for a long time.

Better Measuring, Monitoring, and Managing for Development Results

The new focus on results presupposes a fundamental improvement in the system of measuring, monitoring and managing the effectiveness of development programs. However, as the reports clearly indicate, these tasks present substantial methodological and practical challenges. At least four sets of problems arise in this connection. Specifically, we refer to the issues related to quantitative measurement and evaluation of:

- the impact of domestic factors (economic policies and the quality of institutions) on development outcomes;
- the role of the external environment, including the state of the world and regional economy and the trade policies of the main partners;
- the collective contribution of all donors operating in a country; and
- the contribution of individual donors and partners.

Solutions to these problems are a long way off at this point; it is unclear whether they can be solved at all. It should be emphasized that they are all highly sensitive politically, for donors and recipient countries alike, and this aspect may make progress in this direction even more difficult.

Even the most developed countries have basically failed thus far to devise a system for evaluating the effectiveness of their publicly financed domestic programs. The task seems still more complex for developing countries. It is not altogether clear what criteria should be used to evaluate the quality of domestic policies in various countries and to interpret those countries’ achievements. For instance, in some cases a country’s partners may regard its policies as incorrect even though it may be nominally close to achieving the Millennium Development Goals. Nevertheless, the proposal for wider disclosure of CPIA ratings of IDA-eligible countries will provide the international donor community with a more objective evaluation of what is happening in those countries and of the impact of the assistance they receive.

The ability to collect and disseminate knowledge and information about development, is critical for monitoring development outcomes. Progress in these areas will have a positive impact on the quality of governance. This is especially important when it comes to evaluating the effectiveness of government expenditures. In this connection, we fully endorse the international initiatives aimed at enhancing and developing national statistical systems. We support efforts to improve national statistical systems that can be supported by loans and technical assistance from international institutions (IFIs), as well as bilateral donors’ grants.

It should be borne in mind, however, that at present statistical data collected in poor countries often remain unreliable and fragmentary. Moreover, setting-up a modern statistical service requires substantial resources and a considerable amount of time. In any case, high statistical standards cannot be imposed from outside – the principle of country ownership must
be fully adhered to. In addition, the country programs of IFIs and donors should contain appropriate incentives, and these programs should be closely coordinated.

A focus on results should be fully integrated in the World Bank’s activities. The final outcomes of operations can appropriately be added to existing quantitative and qualitative indicators. However, we should take care that no risk aversion behavior emerges. For example, if quantitative results, which may not be completely reliable, are unduly overemphasized, this may significantly distort the incentives of IFIs, prodding them toward opportunistic behavior. It is not altogether clear, for instance, how the proposed changes in the focus of the Bank’s activities on final outcomes will affect its activities in problem countries, where its contribution could be enormous and critical.

It is also important to bear in mind the high cost of shifting to measurable results-based approach, both in financial terms and in terms of the actual institutional capacity of the participants in the development process. Investments in measurement and monitoring systems will make sense only when they are recouped through increased investments and improved quality of assistance in the future. In any case, the alleged lack of reliable systems for measuring results must not be an argument for curtailing aid programs and the fight against poverty.

*The HIPC Debt Initiative*

In reviewing HIPC progress, we were struck by sharp slowdown in the implementation of the Initiative over the six months since the Spring meeting. During this period, only one country has managed to reach its completion point under the Initiative. In addition, despite the considerable amount of debt relief, actual results in terms of improved macroeconomic indicators or increased level of social expenditures remain very modest. However, these circumstances should not lead us to excessive alarm or panic.

One major negative consequence, if panic were to prevail, could be the desire to accelerate the HIPC process by easing the eligibility threshold while expanding the overall number of beneficiaries, as well as by raising the level of debt reduction in each individual case against the initial indicators. Such an approach would be absolutely unacceptable. We consider it important to caution against potential swings from excessive optimism at the start of the Initiative to panic caused by gradual slowdown in accession of new participants. The growing difficulties in the implementation of the Initiative, especially with regard to the preparation of full country-owned poverty reduction strategy papers and improved governance, could have easily been predicted.

The international community today must certainly display patience and consistency in its commitment to the Initiative’s original principles. It is worth taking another critical look at the goals and objectives that this instrument was designed to achieve. Again, it is important to remember that external debt write-offs, no matter how substantial, cannot replace sustainable economic growth, structural reforms, and an improved investment climate. Similarly, a mechanical increase in social expenditures cannot replace meticulous efforts to improve budget execution systems, external debt management, as well as to develop adequate sector strategies, and to generally increase the efficiency of public governance. The Initiative is merely one of many prerequisites for sustainable development; participation in it is not a passport to a problem-free future.
We therefore underscore our conviction that it is essential to adhere both to the agreed eligibility criteria for countries to reach decision point of the Initiative and to the set of triggers for completion point. We take a similar approach to the issue of topping-up at completion point. No clear-cut methodology has yet been developed for evaluating the negative impact of exogenous factors that would justify such an additional debt relief. This issue must be approached with the utmost caution in order not to raise excessive expectations of potential candidates for such topping-up or to create distorted incentives that could result in a temptation to manipulate statistical data. A well-defined and clear procedure for allocating such additional assistance should be developed, and the procedure should then be applied only in exceptional cases; under no circumstances should this exercise be automatic. To proceed otherwise could erode the eligibility terms and conditions, a development that would eventually erode the basic principles of the Initiative and would be unfair to the countries that were the first to reach completion point.

It is with similar caution that we approach the proposed two-year extension of the sunset clause for the Initiative. This is the third such proposal, meaning that the total extension will amount to six years. In our view, this runs counter to the originally stated intention not to turn the Initiative into a permanent debt relief mechanism. The Initiative’s rigorous time limits, were, *inter alia*, intended to encourage potential participants to adopt appropriate structural reforms on an accelerated basis. In practice, however, a large group of countries continues to have serious difficulties meeting all the conditions for participating in the Initiative, and it is hard to expect that all the candidates will make it over this bar in the two remaining years. Sooner or later we will face a difficult choice anyway—to call an end to it or extend the time limit once again. Consequently, even though in a spirit of compromise we are prepared to agree to the proposed new two-year extension, we would urge both the Bank’s management and donor countries to use this period to devise future strategy and alternative approaches to the countries that will still not be able to meet the criteria for participation in the Enhanced HIPC Initiative.

**National Poverty Reduction Strategies**

We agree with the conclusions and recommendations of the report on Poverty Reduction Strategy Papers (PRSPs). We believe, however, that they need to be further refined on the basis of ongoing experience.

Although the majority of the least developed countries have already prepared and adopted their poverty reduction strategies, experience in implementing them is still rather limited. Accordingly, for the time being there are more questions than answers. Therefore, the dialogue on the issues of sustainable economic growth in the interests of poverty reduction must be expanded. It is important to get all stakeholders - including civil society, the private sector, parliaments, and local sub-national authorities - adequately involved in the development and implementation of national poverty reduction strategies. Monitoring the implementation of these strategies must be improved on the basis of realistic and measurable indicators. A great deal needs to be done with regard to building up cadre and institutional capacity; their inadequacy in the least developed countries is a very serious obstacle to achieving economic and social development goals.
In the context of national poverty reduction strategies, it is particularly essential for multilateral and bilateral donors to coordinate their activities and harmonize their aid policies and procedures. Otherwise the recipient countries are doomed to incur excessive transaction costs and administrative burdens related to external assistance. We firmly believe, however, that the primary responsibility for effective utilization of external assistance and a subsequent reduction of aid dependency lies with the recipient countries themselves.

**Anti-Money Laundering and Combating Financing of Terrorism**

We give high marks to the work of the Bretton Woods Institutions (BWIs) on anti-money laundering and combating the financing of terrorism (AML/CFT). Thanks to them, the first comprehensive methodology for assessing the level of resilience of national financial systems to these dangerous abuses has been developed.

Naturally, this work is still far from being complete. A whole host of issues remain unresolved and require further research and consultations.

To begin with, we continue to have serious doubts about some aspects of the proposed assessments. From the very outset, our approach to these assessments has been based on the fact that the Financial Action Task Force (FATF), as planned, would adopt the ROSC principles—the uniformity of rules applied to every country without exception, the voluntary nature of the assessments, and full collaboration and cooperation among all parties. FATF, however, is far from adopting these rules, which makes prospects for active participation by the Bank and the Fund in this area somewhat problematic.

We are also concerned about the fact that FATF is not ready to stop compiling blacklist of countries (the so-called NCCT process). At the same time, we regard the decision not to hold the next round in this process during the next twelve months as just a first step in the right direction.

We are especially disturbed by the probable course of events in which FATF announces that conducting an assessment according to the standards of the Bank and the Fund is an additional condition for adopting a decision to remove countries from the NCCT list. Given FATF’s specific decision-making system, even an assessment with positive results may prove insufficient for such a decision to be adopted. This would seriously discredit both the methodology of the assessment and the participation by the BWIs in the fight against money laundering in general.

It is imperative to build mechanisms into the assessment process to preclude situations in which the BWIs become involved in non-transparent and unfair processes that run counter to their principles and mandates. We expect the Bank and the IMF to declare outright that they do not consider and do not recognize FATF blacklists.

In addition, it is not clear how the interaction and division of labor will proceed between the BWIs, on the one hand, and FATF and similar regional bodies, on the other hand. The ROSC process implies that assessments are conducted by the BWIs, which assume responsibility for the quality of their results. In our view, the mechanical consolidation of two unrelated groups of institutions within this ROSC module carries the risk of a certain conflict of interest that could
damage the participants’ reputation. It has been proposed that the Bank and the Fund should not bear responsibility for the portion of the assessment conducted by “independent experts.” But in that case the assessment in effect falls outside the integrated ROSC process.

We believe it would be better to separate outright the assessments conducted by the Bank and the Fund from the assessments conducted by FATF and related organizations. The latter assessments must not be viewed as an element of the ROSC process, especially since there is no agreement between the BWIs and FATF on mutual recognition of assessments.

We are prepared to endorse the consensus that is taking shape. This endorsement reflects our fundamental and unconditional commitment to the fight against money laundering and financing of terrorism. Nevertheless, our attitude toward the specific mechanisms of the BWIs’ participation in these activities hinges on the FATF’s position during the pilot period. If FATF fails to take appropriate steps to meet the agreed ROSC criteria, we will have to review our position.

Statement by Mr. Haruhiko Kuroda, Vice-Minister of Finance for International Affairs (Japan)

Implementing the Monterrey Consensus

In March of this year, the Monterrey Consensus was adopted at the International Conference on Financing for Development. More recently at the World Summit on Sustainable Development in Johannesburg, the world’s leaders reaffirmed their commitment to the collective effort of the international community to achieve the Millennium Development Goals (MDGs). There is a growing need both for developing countries to strengthen their policy efforts and for developed countries and international organizations to explore more effective ways to support the self-help efforts of developing countries. Thus, it is significant that this meeting of the Joint Development Committee has given us an opportunity to discuss ways to increase development effectiveness.

The first thing I would like to emphasize is that we have passed the exciting consensus phase and are now entering the implementation phase — a phase that will require a steady, lasting effort. To put the consensus into practice, it is essential for developing countries, through the process of formulating Poverty Reduction Strategy Papers (PRSPs), to set out their own national goals tailored to country-specific circumstances which will, in turn, help achieve the progress toward the MDGs. In turn, aid agencies must demonstrate in their country strategies, such as Country Assistance Strategies (CASs) in the case of the World Bank, how they can help their clients achieve those goals. The actions required now are to utilize both PRSPs and CASs, or other country strategies of aid agencies, as the central vehicles to implement the Monterrey Consensus, as well as to improve existing frameworks and methods from the viewpoint of better measuring results. That, we believe, should deserve our focused effort, and we do not see any necessity in building yet another framework or setting a new time frame for doing so.

The case studies presented by the secretariat of the Development Committee have identified sound policies; adequate operational capacity; financial resources; and a strong focus on results as the four key factors that together increase development effectiveness.
We have learned from past experience that aid can be used efficiently and effectively and contribute to growth and poverty reduction only when sound policies and institutions and good governance are ensured in recipient countries. Therefore, in countries unequipped with these preconditions, priority should be given to establishing an effective public sector, characterized by such features as accountable and transparent budget execution and tax collection, as well as an effective, fair and impartial public service.

From this point of view, we intend to actively extend our support in these areas through our trust funds at the World Bank. That is, we plan to expand the functions of the Policy and Human Resource Development (PHRD) Fund and the Japan Social Development Fund (JSDF), in order to strengthen support for institutional and capacity building in core areas, such as public expenditure management and financial auditing. Recognizing the particular need to train middle-class public servants in these areas, Japan, in cooperation with the World Bank and the Asian Development Bank (ADB), plans to enhance capacity building assistance, including support for localized public sector training programs.

In the long term, assistance for education is also important as it forms the foundation of a nation in every respect. Japan plans to provide assistance of about US$2 billion over the next five years for education in low-income countries.

Furthermore, to make assistance even more effective, it is imperative to properly evaluate the results of the assistance provided and to learn lessons for future development strategies from these evaluation results. The World Bank has incorporated past lessons into its operations through the process of formulating and implementing the CAS, a basic document of the Bank’s country program where both what worked well and what worked less well have been properly analyzed. Building upon these existing efforts, we hope the World Bank will work further to establish an easier-to-understand, easier-to-use framework for measuring results. We also call for efforts by the Bank and other international organizations to share the outcome of their work with bilateral donors.

In addition, I would like to highlight below a few points that should be noted in aid implementation in the context of development effectiveness:

Regarding the community-driven development (CDD) approach, we all must recognize that the approach can function more effectively when accompanied by appropriate sectoral and institutional reforms at the country level. In this regard, it is essential that the impact of this approach on nationwide institutional reforms be properly evaluated.

As to financing recurrent costs in developing countries, there is a concern that this might exacerbate recipients’ dependency on aid. Therefore, we must examine under what conditions donor support for recurrent costs should be regarded as necessary. Also, when replicating a sectoral effort such as Education for All (EFA) in other sectors, assuring consistency with the overall PRSP framework should be key.
Heavily Indebted Poor Countries (HIPC)

We support the current HIPC Initiative in that it helps provide a sound platform for alleviating debt burdens of Heavily Indebted Poor Countries. However, the debt relief it provides is not a panacea. We would like to emphasize here again that to secure long-term sustainability of debt, it is essential for HIPCs to make efforts in formulating sound policies in accordance with their PRSPs.

In further implementing the Initiative, the following three points should be considered:

First, it has turned out that there are additional financing requirements for the HIPC Trust Fund, a trust fund for debt relief from multilateral creditors. It is necessary to consider the way to fill the financial gap in a balanced manner, also taking into account the magnitude of bilateral contributions to the initiative of each creditor. Japan has committed US$4.8 billion in total, or one-forth of G8 contributions to the Enhanced HIPC Initiative, to the 26 countries that have reached their decision points.

Second, there are a variety of discussions on topping up at the completion point. Topping up should be exceptional, and approved only to the extent necessary in case of a change in fundamentals due to exogenous factors. It is important to maintain this principle to prevent moral hazards.

Third, participation of non-Paris Club creditors and commercial creditors is still limited, and this situation is not consistent with the spirit of fair burden sharing under the HIPC Initiative. Thus, we would like to continue the call for further efforts by the Bank and the Fund in making progress toward full creditor participation and in considering concrete measures to urge participation of those creditors.

Poverty Reduction Strategy Papers (PRSPs)

Over the last six months, an additional nine countries have completed full PRSP preparations, and significant progress has also been made in other countries. We welcome that the PRSP approach has been receiving broad support.

Having said that, substantial challenges still remain ahead for the PRSP approach. For example, there is a concern that the programs and projects based on the sector strategy in a PRSP might not necessarily be consistent with the medium-term fiscal constraints of the country. The Fund and the Bank need to pursue more effective involvement in this issue.

Furthermore, to achieve progress toward the Millennium Development Goals, development efforts at a country level will be pursued through the PRSP. It should be in the long-term interest of a country to set out, with ownership, realistic goals tailored to country-specific circumstances.

Harmonization of Operational Policies and Procedures

It is an important challenge to reduce the burden of recipient countries and promote their ownership through harmonization of operational policies and procedures.
With the collaboration of the World Bank and the Asian Development Bank, Japan has made meaningful progress in harmonization on such areas as procurement, financial management and reporting in a pilot country. Taking this experience into account, a realistic approach to harmonization would be to start with feasible items and countries where appropriate. With regard to safeguard policies, including environment and involuntary resettlement policies, it should be pointed out that it is essential to fully coordinate views on these matters with bilateral donors and other stakeholders prior to proceeding with harmonization of those policies, as circumstances vary by donor.

Anti-Money Laundering Action Plan and Fighting Terrorism Financing

One year has passed since the tragic September 11th terrorist attacks on the U.S. Since then, various measures to fight terrorism have been taken by the international community. We welcome the progress made by the IMF and the World Bank toward the inception of assessments using the comprehensive AML/CFT (anti-money laundering and combating the financing of terrorism) methodology covering the FATF40+8 recommendations.

Japan has made far-reaching efforts to freeze the assets of terrorist financiers, reflecting the importance that it attaches to combating the financing of terrorism. To that end, Japan has been taking a series of blocking measures against the assets of those who support terrorists, including joint actions by the G7 countries. In June, a set of laws to combat the financing of terrorism, which was required to domestically implement the international Convention for Suppression of the Financing of the Terrorism, was approved by the Japanese Diet. Thus, the Government formally accepted the Convention. In order to fight terrorism, it is essential for all countries and relevant international organizations to continue to cooperate in taking measures to combat the financing of terrorism.

Statement by Mr. Pedro Malan, Minister of Finance (Brazil)

Implementing the Monterey Consensus

After long and fruitful international debate in recent years on different socio-economic developmental issues two world summits, in Monterey and Johannesburg, established a new agenda and, more importantly, defined responsibilities for future work. At the same time, the international community launched new multilateral trade talks, which recognized the need to seriously consider the interests of developing countries. The outcome of these is a new set of development, and an understanding of the responsibilities of both the developing and developed countries as well as the international institutions in moving the agenda forward.

During our April meeting we indicated our views that the Development Committee should have a prominent role in monitoring and evaluating progress post Monterrey. We reiterate our suggestion that at least once every year in future meetings, the Committee should dedicate part of its agenda to monitor and evaluate the progress made, based on to the commitments made

On behalf of Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Panama, Suriname and Trinidad and Tobago
by both developed and developing countries. We should also look at the work of international agencies, assess the levels of public and private resources flowing to developing countries, and determine whether or not all is on track. Because we are talking of a long term engagement, our work plan needs to be simple, yet comprehensive.

We welcome the work done within the World Bank since April to facilitate our consideration of different aspects of the implementation challenge. The new orientation, which in the private sector is often called performance management, places a premium on quality, particularly in relation to efficiency of public sector spending and service delivery mechanisms. Ironically, in the past the IFIs were seen as the institutions promoting cuts in public spending, or sometimes encouraging them, but not focused on cost-effectiveness. Therefore, this shift to focus the Bank’s attention on results based on the quality of public spending is a welcome step.

However, the World Bank does not deliver public services directly. It does so through the provision of loans, credits and technical assistance to member countries. Therefore, in order for the Bank to successfully implement its programs based on a results-oriented approach, borrowing countries will need to be able to manage their public delivery systems in a similar manner and this is quite a challenging task. Even among developed countries, only a few have adopted results-based public administration systems. Among developing countries there are incipient experiences, in some countries, including Brazil and Colombia in our constituency. Part of the complexities involved in this approach lies in the fact that greater emphasis must be placed on monitoring and evaluation and on the need for multi-sectoral interventions. This require resource capability and good statistical systems, and most developing countries are deficient in both. Therefore, if the new Bank orientation towards results and efficiency is not managed properly and is not supported by greater capacity building especially for the poorer countries, there is a risk of failure.

The Case Studies show that strong sector policies and institutions, good budget processes, improvements in governance, especially in the areas of financial management and procurement, are important prerequisites for success. This is clearly demonstrated in the Brazilian experiences quoted in the Case Studies in the areas of primary education, combating HIV/AIDS and community-driven rural development.

At the same time, these studies draw attention to the need to reconsider the policy by multilateral banks and bilateral donor agencies of not financing recurrent costs. This is one of the most critical findings. In the classical theory of development aid the tradition has been that international grants or loans finance capital costs and domestic resources should finance recurrent costs. The studies demonstrate however that ensuring such domestic funding may be problematic especially in many poor countries which lack a sufficient tax base. The argument could also apply to many middle income countries that are implementing programs which involve severe fiscal tightening.

Many bilateral donors hesitate to accept such financing requests citing the risks of resource diversion and perpetuating aid dependence of recipient countries. Therefore the conclusion of the case studies underlines important trade-offs: in situations where domestic sources are insufficient to cover recurrent costs of programs on a sustained basis, should the international community give up on the required outcomes or should it accept the need for new instruments? From the point of view of developing countries, should they engage in borrowing to
finance recurrent costs without assurances that such financing would be available over the long-term to yield results? Our view is that appropriate instruments should be developed to deal with this issue.

For the developed countries the challenges are substantial. First and foremost is the question of policy coherence in the areas of trade and development finance. While new pledges of aid resources made in recent months are welcome, these will do very little to promote growth and poverty reduction if exports from developing countries continue to face significant trade barriers. Research is abundantly clear on the links between poverty and access to markets. In our view this is one of the gloomiest chapters in international economic relations. A recent study by the World Bank demonstrates that trade in products exported by developing countries remain heavily distorted because of barriers and subsidies imposed by the developed countries. Yet, protectionist pressures continue to increase, notably in steel and agribusiness trade. Unless there is a serious effort on the part of developed countries to address this issue, it will be very difficult to overcome poverty.

Another important challenge for the developed countries in their capacity as aid providers, relates to the need to incorporate the principle of ownership. Although this is accepted as a general principle, in practice it is not working. One of the findings of the case studies is that donor programs must be aligned with recipient country budget processes and national strategies.

**HIPC – Joint Bank-Fund Progress Report**

We believe there is continued progress, albeit slow, within the HIPC Initiative, with six countries reaching their completion points to date and with the possibility that one additional country would be doing so by year-end. In the case of those countries reaching their decision points, many are experiencing a worsening of their debt sustainability ratios and two are in jeopardy of not maintaining long term debt sustainability. We support the view that if faster, and more meaningful progress is to be made, there must be some flexibility within the HIPC framework. In addition, there should also be some flexibility in allowing for top-up relief at the completion point for those HIPCs which experience systemic shocks due to exogenous factors, subject to the availability of financial resources.

In this regard, current proposals to exclude voluntary bilateral support made in addition to the original enhanced program do not seem appropriate. We do not support the move to request developing countries who are HIPC creditors to deliver additional debt relief which will impose an additional burden. We also do not favor further transfers from the World Bank net income to the HIPC Trust Fund since the Bank has already pledged US$ 2.15 billion (NPV). The HIPC Fund should be financed by bilateral pledges.

Recognizing the short time available to bring the remaining twelve HIPCs to their decision points, since many of these countries are also post-conflict countries, we support the proposal to extend the sunset clause to the end of 2004. This will give time for HIPC countries to establish a track record. This is the third time the sunset clause is being extended. One of the main features of the HIPC initiative was that it is a one-time window, since we all had recognized that a permanent facility would create risks of moral hazard. As a consequence we must avoid perpetuating the initiative via quasi-automatic extensions. There is a need to look at
an alternative mechanism should the present situation again arise at the end of the next two years.

The HIPC Initiative still faces the challenge of creditor participation. We support the efforts by staff to have those non–Paris Club members and commercial creditors that have not yet participated in the initiative to do so within the HIPC framework. Moreover, the latest move by creditors to initiate litigation against a number of HIPCs is cause for concern. Appropriate avenues should be explored to have all creditors provide the agreed relief to HIPCs.

Joint IMF/World Bank Progress Report on PRSPs

The Poverty Reduction Strategy Papers, while helping countries to formulate a strategic view of their development policies represent a new administrative burden for the poorest countries. Most of them are faced with the need to adapt quickly in order to have access to the concessional windows of the World Bank, the IMF and bilateral resources. Most poor countries have engaged seriously in the exercise, but they face capacity constraints. The Bank and the Fund must find mechanisms to assist countries to improve the quality of the design and implementation of these strategies so as to ensure growth and poverty reduction.

One such challenge is making the participatory process more relevant. But, this must be done taking into account the different legal and institutional frameworks, which exist in each country. In particular, the Bank and the Fund must carefully avoid creating parallel mechanisms of civil society participation that may undermine legitimately elected governments and democratic institutions existing in countries.

The effectiveness of PRSPs also hinges to the extent on which multilateral development banks and bilateral donors align their financial support with the priorities established by the different countries. They also need to harmonize their policies, procedures, and practices in order to reduce the costs of financial aid and technical assistance. This could prove to be most effective if coordinated with the recipient countries’ budget, and procurement procedures and systems as a platform for delivering aid in accordance with the countries’ priorities. We must avoid a situation in which countries are requested to define priorities in participatory PRSPs and those priorities are disregarded when it comes to providing international financing.

Joint Bank/IMF Progress Report on Combatting Money Laundering and Terrorist Financing

We wish to reiterate our strong support for the strengthening of international cooperation in combating money laundering and financial crime and an intensification of the IMF and the World Bank activities in this area consistent with their respective mandates. Money laundering distorts the efficient global allocation of resources and creates international negative externalities that can adversely affect other countries.

We need a cooperative approach in addressing the issue of money laundering. This approach requires the involvement of many different institutions that deal with financial sector supervision and regulation, good governance, judicial and legal reform, and effective law enforcement. The Bank’s and Fund’s principal contribution to these efforts has been, and should continue to be, to assist countries in addressing structural and institutional weaknesses that may address the lack of market integrity and the potential for abuse of the financial system. Both
institutions should avoid becoming involved in law enforcement activities. We strongly reiterate our position that the lead for anti-money laundering efforts at the international level should remain with specialized institutions such as the Financial Action Task Force (FATF), the regional anti-money laundering task forces, the United Nations and other such organizations engaged in assessing and promoting anti-money laundering, including law enforcement activities.

The World Bank must be prepared to respond to countries which require assistance in addressing the implementation of the 40+8 FATF recommendations, through policy dialogue and technical assistance. However, we do not favor a mandatory inclusion of AML/CFT issues in every single Country Assistance Strategy, without the element of client demand. Any attempt to do so would reduce the impetus by individual countries to cooperate and thus may prove counterproductive.

Statement by Mr. John Manley, Minister of Finance (Canada)

Introduction

At Monterrey, in March of this year, leaders, together with Finance and Development ministers from developed and developing countries, achieved a remarkable consensus on the fundamental approach to helping countries achieve the Millennium Development Goals. This approach will see increased development resources focused on countries that can use them effectively. Leaders reaffirmed these same principles at the World Summit on Sustainable Development last month in Johannesburg. Our challenge now is to act on this new momentum to move from a theoretical framework to sustained implementation of the development agenda.

HIPC

Debt sustainability is an important component of the broader global attack on poverty. High debt levels remain a burden to poorer countries – a burden made heavier by the HIV/AIDS pandemic in many African countries. Our first step must be to make good on our existing commitments to fully implement the enhanced HIPC Initiative. The existing HIPC framework is flexible enough to provide heavily indebted poor countries a strong basis for a sustainable exit from debt problems. However, four major outstanding issues remain to be addressed:

1. getting all creditors, including the private sector to, to participate in the Initiative;
2. ensuring that donors provide enough money to the World Bank-administered HIPC Trust Fund to help pay the cost of debt reduction by the international financial institutions;
3. allowing for flexible consideration of additional debt relief for those countries completing the HIPC process, should their economic circumstances merit it; and

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30 On behalf of Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines
4. finally, the Bank and the Fund must make sure that their HIPC analysis is more accurate up front. Export and growth projections must be more realistic and better take into account potential downside risks.

The HIPC Review, which we and other shareholders called for at the last meeting of the Development Committee, usefully highlights the significant challenges facing the world’s poorest countries as they progress through the Initiative. Unfortunately, too many HIPC countries are moving slowly through the Initiative with nearly half of all HIPCs having fallen off their Fund programs recently. Many others needed or have chosen to take more time to complete their Poverty Reduction Strategy Papers (PRSPs). Moving forward, we need to give due consideration to the underlying governance problems and capacity constraints that are at the root of these problems. We also need to ask ourselves whether it is sound policy to delay the award of irrevocable debt relief if a reforming country takes its time to develop a high quality PRSP based on extensive consultations with civil society, parliamentarians, the private sector and other stakeholders.

However, no amount of debt relief or aid can guarantee long-term debt sustainability. The HIPC Initiative only offers an opportunity that countries must themselves seize. It is clear that sound policies, good governance, prudent new borrowing, and sound debt management by HIPCs, will be necessary to build upon the HIPC Initiative in order to avoid a relapse into debt problems. We need to transform these sentiments into concrete actions, to challenge ourselves to develop innovative support mechanisms beyond debt relief, to think about the real drivers for lasting growth, a resilient economy and debt sustainability. There are a number of difficult questions that we need to consider carefully. How can HIPC countries strengthen governance? How can the international community best reinforce their efforts and contribute to longer-term growth and debt sustainability? How competitive are HIPC countries? How competitive can they be? Are they winning or losing market share in the industries most vital to their economies? What lessons can we learn from the successes of Tanzania and Mozambique in maintaining debt sustainability beyond the completion point? What are the lessons of the failures of others?

Implementing Monterrey

Based on the lessons of over 50 years of experience, Monterrey has forged a common approach to development. It affirms the fundamental importance of a development partnership between developed and developing countries grounded in mutual commitments, responsibility and accountability.

The evidence is incontrovertible. Countries assimilate financing best and reduce poverty fastest when they invest in their people and when they create the institutions that empower their people. The Monterrey Consensus recognizes stronger economic policies and improved governance as key developing country responsibilities. Our mutual experience also reinforces the lesson that country ownership is a fundamental requirement for effective development. Notwithstanding initial problems, PRSPs are an increasingly important development instrument. They give voice to country ownership, foster better developing country poverty reduction policies and offer developed countries a mechanism for better targeting and coordinating their assistance.
This last point is critical. For aid to be effective, developed countries must target it better. Far too often complex and duplicative donor reporting requirements have proven overly onerous for recipients. Progress in untying aid is a measure of our joint commitment to increasing the efficiency of aid utilization, the promotion of local ownership and capacity building.

We support efforts to improve the efficiency of the delivery of development assistance through an increased focus on support for sectoral programs and budgets. Before this can be done, however, recipient countries must improve governance and their capacity to use such aid effectively. Where there are fundamental problems with expenditure management, data collection and public accountability, the risks are high that sector and budget support will be misused.

On the developing country side, strong policy frameworks, reinforced by good governance and transparency is key. The work that the Bank is doing to improve its assessments and reporting of governance performance supports this objective. We welcome the Bank’s decision to publish the country categorizations under its annual Country Policy and Institutional Assessment (CPIA) process and encourage the Bank to make this assessment process more inclusive and transparent, including through increased consultations with developing country governments and civil society.

**Strengthening Institutions and Governance**

More broadly, robust institutions are crucial to empowering the poor and promoting longer-term development. Strong institutions can ensure that the benefits of development accrue to the largest possible number of citizens. There is a direct correlation between higher per capita incomes and the rule of law, the protection of property rights, the enforceability of contracts, and the absence of corruption. Conversely, there is an equally strong correlation between high levels of corruption associated with weak state structures and institutional capacities, and lower growth and lower per capita income. Corruption diverts resources from state budgets and weakens macroeconomic stability. And the consequences – reduced social spending, inflationary environments – are usually felt disproportionately by the poorest and most vulnerable.

A state capable of enforcing the rule of law is a fundamental prerequisite for building stronger and more effective institutions and improving governance. However, in many developing countries this capacity is very weak and this allows corruption to flourish. Moreover, institutions in these countries are often ineffective in overcoming the resistance to reform by strong constituencies that benefit from the status quo.

Development policy and development assistance, if they are to succeed, must attach priority to helping governments, and societies more broadly, create the institutions that foster growth and equity. These include:

- institutions that enable women and men to fully participate in civil society and to make their needs and wishes known;
- political institutions that restrain authorities from arbitrary actions;
• institutions that hold authorities accountable to the public for their actions and which safeguard fundamental human rights; and
• financial institutions that can extend financing to the poor, and especially to women.

Building and strengthening institutions is a complex task. While there is no single model for success, analysis of country experience does yield important lessons. Determined political leadership can be effective in overcoming the resistance of vested interests to reform and institutional building. However, equally important in fostering institutional change is transparency and open access to information. The World Bank has a particular strength in analyzing institutional capacity gaps and in providing assistance for institution building. The World Bank’s 2001 World Development Report on institutions for development expanded our understanding of the challenges ahead. We will continue to look to be Bank to work closely with its partners in this critical development area.

The technical assistance and capacity building work that the Bank and Fund are now undertaking in financial sectors is a good example of institution building. This work helps countries with weak financial sector regulatory capacity better tackle the critical issues of money laundering and the financing of terrorist activities. It also helps these countries meet their international obligations in these areas. This work is particularly important for many of the small states represented in our constituency. These states are making a determined effort to address these issues and, looking forward, they must be assured of adequate technical assistance and capacity building resources to support their work.

**Education – A Critical Investment in Human Capital**

Investment in institutions must be complemented by investments in human capital. Universal access to basic education is the best avenue for ensuring that the poor have the opportunity to help themselves. Educating children, particularly girls, helps families earn more income, reduces infant and maternal mortality and, over the long-run, breaks the cycle of poverty. Educating women may produce the highest return on investment in the developing world. In April 2000, at the Education for All (EFA) meeting in Dakar, development and education ministers established six goals, including achieving universal access to primary education of good quality by 2015. The Millennium Development Goals also reinforce the importance of completion of primary education by all. Delivering on this commitment is an important step towards ensuring that all are able to benefit from the advantages of a global economy. World Bank analysis suggests that, with determined efforts on the part of both developing and developed countries, this goal is within our grasp.

Over the past year Bank staff have worked closely with UNESCO, developing country governments and bilateral agencies to develop an Action Plan and “fast tracking” proposal to help countries implementing good education plans achieve the Dakar and MDG goals on primary education. The Canadian/Irish/Caribbean Commonwealth constituency would like to commend staff for their efforts and encourages donors to back up this initiative with financial support. Indeed, our approach to supporting EFA builds on the key elements of the Monterrey Consensus and should serve as a model for international support for national efforts in other sectors.

We have seen considerable momentum build over the past year behind the EFA process. Canada is pleased to have played an active part in this international effort, through our role as
Chair of the G8 Education Task Force, our involvement in the deliberations of this Committee and through our participation in the EFA Partnership Group that is working to develop the fast-track initiative. In addition, Canada will participate in the upcoming EFA High Level Group meeting in Abuja and will co-chair a meeting of donors in late November.

The time to act is now. Canada’s commitment to achieving the goal of universal primary education for girls and boys by 2015 is clear: we will quadruple spending on basic education between 2000 and 2005. In addition, the Prime Minister has pledged that Canada will double its spending on basic education in Africa by 2005.

In its recently published review, Ireland Aid reinforced its commitment to education and primary education in particular. Support for education is a key element of Ireland Aid’s overall commitment to reduce poverty and to promote sustainable development. Substantial additional resources will be available for the education sector in countries where Ireland Aid is working as well for NGOs, international education bodies and institutions. Ireland’s commitment to education is reflected in increased support for this sector over the past number of years. In 2002, Ireland Aid will spend 14 percent of its budget on education, enabling Ireland to make a significant contribution to improving the delivery of assistance for education.

*Ensuring that Development Assistance is Effective*

Having outlined an agenda for more effective development, we must also ensure that the right mechanisms are in place to help us all remain on track. This requires both better monitoring and evaluation of efforts by both developing and developed countries, as well as stronger accountability to stakeholders. This will allow us to assess better what works and what does not, so that we can further improve aid effectiveness.

Results measurement is often a matter of capacity. Developing country governments must be able to gather reliable information on which to base and to track their investments. We support the strong emphasis in the Bank’s background paper on the need to build statistical capacity in developing countries. But we also recognize that the results agenda must move forward at a reasonable and realistic pace. There are tremendous cultural, capacity and coordination challenges to be overcome.

The issue of tracking the results of development investments, however, is no less a priority for development assistance providers. The challenge going forward for donors is for bilateral and multilateral development assistance agencies to improve their own analysis to ensure that their investments support the development agenda of recipient countries and lead to measurable improvements.

But better measurement and monitoring is not enough. One of the key development lessons is that our actions must be focused on achieving concrete results in terms of sustainable development and poverty reduction. Recognition that good policy performance improves aid effectiveness must drive a results approach. However, both recipients and donors must be held accountable for development outcomes. Moreover, accountability is a matter of resolve. And it is not a short-term concept. For developing countries, accountability means transparent decision-making and meaningful consultation with stakeholders. For developed countries, accountability means they must remain engaged with their developing country partners over the longer term,
through ups and downs. They must also truly listen to the needs of developing countries to ensure that the supply-driven mistakes of the past are not repeated.

Freer Trade – an Important Element of the Monterrey Consensus

At Monterrey, and again in Johannesburg, leaders reaffirmed that trade is key to development. While good macroeconomic frameworks and good governance are fundamental to development and poverty reduction, developing countries must have opportunities to trade in the global marketplace if they are to prosper. We look to the World Bank and IMF, in support of the WTO and the Doha Development Agenda, to enhance their own analysis of how developing countries can best take advantage of the global trading system. In particular, we would look to these institutions to assist countries with particular needs and vulnerabilities – in Africa, among the small island states and landlocked developing countries.

Development partnership implies freer trade. However, trade distorting agricultural subsidies in the developed world continue to depress global markets for developing country products. The financial impact of these subsidies on the developing world considerably exceeds the value of developed country official development assistance. Moreover, trade barriers, in both developed and developing countries, continue to depress exports from Least Developed Countries. Countries must commit both to work towards the elimination of trade-distorting subsidies and to improve market access for the world’s poorest countries. Earlier this year, Canada announced that, effective January 1, 2003, it would provide with duty-free and quota-free access to its market for virtually all products from Least Developed Countries.

Conclusions

The evidence is that development assistance is being targeted more effectively today than it was ten years ago. This is encouraging. But more must be done to ensure that each development dollar produces its maximum impact on poverty reduction and helps us to achieve the Millennium Development Goals. We know what needs to be done.

While the responsibility to accelerate development lies with developing countries, the international community has a responsibility to support the efforts of countries undertaking concrete measures aimed at achieving lasting poverty reduction. Indeed, Monterrey called upon us all to contribute adequate development financing for countries implementing good policies. It also looked to the international community for support for capacity and institution building. And Monterrey challenged us all to be catalysts for stimulating foreign private investment and trade and for creating a global environment which is fully inclusive and equitable, one in which all participants – large and small – can reap the full benefits of globalization.

Looking forward, the challenge that both developing and developed countries face will be to maintain our resolve, to keep our efforts focused where there will have maximum effect and to build actively a genuine and long-term partnership that will yield tangible results. But most importantly, this new partnership must rest on deeper mutual accountability that will produce development results on the ground that will better the lives of the poor in developing countries.
Statement by Mr. Francis Mer, Minister of Economy, Finance and Industry (France)

While the question of international cooperation in economic development is obviously a major concern for those of us who are in government, it is equally important for our members of parliament, our businesses, our unions, our non-governmental organisations and our academics within their respective sphere of responsibility. Globalisation is neither a fatality nor a blessing. In my opinion, it is above all an unavoidable challenge. But we can only deal with it by improving international solidarity.

Today I want to talk to you about the conclusions I have drawn from this conviction.

I believe that we need to align our actions with common objectives – particularly economic objectives. Our actions should blend generosity with rationality and be sufficiently determined to bear on the economic and social developments of our world (I). They should also be pragmatic and be targeted at results and where necessary involve ambitious reforms (II). Lastly, they should be part of a more global framework designed to help make globalisation more humane (III).

Using Rational and Generous Policies to Bear on the Economic and Social Development of the World

First of all, I am convinced that we should not shy away from economic rationality. However harsh it may sometimes be perceived, it is really the only way to achieve our growth and solidarity objectives.

At a time when certain emerging markets are once again coming under inflationary pressure, it may not be amiss to remember the dent made by excessive inflation in the purchasing power and living standards of the poorest households. Inflation control must remain one of the priority objectives of economic policy. This naturally calls for a strict monetary policy as well as tight budgetary discipline. We should not forget that inflation acts like a tax. However, it is a tempting solution for the least demanding governments, since its consequences are invisible.

Sustainable growth is another key objective. The global consensus revealed at the Johannesburg summit earlier this month shows how much this concern - which France has long taken to heart – remains a vital issue.

The concept of sustainable growth covers many different realities, of which I would like to mention two.

The instability of financial markets in recent months is worrisome. The large flows generated by the laundering of the proceeds from drugs and terrorist financing are a source of weakness and added instability. The developing countries have relatively few defences against these scourges. Assistance provided by the Bretton Woods institutions is therefore of overriding importance. Collaboration between the IMF and the World Bank, in conjunction with the FATF, will determine the extent of our ability to drive back these evils. I believe we all agree that concrete steps need to be taken. I welcome this and propose that our next meeting serve the purpose, inter alia, of reviewing progress to date, particularly the results achieved in implementing FATF recommendations.
Sustainable growth also calls for environmental stewardship. While growth helps improve our living standards, it should not have a negative impact on our lives over the long term. And while the ratification of the Kyoto protocol may seem a symbolic step towards this aim, it has above all major economic consequences. We must now give it concrete meaning and take the necessary measures to lower greenhouse gas emissions without undermining growth. I believe that the momentum following the Johannesburg summit will help us guide our partners in this direction, as will the Global Environment Facility, recently endowed with an historically high amount of US$ 3 billion. In addition, in 2003, France will further contribute to finance environmental solidarity between North and South by appropriating € 17 m within the framework of the French Global Environment Facility.

More generally, we will promote solidarity between North and South to ease the efforts required from the developing countries to achieve these objectives. The solidarity between North and South has several aspects.

The first is obviously official development assistance. This needs to be increased, as we agreed in Monterrey. President Chirac has announced in Johannesburg that French ODA will rise to 0.5 percent of GDP by 2007 and 0.7 percent within 10 years. I can assure you that the measures currently considered will raise assistance significantly. Our development assistance will already reach 0.39 percent in 2003.

To support this increase in generosity, which calls for significant budgetary efforts at a time when public finance is under stress, we will also need to work on the quality of assistance. We are therefore seeking to improve the coordination among France's bilateral assistance efforts – which we want to step up - the initiatives of our partner countries and those led by the Bretton Woods institutions. This is not only necessary if we want these large flows to be managed efficiently, but also it is what developing countries want. France expects to achieve this aim with newly developed bilateral cooperation instruments – particularly “debt reduction and development” contracts.

Let us Commit Ourselves to Obtain Results

There are many ways to achieve progress. I will mention four of them which reflect my own pragmatic mindset.

The first one is to harmonise donor procedures. In recent months, the OECD's Development Assistance Committee (DAC) completed a survey of the existing situation, giving us an idea of the concrete work ahead. I also welcome the analyses conducted by the World Bank and other multilateral development banks, which are already producing tangible results. Nevertheless, we need to align these initiatives. The forum scheduled for early next year with all the partners involved seems an excellent opportunity to agree on a method for doing so. I for one consider the DAC the most appropriate forum to bring together all donors. I would like the World Bank to provide intellectual and material support to ensure rapid, adequate alignment of efforts and to permit concrete global proposals. The credibility of our plans for more effective assistance is at stake.
The second one is obviously to develop the private sector in the developing countries, particularly the area of small and medium-size businesses and infrastructures. This is our concrete short-term goal for these countries. The initiative launched in Johannesburg by President Chirac and Prime Minister Blair will allow us to generate new investments of at least €1 bn leveraged by the €100 m to be made available by both countries. We call on other donors to join this initiative.

The third one is the NEPAD initiative proposed by the African nations. This seems a good approach and has our wholehearted support. This partnership creates a definite opportunity for donors. If implemented, the NEPAD will provide a framework for political and economic governance geared to effective large-scale assistance for a continent with enormous needs. We convinced our partners during the IDA XIII negotiations, wrapped up several weeks ago, during which donors agreed to earmark more than US$ 4 bn a year to Africa over the next three years.

The fourth one is the implementation of the last part of the HIPC initiative.

Unsustainable debt has been a major obstacle to development in too many cases. The HIPC initiative provides substantial support in terms of debt reduction and increasing social expenditure, even though it is a measure for exceptional cases. This being said, I note that, on the one hand, the initiative is being implemented more slowly than we would like. On the other hand, speeding up implementation should not result in undermining the quality of the economic programs agreed within this framework, nor should it alter the need to treat all of the countries concerned equitably.

As the G-8 Heads stated in Kananaskis, we must also provide the resources needed to maintain the pace of the initiative. France is already at the first rank for bilateral debt relief. We also intend to contribute fully to the debt forgiveness commitments to be granted by the multilateral institutions. Thus, we will take our full share of a new replenishment of the HIPC Trust Fund. Our contribution will include a bilateral grant, as well as our share of a contribution from the European Development Fund, which we strongly support.

The creation of a grant window in IDA will also help improve debt sustainability. I would also like to see the efforts continued to involve all creditors, in keeping with the universal scope of the HIPC initiative. The lawsuits that vulture funds have instigated against HIPCs are very disturbing in this respect.

*Let us Adopt Appropriate Methods*

First of all, I am convinced that we need to strengthen the IMF mandate – macroeconomic surveillance, crisis prevention and management, assistance to the sustainable integration of the least developed countries in the world markets - and the World Bank mandate - reconstruction and development, and the fight against poverty.

In this respect we need to preserve our entire proposal and analysis capacity. We need to further explain the work done by these institutions and contribute to limit the criticism they face. We need to demand high quality service on their part, keeping in mind that the balance between their responsibility and that of the beneficiary governments may be difficult to establish.
Secondly, it would be useful to launch a global dialogue both on the coherence between the numerous existing standards and the appropriate discussion forums that can improve this coherence while maintaining the strength of international action. True to its tradition, France will come up with proposals in the months ahead. President Chirac has expressed the wish to consult our partners in order to organise a new kind of meeting: to be held in the wake of the Evian summit, this meeting would also be attended by emerging and poor countries. This would allow all of us to discuss the problems we share, particularly on global governance. We especially consider it necessary to create a World Environment Organisation with international environmental governance powers, similar to those of the World Trade Organisation in its field of competence. We will also need to set up an Economic and Social Security Council to ensure coherent international action.

In the months ahead, I want to share and discuss the economic and financial aspects of all these ideas with you, partners from both South and North. We have to achieve results and we also have the obligation to stand firm on our convictions. Within the framework of France's Presidency of the G-7/G-8 in 2003, I intend to pursue all these issues with determination.

Statement by Mr. Paul O’Neill, Secretary of the Treasury (United States)

Since our last meeting, I have had the opportunity to travel to Africa, Central Asia and Latin America – three pivotal regions, each with enormous economic potential and each confronting a unique set of development challenges. I appreciate the many opportunities these visits afforded to listen and to learn. And I value the insights I received from the people in these regions, from small-scale farmers and market vendors to development officials and government ministers.

These trips confirmed for me that people in all developing countries, even the poorest, have the potential to succeed greatly. Yet in far too many countries, the universal desire to succeed has led to frustration at the slow pace of progress and disappointing development results. I share this frustration in that I find it hard to understand why, in this twenty-first century, this era of momentous scientific and technological advances, so many people still lack access to safe water or why so many children die from disease before they reach their fifth birthday. Or why poverty is increasing in countries richly endowed with both human talent and natural resources.

Clearly, there is no simple universal blueprint for overcoming all the country-specific economic and social obstacles that impede sustainable development progress. Yet, I am convinced with the consensus of Doha, Monterrey and Johannesburg setting the agenda, we can do a better job in combating poverty if we place greater attention on two aspects of the development agenda that underlie most success stories: (1) the factors that enable people and countries to become more productive; and (2) better measuring and monitoring and managing for development results.

The Goal of Productivity Growth

We can be more effective in achieving improved living standards if we prioritize our efforts to address the basic causes of low productivity – such as poor policies, low business
The need for sound policies is fundamental. This includes outward-oriented engagement with global markets and investment. In every country there is no substitute for honest leadership committed to good and publicly accountable economic management. Progress in meeting the goals of the Millennium Declaration is heavily contingent on improving the quality and productivity of resource use. We therefore welcome the stepped up efforts of the Bank and Fund to strengthen public expenditure tracking and fiduciary management and we urge that these efforts be intensified. All countries need to establish appropriate frameworks that build confidence and curb the ability of those who would subvert the financial system, including terrorists, in order that the strongest sustainable real economic gains are realized.

It is also crucial to create an environment that promotes vibrant private enterprise and investment. If developing countries are to realize their economic potential, it is essential that they and their donor partners move more forcefully to reduce the impediments that are constraining the creation of high productivity jobs by the private sector.

Priority must be accorded to human resource development and the investments needed to improve delivery systems for health, education, water and sanitation. These social sector investments increase individual productivity and have major spillover benefits economy-wide. Conversely, the absence of basic services, such as clean water and sanitation – which most of us take for granted – makes the prospects for economic progress more remote.

The United States supports efforts underway to identify best practice approaches that can be replicated elsewhere to help close the gaps – in data, policies, institutional capacity, and financing – that now constrain the expansion of quality education. Our goal should be to substantially increase the number of children with full functional ability to read, write and compute by age ten. Although delivery of health services and access to clean water pose different challenges, the importance of coordinated approaches that focus on program quality and the delivery of results cut across these three issues. It is difficult to envision substantial progress in any of these areas without major improvements in on-the-ground coordination by official and private donors.

Better Measuring and Monitoring and Managing for Development Results.

Delivering and measuring development results at all levels should be a development priority. The IDA-13 agreement launches a fundamental shift of focus within the MDBs to measurable results. It is, however, only a beginning. A more comprehensive approach across all the MDBs is needed to measure progress towards targeted development results and to assess the reasons for success and failure. Such a system is crucial for donors to ensure the effectiveness of their assistance. It is even more important for the citizens and governments of borrowing countries who need real results, in real time, for real people. We urge a sustained and prioritized effort by all of the MDBs to create and integrate a results based operational plan that focuses on key measurable outcomes in every grant and loan, and every country strategy.

Quality baseline data are necessary to effectively operationalize a results-based system. Yet accountability for standardizing, collecting and building capacity to measure poverty and
social indicators does not now reside with designated institutions. We recommend that the World Bank take the lead in working with other appropriate institutions in preparing a report for our consideration at the spring meetings on how best to establish an accountability structure within the international system for standardizing and measuring a set of priority development results. We suggest focus on indicators related to the goals of the Millennium Declaration and for such key areas as productivity growth, private sector development and public expenditure management.

**HIPC**

For the HIPC countries in particular, we must be careful to avoid business-as-usual lending that could put these countries back into untenable positions. The United States will work with other donors in order to finish the HIPC program. But that is not enough. Delivering the improved economic performance and poverty reduction that we all seek will require concentrating our attention on helping these countries implement long-term growth strategies that promote strong productivity gains, human resource development, and individual enterprise.

**Statement by Mr. Fathallah Oualalou, Minister of Economy and Finance (Morocco)**

The sixty-sixth meeting of the Development Committee is taking place at a time when global growth is weaker than expected and is proving vulnerable to shocks. These circumstances have made it difficult for developing countries to achieve sustained growth and have restricted capital flows to these countries.

The situation is all the more alarming given the fact that, according to some estimates, GDP growth in the developing countries is likely to decline in 2003, a sign of their vulnerability to external shocks. This is particularly true for the African countries, whose economic growth rate remains far below the levels required to combat poverty.

This assessment was underscored at the recently concluded Earth Summit in Johannesburg. The Summit—which reaffirmed the objectives of the Rio Summit concerning the protection of biodiversity and economic and social development—emphasized that poverty eradication and the protection and sound management of natural resources are key objectives for sustainable development. Improved access to basic services such as safe water and health care, as well as fisheries protection and food security, are particularly important in this regard.

The Johannesburg Summit also provided an opportunity to reaffirm the commitment undertaken in the Monterrey Consensus to double the amount of development assistance in order to narrow the ever-widening gap between the developed and the developing worlds, a gap that poses a major threat to global prosperity, security, and stability.

It is therefore absolutely essential for the international community to mobilize within a framework of true partnership and genuine solidarity, with the aim both of containing threats posed by the degradation of ecosystems and overexploitation of natural resources and of combating poverty and eliminating hotbeds of tension in order to foster world peace and stability.
Implementing the Monterrey Consensus

While calling for a partnership based on mutual responsibility, the Monterrey Consensus also emphasized that developing countries must assume ownership of their strategies aimed at achieving the Millennium Development Goals, with support from their partners in the form of more consistent and effective development assistance.

Since our meeting in April, when we discussed how to implement the historic Monterrey Consensus, considerable progress has been made toward achieving the Millennium Development Goals, particularly with regard to fostering poverty alleviation, achieving universal primary education, and reducing child mortality.

However, as the country studies prepared by the Bank and the Fund indicate, much remains to be done to help poor countries emerge from extreme poverty, particularly on the African continent, where poverty and endemic diseases continue to jeopardize countries’ development efforts.

Accordingly, we support the work of the Fund, the Bank, and other partners with regard to the implementation of poverty reduction strategies, preparation of statistical data, and analyses of successful efforts by developing countries, which provide an opportunity to assess the progress made in achieving the Millennium Development Goals.

We also welcome the efforts of development agencies and the multilateral development banks, including the World Bank, to further strengthen the focus of donors’ individual and collective efforts on measuring, monitoring, and managing for results with respect to growth and poverty reduction.

Such efforts should continue and should focus not only on successes, but also on failures or weaknesses, thereby providing an opportunity to learn the appropriate lessons and facilitate adjustments needed in the strategies of developing countries, donors, and development agencies alike.

We also welcome the efforts of the international community with regard to the provision of global public goods, particularly in connection with the fight against HIV/AIDS, a scourge that continues to devastate mankind, and with environmental protection and strengthening the international financial architecture to ensure the stability of capital flows to developing countries.

These efforts should be further consolidated in the form of support for the reforms developing countries have introduced to build institutional capacity, improve governance, and spur private investment, all of which are crucial for promoting sustained growth. The African countries merit special attention in this regard, particularly since many of them, working within the framework of NEPAD, have begun to develop their institutional capacity, adopt principles of democracy and good governance, and fight poverty.

The World Bank is called upon to play a special role, namely to maximize its comparative advantage for the benefit of developing countries, especially middle-income countries, by supporting structural reforms and implementing investment projects designed to reduce poverty and increase per capita income for the poorest inhabitants.
It is also essential for the industrialized countries to promptly follow up on their commitments undertaken at various international forums—particularly the Monterrey Conference and the Johannesburg Summit—to increase the volume of development aid and improve its effectiveness.

The agreement in principle on IDA-13 replenishment bringing its resources to US$23 billion represents an encouraging step toward increased development assistance, provided that the agreement is finalized and implemented as soon as possible.

Industrialized countries should also contribute to strengthening the role of world trade, a catalyst for development, by eliminating the barriers to the exports of developing countries and ending subsidies, in particular for agricultural products. We hope that the WTO Ministerial Conference that will take place in Mexico in 2003 will pave the way for tangible progress to be made towards these objectives, through consideration of the interests of developing countries at this forum, with a view to the establishment of a more equitable multilateral trade system that permits these countries to benefit from the opportunities offered by world trade.

Furthermore, it is our view that the international community as a whole should strive for greater representation of developing countries on international bodies, institutions, and forums, so that they may have a greater say in the decisions made within these entities.

Developing countries must forge ahead with their efforts to achieve institutional, economic, and social reforms, and to contribute to enhancing the effectiveness of aid, in particular by strengthening democracy and governance, in order to ensure the efficient channeling of aid that is obtained towards achievement of poverty reduction goals.

**Heavily Indebted Poor Countries Debt Relief Initiative**

In order to promote growth and reduce poverty, the debt burden of developing countries must be eased. In this regard, we are pleased with the efforts of low-income countries, working in partnership with the Bank and the Fund in particular. These efforts have permitted approximately two-thirds of the countries identified as potentially eligible for the Initiative to benefit from debt relief.

We note, however, that delays have occurred, as evidenced by the fact that of all the countries eligible, only six have reached their completion point, which is necessary to qualify for full debt relief.

As a result of these delays, considerable costs are being incurred by the beneficiary countries, in particular African countries; a situation that adversely affects growth, investment, and poverty reduction.

In light of the foregoing, efforts must be stepped up and a certain degree of flexibility must be shown in order to permit countries to reach their decision and completion points, and to ensure the sustainability of their macroeconomic balance.
We call on the community of donors to continue their participation in the Initiative and we also reiterate our appeal to them to provide the resources that are necessary to guarantee the contribution of multilateral development banks, in particular the AfDB, to this Initiative.

Progress Report on Poverty Reduction Strategy Papers

We support the efforts undertaken to achieve a concrete approach to poverty reduction strategy papers, which have, in particular, paved the way for the preparation by 45 countries of their interim PRSPs and by 18 countries of their completed PRSPs.

We are aware of the fact that one of the major obstacles to the preparation and implementation of suitable poverty reduction strategies is weak capacity, in particular the institutional capacity of developing countries.

In order to overcome this obstacle, we call on the Bank and the Fund to continue their support for countries that have pledged to build their capacity, by providing them with the technical assistance that they need and by allowing them to draw on the lessons learned from successful poverty reduction strategies.

The countries involved should continue their efforts aimed at improving the management of public expenditure and governance as well as capacity building, particularly the assessment of the impact of the poverty reduction strategies implemented.


We support the efforts of the Bank and the Fund, in conjunction with the other multilateral and bilateral institutions, to achieve harmonization of the procedures linked to the management of official development assistance.

These harmonization efforts should, in our view, contribute to the strengthening and effectiveness of official development assistance without, at the same time, leading to more stringent conditionalities with respect to this assistance.

Progress Report on the Anti-Money Laundering and Combating the Financing of Terrorism Action Plan

We support the efforts of the Fund and the Bank undertaken within the framework of implementation of the anti-money laundering and combating the financing of terrorism action plan, in particular the preparation of an integrated and comprehensive methodology for assessing norms, standards, and mechanisms to combat these scourges.

These efforts must be continued through provision of the technical assistance needed to step up assessment of existing mechanisms at the level of member countries and to implement rapidly legal provisions aimed at criminalizing money laundering and the financing of terrorism.
Statement by Mr. Didier Reynders, Minister of Finance (Belgium)

Developing countries are confronted with several economic problems: the global economic slowdown, reduction in financial flows and in commodity prices, and problems related to trade barriers and market access. Against these risks, the Monterrey and Johannesburg summits have highlighted a common understanding of the problems.

We are now facing the challenge of successfully putting into effect what was agreed in Monterrey and during the last Spring Meeting. Recognizing that it is time to move from theory to practice and to put forward targets and action plans, the Development Committee, assuring an effective and balanced representation of all shareholders, should keep these challenges under review.

Development Effectiveness and Scaling Up

The three case studies presented to us provide helpful instruments for improving development effectiveness and scaling up support. Development aid can make a difference, provided countries have sound policies in place and are committed to poverty reduction. In the short term, resources and an indicative framework are available to start implementing the Education for All initiative. Such an indicative framework provides a clear idea of the objectives, which are presented as a set of quantifiable objectives, and a unified approach by all stakeholders.

However, the way to go should be at a balanced pace. Lessons should first be drawn from these specific Education for All cases. Education for All is a pilot that can serve as a basis for implementation in the other two areas: HIV/AIDS and communicable diseases, and water supply and sanitation. In the future, the Development Committee should decide on the allocation of available funding based on actual performances. Yet, in our expectations, we should remain aware of the poorest countries’ capacity problems in this regard.

In the quest for more development effectiveness, the Bank should cooperate with all partners, including the private sector, NGOs and the bilateral partners. We can only be successful if donors act in a complementary and coordinated way by harmonizing their rules and reporting needs, by synchronizing their respective strategies and by selecting programs each according to its own comparative advantage. Strategic alliances among donors could increase development effectiveness. However, it will be a challenge to harness participation of all partners.

Poverty Reduction Strategy Papers

The Poverty Reduction Strategy Paper provides a good basis for development effectiveness and a good road map to pursue poverty reduction and economic growth. Setting priorities for actions should further strengthen this country-owned document. In this context, I support the Bank’s intention to devote more attention to rural development. In this strategic commitment, I reiterate the importance of intensifying the Bank’s advocacy role to support private sector development and infrastructure, when private sector financing is not available.

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31 On behalf of Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovakia, Slovenia and Turkey
The Monterrey partnership is not just about action and implementation. It also concerns better measuring and monitoring results. I support the proposal to develop methods for achieving this fourth pillar for supporting country development. In this regard, I welcome the Bank’s and Fund’s efforts to formulate intermediate indicators and set up institutional structures for measuring results. Both countries and donors will benefit from a system that routinely quantifies development achievements and facilitates understanding of success or failure.

As countries must be owners of their programs and strategies, they are also in a better position to monitor and evaluate the expected outcomes. However, the challenge lays in the human, institutional and financial constraints that countries face in this task. I call on the Bank and the Fund to increase PRSP countries’ capability and capacity to improve monitoring of outcomes against the Millennium Development Goals.

Furthermore, knowledge sharing among development partners should be enhanced. To come to a uniform global evaluation system, it is about time for the Bank to disclose its rating mechanism for assessing country policy and institutional performance as a basis for allocating concessional funding to IDA-eligible countries. This would improve bilateral donors’ selectivity and assure that donors act in a more complementary way.

In achieving long-term debt sustainability, pro-poor growth and in the pursuit of the Millennium Development Goals, new financial resources, sound economic management, and good governance are necessary. However, success is also heavily dependent on participation of civil society. In this respect, Parliaments, consisting of true representatives of the people, should play an important role in this participation.

As middle-income countries are facing different challenges in their efforts to reach the Millennium Development Goals by 2015, we have to pay attention to the specific needs of these countries. The Bank should also continue to work suitable methodologies to enhance its development effectiveness. Appropriate lending instruments, complemented with vehicles for sharing Bank’s knowledge should be developed further.

**Better Measuring, Monitoring and Managing for Development Results**

In accepting the challenge of Better Measuring, Monitoring and Managing for Development Results, the Bank is faced with a huge task to integrate in its instruments effective monitoring and evaluation systems. However, a cautious approach would be advisable, and the results agenda should start with those areas where development has the highest potential to reduce poverty and to boost economic growth, and where sufficient data and methodologies exist, in line with existing institutional capacities. This is the case, for instance, for education, health, and private sector development.

The Monterrey and the Johannesburg summits have emphasized another problem for low-income countries: their low participation in the benefit of liberalization of our global economy. As I have stressed on different occasions, I support the opening of rich countries’ markets, and, in particular, initiatives aimed at pro-poor trade liberalizations by developed countries, such as the EU “Everything But Arms” initiative. On the other hand, developing countries should diversify their exports and promote intra-regional trade. To this effect, I
Welcome the Bank’s commitment to provide technical assistance to poor countries. This can only contribute to the success of the Doha Development Round. A similar effort should be made with the view of helping countries to regularly assess the social impacts of changes in their trade policies.

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

Concerns about the slow pace of implementation of the HIPC initiative have resurfaced. However, given the fact that progress for each particular country depends on a variety of external and internal factors, I find progress made so far rather realistic as 26 countries have already benefited from debt relief and a number of other countries are in a position to succeed in the near future. We have to admit that we have been too optimistic about these countries’ capacity to overcome basic problems, for instance conflicts that have plagued some of them. Too often, macro economic assumptions have also been overly optimistic. Realism and a balanced approach are the key words. We should not forget that the ultimate objective of the initiative is to help countries to maintain long-term debt sustainability in order to support their own efforts to reduce poverty. Against this background, I agree with a last extension of the Sunset Clause to end-2004. Repeatedly extending the HIPC initiative can indeed affect its credibility.

Financing remains a weakness of the HIPC framework. I am open-minded about finding additional financing in order not to discredit the initiative. I welcome the forthcoming donor meeting in Paris and do hope that the necessary financial resources will be provided to the HIPC Trust Fund, based on a fair burden sharing. In this context, I welcome the positive vision and recent commitments by the G-7 countries. However, HIPC financing should not come at the expense of other mechanisms for concessional assistance, like IDA.

I welcome the Bank’s and the Fund’s efforts to support HIPC countries in their pursuit for fullest creditor participation. All creditors, institutions and countries, should provide their fair share in relieving countries’ debt burden. I also support the Bank’s and the Fund’s efforts in providing technical assistance to HIPC countries.

At this stage, we should work with the HIPC framework as it is, without expansion. It provides sufficient flexibility for reaching the decision and floating completion point. In this context, let me reiterate that the current rules for qualification for debt relief at the completion point and for topping-up when countries are facing external shocks are appropriate and credible.

**Combating Money Laundering and Terrorist Financing**

The Bank and Fund have now completed the preparatory work for their activities in Anti-Money Laundering and Combating Financing of Terrorism. Time has come for the implementation of the pilot phase. Countries in my constituency are ready for an early participation. I welcome the voluntary and cooperative nature of the exercise, and the strict limitation of the Bretton Woods institutions’ involvement to areas within their mandates. The provision of technical assistance is also a useful contribution that the Bank and the Fund can make to the efforts of their member countries.
Statement by Mr. Abdulla Hassan Saif, Minister of Finance and National Economy (Bahrain)

We welcome this discussion of implementation of the Monterrey Consensus as it comes at a time when we need to assess if the right conditions are in place for achieving the Millennium Development Goals (MDGs). This is particularly important now, with the decline in the flow of overall resources to developing countries.

Monterrey Consensus Implementation

Progress has been made in preparing for effective implementation of the Monterrey Consensus, through activities arranged or planned by the Bank and Fund in collaboration with other multilateral institutions, including the UN. More attention is being given to strengthening developing country policy performance and institutional capacity, additional pledges for increased official assistance have been made, and work is continuing on the ongoing initiatives and programs, including debt relief, access to markets and global public goods.

All of this is welcome, though there is a need for enhancing developments partners’ coordination and contributions, and for addressing remaining impediments for achieving the Monterrey objectives. Pledges for new official assistance have to be viewed in the light of the Bank’s estimates of required new resources; and improved market access has to be seen in the context of setbacks in removing agricultural subsidies. We also have to assess how the slowdown in the world economy and financial crises in some major developing countries have affected the prospects of achieving MDGs.

In looking ahead, there needs to be a thorough continued assessment of Monterrey Consensus implementation. As I mentioned at our last meeting, regular follow-up by this Committee and other institutions will be invaluable. I recommend that this Committee receives an annual review of progress towards the MDGs, in the context of a broad, long-term implementation plan: this process should provide us with the data for well-structured discussions of issues that arise and actions that are needed.

Today we address two issues that have an important bearing on improving developmental prospects and poverty reduction: development effectiveness and development results.

Development Effectiveness and Scaling Up

This issue has been considered in the light of three case studies. The experience and concrete achievements in these cases, taken together, give rise to optimism regarding the potential for increased development impact. The paper also points out that financial aid flows to developing countries have not matched improvements in country policies and performance, and that additional aid resources could be used effectively to reduce poverty.

Two of the specific issues identified are particularly worth pursuing. One is donor financing of recurrent costs. There is indeed a case for flexibility on the part of donors, including the Bank, and we look forward to the Bank’s review on this matter. Secondly, there is the need to ensure long-term donor commitments that help clients to plan better for longer-term operations and avoid compression of spending in case of a sudden decline in aid. A mechanism for long-
term commitment is consistent with the Monterrey objectives. The case studies have shown that addressing these and the other donor-related issues could make a real difference to poverty reduction.

**Development Results**

It is encouraging that there is increased attention in the development community on results. In our region and elsewhere, there have been concerns that many actions taken by countries in promoting reforms and stabilizing their economies have not led to tangible results on the ground. The Bank Group has, during the past decade, made efforts to shift its emphasis on the volume of lending to the quality of operations. Results-based management, as now suggested, can make a significant difference in combating poverty and will reorient how the Bank and other development institutions conduct business.

Of course, further work is needed on the conceptual framework for this endeavor, how it is implemented across the stages of the development cycle, the capacity required in client countries, the behavioral changes in donor and country institutions, and the risks involved.

We also underscore two points. The first is that achieving results also depends on financial inputs, particularly relevant now when financial flows to many client countries have witnessed sharp declines. The second is that achieving results is a long-term process, and care should be taken over how to make donor allocations results-based, as now contemplated, without impeding the flow of donor resources.

As to the Bank’s approach to measuring and monitoring development results, the documentation rightly acknowledges that improving country outcomes is highly complex and dependent on the right policies, institutions, internal conditions, the external environment for trade and capital flows, and adequate financing. What is clear is that much work is needed to lay the grounds for credible results-based management. We look forward to what the planned pilots show.

Meanwhile, concerted efforts should be focused on improving client country capacity for measuring and monitoring progress and results. In this respect we also need to improve statistical systems in client countries, which may call for a major new initiative to enhance capacity - critical for effective measuring, monitoring and managing of development results.

**HIPC Progress Report**

We welcome the progress that has been achieved in relieving the debt burden on poorer countries under the HIPC initiative, and commend the contributions of donor countries and development institutions. Those in our region continue to participate within their limited means and to the extent that would not impair their financial integrity or impede their ability to continue extending assistance to other poor client countries.

Despite progress, the challenges for achieving more effective debt relief remain substantial. Fewer countries than expected have reached their completion points and many countries with debt problems have not been considered. The financing requirement to support current and potential HIPC countries remains large, with a financing gap of US$750 - 800 million needing to be filled before the end of this year. Prospects for achieving the key objective
of debt sustainability have deteriorated with the slowdown of the global economy and the decline in many primary commodities prices.

In view of the remaining problems it is imperative that the HIPC initiative be extended to the end of 2004, as now suggested. We also emphasize that, to achieve a lasting improvement in the ability of the indebted poor countries to cope with debt and achieve poverty reduction depends not only on debt relief, but also on the overall flow of resources and on improving access to markets.

**Progress Report on Poverty Reduction Strategies (PRSPs)**

The Report conveys the welcome conclusion that the PRSPs continue to be on track, with Interim PRSPs totaling forty-five and full PRSPs doubling since early this year. I also note the achievements highlighted in the Bank/Fund staff review several months ago, including the growing sense of country ownership of the strategies, more participation and dialogue with civil society, the more prominent place poverty reduction is assuming in policy debates, and the improved data gathering and monitoring of outcomes.

The experience with implementation of the strategies has revealed important challenges facing clients, including the need for building capacity to improve policy design and implementation, further extending the scope for dialogue and participation; better coordination with donor partners, and integrating the poverty strategy into the budgetary process. I endorse the Report’s conclusion that, in view of these challenges, continuing progress will be slower and that expectations should be tempered with patience. As also acknowledged, development partners have a substantial role to play in providing analytical and technical support, and can improve their own understanding of what is required for sustainable, pro-poor growth and poverty reduction.

**Anti-Money Laundering and Combating Terrorist Financing (AML/CTF)**

The Report does show considerable progress in implementing action plans on, AML/CTF with active roles being played by the Bank and Fund. I note the progress made so far towards a single comprehensive assessment methodology and endorse the principles that the Bank and Fund Boards have set for staff involvement in the AML/CTF assessment. Particularly important in this respect is that procedures should be transparent and consistent with the mandates and core expertise of the two institutions.

It is most important that, as the Report indicates, adequate attention should be given to the technical assistance and capacity building requirements of clients.

**Progress Report on Harmonization**

I am pleased to note that multilateral development banks, including those in our region, have moved towards collaboration on in-country harmonization through pilot work.

Harmonization efforts, however, are still not producing tangible results in many countries. More coordination among donors could lead to significant improvements in the transaction costs for aid recipients.
The planned High Level Forum early next year for enhancing collaboration across the development community will, it is hoped, lead to further improvements in harmonization, in order to eliminate the wastage of vital aid resources through unnecessary duplication, and the drain on recipients' institutional capacities.

Statement by Ms. Clare Short, Secretary of State for International Development and by Mr. Gordon Brown, Chancellor of the Exchequer (United Kingdom)

At an unprecedented series of international summits over the past two years, the international community has tackled the challenges of poverty elimination head on. The Millennium Assembly, the trade round at Doha, the Financing for Development conference in Monterrey and, most recently, the World Summit on Sustainable Development have set out a strong basis for action.

In Johannesburg earlier this month, Prime Minister Tony Blair spoke for many leaders when he said, ‘what is truly shocking is not the scale of the problems; the truly shocking thing is that we know the remedies. It is not rocket science, it is a matter of political will and leadership.’

As Governors of the World Bank and IMF, it falls to all of us to unlock that political will and show our leadership. This is our opportunity to show that we can meet the challenge of the Millennium Development Goals, act on our declarations and deliver on our promises. As Jim Wolfensohn has said, ‘Implement!’

The Development Committee’s agenda this year places a welcome focus on implementation: progress in implementation of the Heavily Indebted Poor Countries (HIPC) Initiative and implementation of the Monterrey Consensus.

Heavily Indebted Poor Countries (HIPC)

Taking HIPC first, this is an area where important progress has been made. Over US$62 billion in debt relief has been agreed for 26 countries, and the result is that priority social spending will rise by over US$2 billion a year in these countries. But the benefits of HIPC go beyond this, in consolidating the commitment to poverty reduction and good governance. The HIPC Initiative is an important example of what can be achieved with political will.

However, these achievements are at risk if we do not act to ensure that HIPC delivers sustainability. This requires a number of further actions from the international community. First, we must ensure that the HIPC Initiative is fully funded. To help meet a financing gap of up to US$1 billion, the UK intends to contribute the same 12 percent share of the bilateral total as it did in the first pledging round, plus our share of the EC contribution. We urge our colleagues – both in and beyond the Paris Club – to make similar pledges.

Second, the debt sustainability analyses prepared by the Bank and Fund, as well as those prepared by HIPC countries themselves, must be realistic and robust to ensure that countries exit the Initiative with a sustainable debt level. Where, despite sound economic management, debt levels are unsustainable at Completion Point the rules on topping-up must be sufficiently flexible to redress the problem.
Third, we must recognize that HIPC countries continue to be vulnerable to exogenous shocks, such as falls in commodity prices. The on-going sustainability problems affecting some HIPC countries demonstrate why we need to change the rules on topping up at Completion Point, to ensure that the voluntary additional relief provided by some bilateral creditors above and beyond the agreed relief in the HIPC framework is not included in the calculations. This would help define more clearly the burden sharing between all creditors, both bilateral and multilateral, in support of the HIPC Initiative. Moreover, it would provide an additional degree of comfort for HIPC countries confronting the twin problems of weaker global growth and lower commodity prices.

Finally, we must address the problem of those creditors who are not delivering their share of relief, and do all we can to help countries secure the relief that they need. To this end, we urge the Bank and Fund to develop proposals on options for HIPC countries to obtain technical assistance to facilitate the resolution of disputes. One option would be for a window in the HIPC Trust Fund to pay for this, employing legal expertise as needed and drawing on the experience of legal departments in the Bank and Fund. We should also consider ways to enable the IDA commercial buyback facility to purchase more commercial debt. This will be an important consideration for some HIPCs yet to reach Decision Point.

Implementing the Monterrey Consensus

Financing for Development in Monterrey established a compact between developing and developed countries. Sound policies and good governance will be matched with increased and more effective development assistance. We welcome the great strides being made by many developing countries in designing and implementing their own poverty reduction strategies (PRS). In response, the UK’s aid budget will be increased from £3.4 billion in 2002-3 to £4.6 billion in 2005-6. Within this, we are also aiming to increase the proportion of our bilateral programs directed towards low-income countries from 78 percent to 90 percent by 2006. And we recently agreed our largest ever contribution to IDA during the thirteenth replenishment, committing up to £1 billion over three years. We would urge our partners to make similar commitments to increasing the volume and efficiency of their development budgets as promised at Monterrey, and to look at innovative ways of maximizing these resources, including discussion of better international financing mechanisms.

But Monterrey also affirmed clearly that poverty reduction requires more than just development assistance. Our policies towards developing countries need to be coherent. For example, promoting agricultural projects will not lead to development while we maintain high tariff barriers against agricultural products from developing countries. Nor will capacity building projects for health professionals build long-term capacity for developing countries, while medical practices in our own countries actively recruit trained medical staff from these countries.

In the same vein, there is a divergence between the lessons we have learned about the importance of country ownership of development strategies, while developing countries remain under-represented in the international financial institutions that decide the policies. The UK Government is committed to helping to build an open and accountable international system in which developing countries have an effective voice. The Monterrey Consensus encouraged the
World Bank and IMF to consider the participation of developing countries in their decision-making, and to identify innovative and pragmatic ways to promote greater participation. We urge Bank and Fund staff to undertake this work and bring an issues paper to our next meeting in Spring 2003.

The Monterrey Consensus also called for action from developing countries to commit to sound policies and good governance; tackling corruption, investing in people and establishing an investment climate to attract private capital. In Africa, we welcome progress made in taking forward NEPAD. One of the key aims of NEPAD is to change the nature of the relationship between Africa and development nations from the old style donor-recipient relationship to a partnership based on mutual obligations and responsibilities. The UK strongly supports NEPAD.

The UK also urges other donor and developing countries to join in the new work to increase transparency in extractive industries. With international support, this initiative will help increase the accountability of developing countries to their citizens for the revenues they earn from natural resources.

Measuring, Monitoring and Managing for Results

As the Bank develops its framework for managing for results, we will aim to ensure that recipient countries remain the focus of all efforts. It is only with streamlined conditionality that countries will have the space to focus on their results and performance frameworks, and only then can they develop clear lines of accountability to their citizens. We welcome progress in the Bank’s decentralization process but urge that sufficient authority to negotiate with national authorities and co-operate with other donors needs to be delegated.

The internationally agreed development targets, the Millennium Development Goals (MDGs), set the focus for all our work. The 48 MDG indicators provide a yardstick against which to measure our global progress, although we feel that a smaller, core set would provide more focus. Currently, different international organizations are responsible for collecting and reporting different data sets with little co-ordination. This can result in inconsistent and incomparable data, which is confusing and misleading and an unnecessary burden on developing countries. It is most important, therefore, to reach agreement on a protocol of intermediate indicators (including definitions and a framework) to assist developing countries in establishing their own indicator systems that generate consistent and comparable data.

To monitor progress in relation to the MDGs, we will all need to invest in the statistical capacity of developing countries. Greater statistical and analytical capacity has clear benefits both for donors wanting to measure outcomes and for developing countries to measure the effectiveness of their policies and increase accountability to their citizens.

This focus on monitoring results at country level enhances the PRS approach. The UK is firmly committed to collaborating with others in support of nationally led poverty reduction strategies with a focus on the outcomes achieved, rather than trying to isolate and attribute the success of any one particular project to our inputs. We urge the Bank to put more effort into collaborating with other donors in this way.
Development Effectiveness

Our discussion at the Spring Meeting of the Development Committee highlighted the key lessons of development effectiveness studies. These include: support for the PRS approach and pro-poor budgets, untied aid, a focus on good policies and institutions in the poorest countries, full co-ordination and harmonization with other agencies, and the need to disconnect aid allocations from improper political considerations. These lessons are now well understood, but implementation lags behind agreements on best practice. As we have said, our focus must now be on implementation of these lessons in all our programs. The UK has unilaterally untied all development assistance and is increasingly providing flexible budget support to back up PRS plans. We agree with Bank staff in their conclusion that long-term commitments and support for recurrent costs are essential to allowing developing countries to plan and budget their resources effectively. For those countries that are struggling with lack of capacity, conflict or poor governance, we must also be flexible in our response, understanding the challenges and being prepared to adapt our approach. There is no set formula that works for all.

Education for All

The Education Fast Track Initiative has provided a focus on education and some valuable pressure to ensure that this important goal is reached. However, we remain concerned that the Initiative should not attempt to find a quick-fix solution, which will inevitably fail. We need to drive forward progress according to each country’s needs and level of commitment to Universal Primary Education. We must include support for education reform in poverty reduction strategies to ensure that progress is comprehensive and sustainable.

We believe particular attention should be given to the five countries that together account for over half of the world’s children out of school: there is great scope for the Initiative to incorporate some difficult analytical work which will lead to an improvement in the policy environment for these countries and which must precede the delivery of extra resources.

We are pleased that agreement was reached that commitments should be long term and predictable in order to finance recurrent costs for education and that donor approaches should be harmonized. This is very much the UK’s approach. At the Spring Meetings we must review progress on both developing country plans and donor countries’ promises of support to ensure that we move forward together. We call on the World Bank to report back on the progress, with particular emphasis on the five most challenging countries.

Health

More needs to be done to improve the capacity of health systems to provide good quality, appropriate and affordable services. We call on the World Health Organization and World Bank to work together to identify – country-by-country – the capacity gaps and financing efforts to build effective, poverty focused health systems as part of their poverty reduction strategies. An initial report should be presented at the Spring Meetings.
Water

Following Johannesburg, we must build further momentum towards achieving the MDGs in water and sanitation through the PRSP led processes; addressing the broader issues of management of water resources for livelihoods, economic growth and conflict avoidance; and increased delivery of water and sanitation services to the poor, including promoting an appropriate role for the private sector.

We look forward to a successful Third World Water Forum in Kyoto that reviews progress and actions recently agreed at Johannesburg and in the paper on financing of water being prepared by Michel Camdessus. It must also set a framework for country-by-country assessment of finance gaps and necessary policy reforms.

Poverty Reduction Strategies (PRS)

The PRS process has provided a fundamental shift in the way development agencies do business by putting the recipient countries in the driving seat. We know that this is essential for effective implementation of reforms and poverty reduction strategies. It is time for donors to act on their commitments to this process and align their programs behind PRS plans and country cycles.

Harmonization

Harmonization has a clear development imperative by promoting national ownership and stronger domestic accountability. We welcome evidence of progress, for example, the Bank’s decision to participate in pooled financing arrangements in Sector-Wide Approaches (SWAps). But the Bank itself needs to do more. It should lead by example to ensure its own work is harmonized with countries’ own poverty strategies and with other donors’ systems. The various initiatives towards harmonization must complement rather than duplicate each other.

Greater collaboration between the Bank and the Fund will be especially important in two key areas: Public Financial Management and Accountability (PFMA) and Poverty and Social Impact Analysis (PSIA). The effective and accountable management of expenditure is critical both for national accountability and to reassure donors that their contributions will affect poverty outcomes. We welcome the Bank and Fund’s work on PFMA, but fear that multiple and overlapping approaches will overburden developing countries. The Bank, with the Fund, should substantially strengthen and harmonize their support to a range of low-income countries in order to assist them to develop ambitious action plans, within their poverty reduction strategies, to achieve substantially improved public financial management and accountability, including target dates to achieve international benchmarks. The Bank and Fund should consult with other stakeholders in the design of benchmarks in this exercise, e.g. with the Economic Commission for Africa in the context of NEPAD.

PSIA is crucial to ensuring that major reforms to be undertaken will benefit stakeholders and achieve real poverty reduction. It is critically important that the Bank and Fund undertake these analyses in a way that not only builds national capacity for PSIA analysis, but also actively transfer ownership of the analytic agenda underpinning major reform policies to national
stakeholders. We request separate reports on Bank/Fund collaboration (and any obstacles to further collaboration) on PFMA and PSIA by the time of our next meeting.

The technical work on harmonization being undertaken will be of no value unless it leads to improved aid delivery. We therefore give our full support to the vision of the High Level Forum in Rome early next year as being to encourage donors to apply emerging good practice. We also support the proposal that this be achieved by a Chairs’ statement which includes agreed principles, a general endorsement of the technical work, and agreement that there should be agency specific voluntary commitment to implement these and a mechanism for monitoring and reporting the results.

Anti-Money Laundering and Combating Terrorist Financing

We welcome the achievements of the Bank and Fund, in collaboration with the Financial Action Task Force, in developing an agreed framework for reviewing countries’ progress on combating money laundering and the financing of terrorism. There have been many difficult issues to address, but it has been a vital task. The agreed framework is a signal that all the agencies involved recognize the importance of tackling these issues. We must now ensure that implementation follows through in the same spirit of collaboration.

We welcome too the initiative of the Bank and Fund in leading the way in establishing arrangements to coordinate technical assistance in this area. We endorse the use of Financial Action Task Force-style Regional Bodies as the main coordinating points in each region. The global level forum that the Bank/Fund has established will help to ensure that donors can quickly gain a strategic picture of needs region by region, and make their decisions accordingly.

We now have an unprecedented international consensus that all our work should focus on achieving the MDGs and agreement on how we can best increase our effectiveness. We must now move to implement the agreed consensus and put in place more effective ways of measuring progress country by country, year by year, so that we can be held accountable for our joint efforts.

Statement by Mr. Javier Silva-Ruete, Minister of Economy and Finance (Peru)

Progress Report On Implementing the Monterrey Consensus

Developing countries and the international community have an enormous challenge ahead. Developing countries need to deepen policy reform and enhance institution-building. Donors need to further step up their assistance. Bank’s contribution to this endeavor needs to be more focused in supporting countries’ progress to accomplish the Millennium Development Goals (MDG) by helping them to empower the poor and to invest in them, to improve the climate for private investment, and to achieve a more balanced international development architecture.

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32 On behalf of Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay
The Bank has a good trade promotion record derived from useful studies of its research department. We welcome the study on Market Access for Developing Countries, which shows the enormous potential impact on poverty reduction of eliminating all barriers to merchandise trade, which could generate welfare gains in the range of US$250 billion to US$620 billion per year, of which half would benefit developing countries. The report also shows that gradually eliminating import tariffs and export and domestic subsidies some 320 million people could be lifted out of poverty by 2015. We ask that trade liberalization be included in our Committee’s agenda and that progress in this field be reported in every future meeting.

We also welcome the Bank’s Handbook on Development, Trade and the WTO, which will contribute effectively to provide a better background for negotiating teams of developing countries in the coming World Trade Organization (WTO) Doha Development Round. We encourage the Bank to intensify this line of work in the direction of next year’s WTO Ministerial meeting.

We welcome the preparation of country studies on obstacles and opportunities to accelerate progress toward the MDGs, which include Argentina, a middle-income country (MIC). Country studies allow factors many times hidden by aggregation, to stand out. For example, extensive pockets of poverty found in most of the MICs. We must remember that approximately three quarters of the world’s poor live in MICs. We suggest the following additional questions for coming country studies: How do exogenous shocks affect growth and policy reforms in these economies? How to manage the increase in vulnerability brought about by globalization? Has mistaken policy advice from international organizations vis-a-vis government policies played a part in the explanation of poor performance? How to avoid rapid social deterioration in the face of crisis?

Let me add a word on the role of donors. The most productive decision donors can make to increase aid efficiency and reduce opportunities for corruption is to untie aid. Another important pending task is not only to harmonize operational procedures, but also to simplify them, because if harmonization is an issue in centralized operations, it surely will be a larger issue in a decentralized environment.

Development Effectiveness and Scaling-up: Lessons and Challenges from Case Studies

Case studies rightly spell out the main development issues. The effort to draw lessons from them is commendable, but should be viewed only as a starting point because it is difficult to make meaningful generalizations based on case studies. We expect that the proposed World Development Report 2004: Making Services Work for the Poor, which will specifically address these issues in detail, will bring more light to the very important area of effectiveness.

Case studies seem to assign importance to two approaches as useful mechanisms to improve development effectiveness. The first one is the Education for All (EFA) approach of using an “indicative framework” (i.e. a set of parameters that define the operation of successful educational systems). We believe that to be effective, this indicative framework needs to be placed within an appropriate incentive system, where performance of teachers and the different levels of government are well aligned for successful educational outcomes. In this context, it would be useful to review innovative delivery systems, such as output-based aid delivery
systems, that have the virtue of placing strong emphasis on well aligned incentive systems and results, and assessing their scaling-up potential.

The second approach is Community Driven Development (CDD), which is a bottom-up, participative, decentralized and community-based approach to development. The paper shows cases of successful implementation of the CDD approach, but falls short in showing its negative experience, from which we can also draw useful lessons. Let me point out some potential problems in its application. First, in the process of selection of sectors and prioritization of actions, the participative approach raises problems of collective action and capturing. It is very difficult to reach an agreement on priorities in a participative way, and in some cases this poses the risk of having leaders of the community capture the agenda for action, prioritizing their own personal interests, which can be divorced from communal interests. Second, upon reaching the implementation stage, several potential problems may arise. Decisions in a CDD are highly dispersed and difficult to track unless a clear set of rights and responsibilities is enforced and good coordination mechanisms are in place. Designing decentralization with a good incentive system and with proper checks and balances is imperative for this approach to function.

A successful experience with the decentralized delivery of primary health in rural areas in Peru, my home country, could be useful as a case study to enhance effectiveness in the fight against HIV/AIDS. Recently small public clinics were transferred from the central government to the communities. This delegation of authority included, among others, improved planning, improved incentives to raise productivity and accountability, flexibility in managing their budgets and hiring staff. This change, supported by Bank loans, resulted in substantial improvement in the quality and quantity of health care services.

**Better Measuring, Monitoring, and Managing for Development Results (MfR)**

Client countries need to build a development vision, diagnostics and strategy, and the capability to implement them. Several countries lack capacity in every aspect of this chain; and also lack a good statistics database. We therefore call for a more balanced and systematic approach to MfR, keeping in mind that every aspect of the development effectiveness chain is a necessary condition to implement effectively this approach and that data collection should be part of a long-run systematic effort supported by the Bank and other donors.

We urge the Bank to promote the implementation of MfR in Middle Income Countries (MICs) in a more systematic way. Moreover, we think the MICs are a very fertile ground to apply MfR because the MICs are well endowed with statistical databases and capacity to carry out the vision, diagnostic and strategy exercise that are needed to apply this approach.

Practical and up-to-date knowledge about what works in different real-world circumstances is necessary for policy design and implementation, but its importance should not be overplayed. Experience shows that progress in development is country/culture specific and that transfer of best practices should be carefully tailored to the country’s circumstances to really have a lasting impact.

Accountability of all development actors is indispensable for MfR to be effective. We are aware that development outcomes are a joint product of participating development actors and that it is difficult, if not impossible, to attribute results to each actor at this level. But on the other
hand, we need clear accountability rules to improve development effectiveness. We think we have to face the attribution problem at intermediate stages of the results chain, where the contribution of each actor is more amenable to be separated, in order to increase the productivity of development aid and avoid free-riding problems.

On the application of MfR within the Bank, we welcome piloting the results-based Country Assistance Strategy (CAS) and the new CAS completion reports, and we envision that these efforts could probably end up transforming the CAS into a type of management contract between the country director and top management, with the appropriate contingencies in place in the medium term.

**Heavily Indebted Poor Countries (HIPC) – Status Of Implementation**

We support a new review of the Initiative and a two-year extension until the end of 2004. This will provide an opportunity, for those countries that have only recently begun establishing a policy track record, to be considered for HIPC relief.

The deterioration of the world economy and of commodity prices since 2001 have generated an external shock that has affected the debt sustainability of most HIPCs. Consequently, we support the floating character of the completion point as it gives a chance to recover from a downturn cycle and to complete the required programs, as well as to prepare a Poverty reduction Strategy Papers (PRSPs) in a participatory process.

We agree with the concept that sustainability will materialize if sound polices are maintained, but also if an effort is made to diversify production and exports away from commodity dependence to strengthen growth and export performance overall. The PRSP constitutes the main vehicle to address these tasks. In addition, improvements in the repayment capacity, strengthening of debt management -including prudent policies in new borrowing- are important for sustainability prospects.

We are convinced that debt sustainability will not be jeopardized if the provision of adequate external financing has sufficiently concessional terms in support of HIPCs’ poverty reduction and growth strategies. An increase in grant financing from both bilateral and multilateral development partners is required. This is important not only in terms of financing social spending, but also to help ensure that new external financing is consistent with payment capacity in countries that are particularly vulnerable.

The HIPC Initiative should not be seen as the main financing source for poverty reduction in the context of the Millennium Development Goals. The Initiative is not yet fully funded, and many of the proposals to reduce poverty are associated with high additional costs. Also, it is questionable to consider continuing debt relief as the right instrument to deal with future economic shocks and to achieve the MDGs. The bulk of this financing will have to come in the form of new flows. The adoption of sensible policies should help attract not only official aid, but private -including foreign- direct investment.
Poverty Reduction Strategy Papers (PRSPs) – Progress in Implementation

Since March 2002 another nine countries have completed their first full PRSP. Two annual PRSP progress reports have been completed and others have made substantial advances in their design and implementation. The process is moving forward and experience in the preparation and implementation is growing. The international community is connecting financial assistance to PRSP priorities and deriving policy conditionality from PRSP programs.

However, there are challenges that will need to be addressed over time. Opening the policy dialogue is not yet widespread, and neither is the improvement of public expenditure management, nor the assessment of poverty and social impacts of key policy reforms. Also, at the implementation stage there seems to be a strong need to build institutional capacity, improve policy choices and monitor more systematically poverty outcomes. These aspects will require substantial and sustained efforts from the countries involved, but also from their development partners.

It is not mere coincidence that all recent PRSPs have grounded their strategies in the objective of sustained economic growth, with the recognition that growth is a private sector led process. While it is important to identify the sources of growth to improve outcomes, the role of market access for the exports of low-income countries as a key driver of growth should be stressed.

The PRSPs contain macroeconomic assumptions that are often optimistic, but that are not supported by sufficient analysis of the sources of growth and the policies required to achieve such growth. Existing institutional capacity constraints and the need for analytical and technical support will realistically limit the pace at which this challenge can be met. There is frequently a disconnect between the macroeconomic framework underpinning a country’s PRSP, and the figures upon which its annual budget is based.

It is also necessary to examine the implications of exogenous shocks for the country’s poverty reduction strategies and macroeconomic frameworks. Flexibility to respond to shocks is needed, as well as contingency plans to ensure that priority spending programs would be safeguarded during periods of difficulty and supported by additional grant financing of poverty reducing spending.

A core element is the donors’ involvement in the PRSP preparation. Development partners will have to pursue alignment of technical support closer to areas identified as priorities by the PRSP. The Bank’s Country Assistance Strategy will have to be built around the country’s PRSP. Also, there is a need to reduce the administration burden on recipient countries of “doing business” with donors. Harmonizing of operational policies, procedures and practices governing aid management and delivery is also badly needed.

Intensified Work on Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT)

We support the efforts to combat money laundering and terrorism financing, though emphasizing that our main task as a development bank is to fight against poverty, based on our core mandate and our comparative advantages. We agree with the AML/CFT initiatives, but we
should not lose sight of the fact that progress in achieving the development goals reduces the breeding grounds for crimes like money laundering, terrorism and others.

We are reluctant to the Bank’s involvement in law enforcement aspects of the new AML/CFT methodology. Updates on the Bank’s involvement in assessing criminal laws during the implementation of the 12-month pilot program of the new AML/CFT methodology should be presented regularly to the Board. Despite assurances that these issues will be separately assessed, we believe that substantial reputation risks for the Bank are involved, because this issue goes far beyond the Bank’s core mandate. We expect the relevant reports of the Financial Action Task Force on Money Laundering (FATF) Plenary outcome to both the Bank’s and IMF’s Boards to determine the steps to follow.

With regard to the single comprehensive AML/CFT assessment methodology and ROSC, we encourage Bank’s management to take all measures necessary to guarantee that the procedures are fully compatible with the uniform, voluntary, and cooperative nature of the ROSC process, as was consistently stated by the Ministers in the DC/IMFC communiqués of April 2001.

We reaffirm the need to clarify that the inclusion of AML/CFT issues in the CAS process must not end up in the introduction of new conditionalities that will rise the cost of doing business with the Bank for its clients.

Finally, we reiterate the need for the international community to pay greater attention to other relevant issue that is strongly related to financing of terrorism: drugs and arms traffic.

Statement by Mr. Jaswant Singh, Minister of Finance (India)

We meet at a time when the anticipated global economic recovery is much weaker than expected and there is deceleration in global output growth, that of 2001 being the second sharpest decline in 40 years. World trade has actually shrunk by 0.8 percent last year. Increase in oil prices and uncertainty of major equity markets threaten a still tentative step towards recovery. The declining trend in resources transfer to developing countries is a matter of deep concern. Private capital flows have fallen back to levels last seen in the early 1990s. The sharp increase in spreads on emerging market benchmark bonds are also a cause for serious concern. FDI flows to emerging markets have held up reasonably, though concentrated in a handful of countries. Declining net transfers from multilaterals obviously concern us. All these factors have made the global environment unjustly inhospitable for developing countries. This Committee has the responsibility to address these issues and to respond to the challenges.

This is our first meeting after the IDA 13 replenishment. I am glad that the replenishment discussions were conducted in a much more open manner than in the past. Fresh commitments of SDR 10 billion along with about SDRr 7 billion of reflows from borrowers have contributed to a higher replenishment. Given the critical role that IDA plays in global poverty reduction efforts, we need to substantially increase available IDA resources as well a longer term replenishment period (say for five instead of three years) to enhance the certainty of resources available to developing countries.
Implementing the Monterrey Consensus

We are in complete agreement with the three fundamentals of the Monterrey consensus: adequate resources for financing the Millennium Development Goals (MDGs); effective use of resources; and greater market access to developing country exports. However, the latest indicators released by the Bank shows that many countries are in the danger of not meeting a number of the MDGs. The World Bank has a pivotal role to play in achieving these goals. Adequate resources for reaching the MDGs remains a major concern, despite recent announcements of enhanced aid by many major donors. The Bank must lead the efforts to mobilize the additional resources required for meeting the MDGs. In this regard, we commend the efforts of the Bank in putting together the Education for All fast-track initiative. We look forward to similar initiatives for achieving the other MDGs. Since the Bank will be playing a prominent role in the financing of the MDGs, we request that a status report should be presented at future meetings of the Development Committee so that progress in achieving the MDGs may be monitored by this Committee.

HIV/AIDS is a global concern and we are happy that the Bank is taking such a pro-active role in mobilizing resources to fight it. We endorse the view that this fight is multi-dimensional, encompassing investments in education, primary health systems and a host of complementary activities. At the same time this should not detract from the criticality of other primary health interventions – 5,500 children die every day from diseases caused by consuming water and food polluted with bacteria. The WHO’s Commission on Macroeconomics and Health provides a good basis for enhanced financing for improving health outcomes in developing countries.

Market barriers erected by developed countries are a major constraint on the ability of developing countries to utilize their advantages. The Bank’s analytic work should be directed at further advocating dismantling of trade distorting barriers in industrialized countries and strengthening the abilities of smaller developing countries to negotiate. It is very important for developing countries to understand trade dynamics, build capacity to compete and create necessary institutions and infrastructure to deliver exports efficiently. This is an area where World Bank can play a very important and effective role both in identifying the crucial constraints and in financing the critical investment needed.

Better Measuring, Monitoring and Managing for Development Results

To demonstrate its capacity to utilize development resources effectively, the Bank should focus on improved measurement and monitoring capacities. This exercise needs to be based on outcomes to take into account specific country circumstances. A crucial ingredient of better measuring results must be assessing actual physical outcomes on the ground through targets like reduced infant and maternal mortality rates, increased access to clean drinking water and reduced incidence of acute respiratory diseases.

Development Effectiveness

Effectiveness of development assistance can be ensured only through objective allocation of resources by bilateral and multilateral agencies, focusing on regions with the maximum poverty. Non-economic considerations or strategic purposes have no role in the process of resource allocation. As the OED evaluation of IDA funding has shown, multilateral
development assistance is far more effective in its poverty reducing effects than bilateral assistance. We urge development partners to direct the majority of the funds required for reaching the Millennium Development Goals through multilateral concessional channels like IDA.

We welcome the effort to document sectoral case studies for drawing general lessons and understanding challenges more realistically. These demonstrate the benefits of participatory decision making and community driven development. This process of empowerment and capacity building would have to be strengthened to improve implementation.

Two issues of relevance to developing countries raised by the Monterrey process remain largely unaddressed. First, is the need of developing countries to much greater access to stable and longer term sources of capital flows. Second, the need to enhance the ability of IBRD to finance MDG related productive investments by restoring its risk-bearing capacity through a General Capital Increase. We request the Chairman of the Development Committee to list these two issues as subjects for discussion in our next meeting in Spring 2003, with the Bank management preparing detailed discussion papers on them.

HIPC-Joint Bank-Fund Report

The HIPC Initiative has been recording progress, albeit slower than expected. The delayed delivery or non-delivery of promised debt relief in some HIPCs and the continuing unsustainability of debt situation even after full delivery of HIPC relief are particularly worrisome. We have, in the past, underlined the need for flexibility in dealing with HIPCs. Due allowances have to be made for unforeseen, exogenous factors which have undermined sincere efforts of countries. On the other hand, slippages in performance cannot be ignored or overlooked. On balance, while recognizing the moral hazard of continuing to provide debt relief indefinitely, we do agree that there is a case for the extension of the sunset clause by another two years.

To our mind, a clear linkage between HIPC relief and core poverty reducing social expenditure still remains to be established and we would urge the Bank to focus more sharply on tracking the impact of HIPC resources on such expenditure. Debt relief under the HIPC Initiative by itself, will not take HIPC countries very far in meeting the financing need to achieve the MDGs. The bulk of resources required for this purpose will have to be fresh ODA flows.

The success of the Initiative, in a large measure, depends on participation by all creditors, both multilateral and bilateral. In our statement to the Development Committee in April this year, we had conveyed India’s decision to participate in the Initiative and cancel all bilateral debt owed to us by HIPCs. We are also committed to facilitating dialogue between commercial creditors based in India and the HIPC countries.

Joint IMF/World Bank Progress Report on PRSPs

PRSPs can play a useful role in providing a policy framework for pursuing poverty reduction measures and related investments. The progress made in anchoring the PRSP process in low income countries is welcome. PRSPs should be better integrated with existing planning and budgetary processes of countries. PRSPs cannot function as “islands of excellence” within
weak institutions and processes. The PRSP exercises underway must focus on building capacity and strengthening existing processes and systems in key areas like poverty diagnostics, statistical systems, public expenditure management and poverty and social impact assessments both at the national and sub-national levels. We also need to assiduously guard against an excessive focus on macro-conditionalities and short-term adjustment clouding our longer term vision for development and poverty reduction.

There is no “one way” to promoting growth and reducing poverty. PRSPs need to recognize this by explicitly analyzing and actively exploring alternative macroeconomic scenarios and policies. Both the Bank and Fund need to work on identifying the elements of a “pro-poor” growth strategy. The IMF study cited in the Banks’ *The Role and Effectiveness of Development Assistance* defines “pro-poor” spending as aggregate budgetary expenditure in the education and health sectors. This is clearly an over-simplification.

Finally, we would expect the Bank to take a lead in ensuring that countries with PRSPs assessed to be under proper implementation should receive adequate financing for the critical poverty reducing investments identified in the PRSP. Development partners will need to come up with higher levels of assistance for the full financing of PRSPs. The high level of expectation that the PRSP process has raised, demands that the development community as a whole ensures that the PRSPs do not suffer for lack of adequate resources for investment.

**Anti-Money Laundering and Combating Financing of Terrorism:**

We strongly support the Fund-Bank initiative to curb the menace of money-laundering and combating the financing of terror. India’s fight against terrorism is almost two decades old. That is why we are happy at the progress made in accordance with the mandate given by the IMFC and the Development Committee in November last year. We particularly welcome the emphasis on technical assistance and capacity-building.

Keeping in view the respective mandates of the Bank and the Fund, we reiterate our strong support for the use of ROSCs, other diagnostic tools like OFC assessments, FSAPs and particularly, Fund Article IV voluntary questionnaires, to help member-countries identify and address the weaknesses in their financial systems. We hope to see that the comprehensive methodology which has been developed the Fund-Bank in close cooperation with specialized international bodies will be finalized and the pilot program of assessments will commence soon.

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

We expect the Bank, other multilateral development organizations and bilateral aid agencies to accelerate efforts at harmonization of policies, procedures and practices. We need to identify specific areas and to try to harmonize the approach in these areas. In view of the complexity of the task and because of the multiplicities of governments and organizations involved and the range of issues that this exercise is seeking to cover, there is a real danger that instead of harmonizing and simplifying, we may end up making the system less flexible. We would, therefore, suggest that a more modest approach should be adopted, with certain basic exercises like evolution of common reporting systems, a common set of guidelines and forms of bidding requirements, common satisfaction of preconditions necessary for obtaining development assistance be finalized immediately. At a later stage a common environmental and
social safeguards could also be worked on. The ultimate objective of the harmonization exercise must be a visible lowering of costs of doing business with development partners like the Bank.

Statement by Ms. Agnes Van Ardenne, Minister for Development Cooperation (The Netherlands)

Implementing the Monterrey Consensus

My constituency countries returned from the World Summit for Sustainable Development (WSSD) with the impression that the international community has an impressive track record in reaching agreements. Johannesburg contributed to the adoption of a number of targets, to a clear recognition of the integrated nature of the three pillars of sustainable development (environment, economic and social development) and to widening the scope on international problem resolution by bringing the private sector and NGOs on board. It will be a challenge to integrate the WSSD targets in the MDG framework. The three pillars of sustainable development clearly translate into a continuing need for coherent policies. Involvement of the private sector and NGOs should result in partnerships, thus combining efforts of stakeholders in order to tackle specific problems.

In Johannesburg we shared the feeling that the international focus in the coming years should be on implementation. The Netherlands Prime Minister Jan Peter Balkenende said in his speech “we have done the talking, let’s now do the walking”. Now is the time for action and implementation; I am pleased that this is firmly on the agenda of this DC meeting. The WSSD could have been clearer on the need for an integrated follow up to summits of this type; in particular where the relationship between WSSD and Monterrey is concerned. We welcome the proposal of the SG UN to monitor the implementation, also at the national level.

The follow up to the Monterrey consensus covers many fields, and it should also encompass matters such as trade for development, including phasing out subsidies and market access, as well as Official Development Assistance (ODA). With three case studies and a proposal to strengthen our focus on results, this DC meeting centres on practical matters. I welcome the three cases, which illustrate the urgent need to push forward with implementation, and I fully support the lessons and conclusions the World Bank draws from them. I believe they show us the right way to speed up progress towards achieving the MDGs. As the World Bank points out in its DC paper, the way in which we deliver aid in practice is an important factor in achieving better results. However, it is not only a matter of shifting to performance-based aid allocations. Though this is a key measure which, as the Bank rightly points out, is crucial for increasing aid effectiveness, I believe that issues like partnership, coordination and respect for the country-driven nature of policies and systems are equally essential for successful implementation. Many countries, including within my constituency, have devised national development plans, and target Education for All, water & sanitation and HIV/AIDS. They need support, in terms of capacity building and financial resources, to implement them. At the same time, however, they have to juggle with donor projects and international initiatives and demands. Strategic alignment, harmonisation and coordination among donors are therefore major challenges.

On behalf of Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, former Yugoslav Republic Macedonia, Moldova, Netherlands, Romania and Ukraine.
In terms of implementation, this means that donors should stop imposing their well-intentioned programs and policies on developing countries. They should stop supporting activities that are not part of national strategies and start aligning aid to national priorities and systems. Decisions on funding should be made in consultation with recipient governments and other donors, so that a division of labour can be achieved among donor agencies. Donors must take account of developing countries' frequently limited institutional capacity and reduce the transaction costs of aid. We have talked at length about the need for harmonising donors procedures, and this is another area where effective implementation, with a focus on results, is now a must. These are the principles that will underpin my work as Dutch Minister for Development Cooperation. I intend to participate in joint missions and joint administrative arrangements wherever possible. Like developing countries, donors should be monitored for their performance and taken to task in forums like the DC or the DAC when they do not deliver. I want to be held accountable for such efficiency, and I invite other donors to do the same. I believe that this is in the spirit of Monterrey, where we all agreed on mutual responsibilities and obligations.

My constituency countries welcome the World Bank's suggestion to assess the performance of individual agencies for their inputs into the development process. To this end, I suggest that the DAC Task Force on Donor Practice should draw up broader assessment criteria than the usual indicators. The newly established monitoring system for IDA includes process indicators, for instance the number of country analyses carried out. It is a useful system, but I would propose going a step further and including partnership and donor behaviour indicators. Uganda could serve as a model here. Its PRSP specifies a number of criteria for good donor and government behaviour, i.e. “Jointly set output/outcome indicators”, “Develop uniform disbursement rules”, “End individual, parallel country programs and stand-alone projects” and “Continue to increase the level of untied sector budget support and progressively reduce tying of procurement”. We need practical measures like these to guide implementation and to serve as yardsticks for assessing donor performance. I am committed to using these yardsticks and will continue untying Dutch aid and replacing stand-alone projects by supporting Sector Wide Approaches and PRSPs.

Another step forward in the debate on monitoring results is the Bank’s proposal to focus on evaluating donor agencies’ collective contributions. Indeed, it is not useful to try and evaluate the impact of individual donors. It is only desirable for internal accountability, to reassure courts of audit that our euros are being spent properly. I do not think it will be difficult to convince the Dutch court of audit to stop trying to keep track of the Dutch euro in splendid isolation, because I have realised that its effectiveness will be far greater if it is considered within the framework of national budget systems as a contribution towards joint activities. Abandoning explicit recognition of our own contribution is a fair price to pay for better results. I realise that this shift in approach may be too hard to swallow all at once. We will have to chew it over, in this DC meeting and in other relevant forums. We can however take the first steps in the right direction by harmonising the indicators from our respective monitoring systems and moving as far and as fast as we can towards the targets and indicators included in countries’ own PRSPs. What matters most is greater accountability to the people of the recipient countries. Seen in this light, it is paramount to use their monitoring systems to measure results and improve them where necessary.
Progress in implementing Poverty Reduction Strategy Papers (PRSP)

I welcome the progress made by the PRSP countries and want to express my appreciation for the active support given by the World Bank and the IMF. This progress report identifies the challenges arising from implementation of PRSPs. However, I would have liked a more explicit report on responses to the recommendations from the PRSP Review. I am pleased to read that the Multidonor PRSP Trust Fund has got off to a good start. The Netherlands helped to establish this fund with the aim of building capacity in PRSP countries and promoting cooperation between UN agencies and the World Bank in the PRSP process. I regret to note that many UN agencies still play no significant role in the PRPS process at country level, although they have a clear mandate to monitor poverty, promote good governance and build capacity in civil society organisations. I therefore urge the World Bank to seize every opportunity to build stronger partnerships with the relevant UN agencies. The recent introduction of IDA grants gives me more reason than ever to keep close track of relations between the UN funds and programs and the World Bank. The IDA donors have requested intensified partnerships in the fields of HIV/AIDS and post conflict countries in particular. It is here that IDA will provide grants instead of credits and will move closer to the UN mandate. I suggest that the next PRSP progress report should highlight the relationship between the World Bank and the UN agencies.

We now have nineteen full PRSPs. Their quality varies. In many cases, social policies are set out in more detail than economic policies. Much work remains to be done in fleshing out the relationship between economic policies and poverty outcomes. I am pleased with the proposal submitted by the World Bank and the IMF to assist countries in developing alternative macroeconomic policies and fallback scenarios. Support for thinking through various policy options can enhance country ownership, since fully informed choices increase commitment. Fallback scenarios are relevant for countries with vulnerable economies which may be affected by external shocks. We would welcome the Bank and Fund to carry out further research to help us anticipate such shocks and maintain past achievements on the road to development.

Although progress has been made on many fronts, some fundamental issues still need to be addressed. Are the policies of PRSP countries more pro poor than before? Are they more likely to result in less poverty? I call upon the World Bank and Fund to allocate sufficient budget and to expand their Poverty and Social Impact (PSIA) work. Both multilateral and bilateral donors should take serious account of the PSIA frameworks, and, together with the developing countries, use these for informed policy making. One area of economic policy which should receive more focused attention in the PRSP dialogue at country level is private sector development and trade. Last year, the World Bank Group finalised its Private Sector Development Strategy which focuses sharply on poverty reduction and contains innovative elements such as output-based aid. I would like to encourage the World Bank to introduce elements of this strategy into the PRSP debate at country level, in particular during consultations with the private sector. The same applies to its Trade Strategy (Leveraging Trade for Development), which can be seen as complementary to the Private Sector Development Strategy. I find it encouraging that the World Bank recently established a Trade Department to improve the institutional capacity to respond to the growing demand for trade-related services. The Trade Department has an important role to play in carrying out research that will help make trade policies in both industrialised and developing countries more pro-development. The whole range of the World Bank’s work on trade and private sector development should be fed into countries’ PRSP dialogue. I urge the Bank, in conjunction with UNCTAD, ILO and WTO to take this up as
a priority in the run up to the next trade round. If it is to be a development round, we will have to start doing our homework now and prepare countries, in both the developing and industrial world, to develop trade policies with a maximum impact on poverty reduction. In this regard I would also like to commend the Bank and Fund for their contributions to the CIS-7 initiative, which broadly supports the development path of the CIS countries, and, amongst others, is aimed at regional cooperation amongst some of my constituency countries, and help them exploit their growth potential through building market institutions and trade.

Africa

I note with concern that economic growth in Africa is slow and too limited to reduce absolute and relative poverty. This places severe constraints on internal, African financing of the Poverty Reduction Strategies. It was therefore important that the G-8 put Africa and the New Partnership for Africa’s Development, (NEPAD) on their agenda last June. I hope they will quickly implement their Action Plan which provides for an increase of their ODA to Africa. We have to reverse the current downward trend in ODA to Sub-Saharan Africa, which declined from US$ 20.7 billion in 1992 to US$ 12.7 billion in 2000.

I find it encouraging that the process of accelerating political unity in Africa was brought forward in Durban last July. Follow-up action on the African Union-NEPAD nexus is urgently required. I am pleased that good governance and in particular conflict resolution and prevention play the leading roles in NEPAD. They should be implemented swiftly, together with the other elements of NEPAD. Implementing NEPAD is of course primarily the responsibility of African leaders and societies. But it is up to the international community to support NEPAD and the underlying political process. As donors we can make a significant contribution and I believe that the World Bank has a special responsibility here. I call on the Bank to take up the challenge and to explore ways of increasing the flow of aid funds to Africa without endangering African ownership of the development process.

I would like to point out that a number of African countries – for example Sierra Leone, the Democratic Republic of Congo, Burundi and Angola – are currently trying to resolve conflicts or have recently made progress with a reconciliation process. I am therefore considering supporting those countries that have taken credible, lasting steps towards restoring peace and order and promoting reconciliation. A regular or structural type of financial assistance based on performance criteria may not yet be feasible for these countries. In the interim, however, the donor community can play a role in strengthening political stability and accelerating governmental reforms, i.e. by providing technical advice. I am pleased that the World Bank has taken a similar stance in its policy for Low Income Countries under Stress (LICUS).

For those countries that have emerged from violent conflict, an important step on the path back to development is the clearance of arrears at the IFIs - a requirement for normalising lending relations. African countries which do not feature in the press every day should be given the same attention as countries like the Democratic Republic of Congo. The Netherlands has on several occasions contributed to post-conflict arrears clearance. I would like to encourage the World Bank and the IMF to work with the African Development Bank in seeking tailor-made solutions for these post-conflict countries in Africa, based on a framework of agreed principles, such as fair burden-sharing and consistency in approach. A step forward towards achieving fair burden-sharing by bilateral donors would be to consider these contributions to arrears clearance
as official HIPC contributions and to channel them through the HIPC Trust Fund, which is managed by the World Bank. In general terms, arrears clearance should be an integral part of the HIPC Framework.

The Challenges of the Heavily Indebted Poor Countries (HIPC) Initiative

My constituency regards the HIPC Initiative as more than a flow of debt relief funds and from this wider perspective I see significant achievements. The Initiative has promoted important reforms like country-owned poverty strategies and medium term expenditure frameworks (MTEFs). It has also helped to change the way donors work, supported efforts towards lowering aid transaction costs and led to a much sharper focus on monitoring results. What is more, in many countries expenditure on social sectors has increased substantially thanks to reductions in debt servicing in combination with growing concessional loan and grant financing and more foreign direct investments. However, despite these significant achievements, the HIPC Initiative should not be presented as a clear-cut success story.

Implementation is giving rise to practical problems, while some fundamental challenges are not being addressed. I shall discuss some of these problems and challenges below.

First of all, the issue of funding the financial gap needs to be addressed. Secondly, full creditor participation is a must. More transparency, and other measures may be taken to ensure creditor compliance. Thirdly, exogenous shocks may put some HIPCs at risk of going off track in implementing their PRSPs. What is needed here is better monitoring and surveillance of these shocks, preferably by the IMF and the World Bank. I am therefore delighted that this is acknowledged in the DC documents. Let us now agree on concrete steps.

Improved debt and fiscal management

We need to address the fundamental challenges of the HIPC Initiative: ensuring comprehensive debt management and sustainable fiscal management of the national poverty reduction programs. Comprehensive debt management should in my view include all types of old and new public debt - bilateral, multilateral and domestic. Furthermore, macroeconomic policy, as formulated in the PRGF programs, should be consistent with debt management. For example, targets relating to the budget deficit or to official reserves can have an impact on debt flows and therefore on debt sustainability. Debt sustainability indicators should be used as an analytical tool. I regret to note however that they are currently formulated in such a way that they only serve as triggers for debt relief.

In dealing with debt management we should realise that what really matters is the broader issue of comprehensive fiscal management. We should therefore now shift our focus to expenditure and fiscal management in its entirety. An essential step, which has been largely ignored in my view, is the costing of PRS. A recent SPA paper reveals that only Uganda and a few other countries have managed to cost their PRS reasonably well and that the World Bank Source Book is providing little guidance in the first steps of the costing exercise. I urge the Bank to take this issue seriously. It is only when we know the costs of a PRSP that we can turn to the question of how to finance it (by debt, domestic resources or external aid). In other words, proper fiscal and debt management is only possible if it is informed by cost estimates of national policies under the PRSP.
The Financial Sector as an Urgent ‘Beyond HIPC Issue’

Financial sector development is one of those issues reaching beyond the HIPC Initiative that we, as a donor community, may have overlooked for some time, despite the fact that we all agree that HIPCs should stimulate domestic savings and strengthen their financial sector. I am pleased with the efforts of both the World Bank and the IMF in the Financial Sector Reform and Strengthening (FIRST) Initiative and the Financial Sector Assessment Program (FSAP), but I think that more can be done. Financial markets will be the main vehicle with which we can sustain the benefits of the HIPC initiative. We should prevent a situation in which HIPCs, having depleted their debt relief funds, have no domestic market for obtaining sufficient credit and generating adequate savings. This ties in with my earlier statement about the need to develop trade and private sector development policies (cf. PRSP). It is self-evident that export will help generate domestic resources and that private sector development goes hand in hand with trade expansion and financial sector development.

The Donor and IFI role in the HIPC Initiative in the Context of the Monterrey Consensus

I propose concrete actions to address the above-mentioned issues:

First of all, donors and institutions should honour their pledges and make new commitments to fill the financing gap. I hope that the G-8 will soon clarify their statement made in Kananaskis and indicate how much they will each contribute towards financing the current gap of US$800 million or more. Of course the Netherlands is prepared to play its part. At the moment we are the second largest donor, after the US, in terms of disbursements. On the basis of burden sharing, I will consider extra contributions, once other donors have made new pledges.

Second, the Bank and Fund should engage in closer monitoring of the balance of payments of HIPCs, so that the impact of exogenous shocks on the debt situation becomes visible as soon as possible.

Third, it should become standard practice to offer HIPCs capacity building assistance, as part of the debt relief package, in the area of internal and external debt management.

Fourth, better quality development aid for HIPC countries is necessary. ODA should be made more effective. My proposal is that we should start with untying all aid to all HIPC countries as soon as possible. We also need far more ODA if we are to achieve the MDGs by 2015. My constituency welcomes the agreement made in Johannesburg, that achieving time paths towards 0.7 percent is now an internationally agreed responsibility. The Netherlands continues to provide 0.8 percent of its GNP for ODA but we cannot do this alone. The “G-0.7-countries” will continue to push for other donor countries to set out specific time paths of all the towards the 0.7 percent GNP/ODA target.

Fifth, preferential market access for HIPC countries is needed for acceleration of economic growth; progress on the Doha round is important. This issue could be followed up in the WTO Working Group on trade, debt and finance. HIPCs countries should simultaneously work on export diversification, to reduce the dependence of their national economies on the price development of only a few commodities.
I note with regret that worrisome developments take place in the context of overall ODA flows to developing countries. I refer to the outcome of the thirteenth replenishment of IDA, which led to a substantial grant window of roughly 20 percent. Introducing grants will lead to a lower level of reflows and therefore lower available resources for future IDA. The solution which was adopted does not ensure up front full financing of the cost in future. In addition to this future financial risk, the IDA deputies also confirmed the ‘pay as you go’ approach towards financing the HIPC cost for IDA. It is possible that the future volume of IDA will be smaller than the current levels. It is somewhat cynical to realise that in such a scenario it would be the developing countries themselves which pay for HIPC-debt relief and IDA grants. Developing countries with good policies and political commitment deserve a better treat from the donor community!

Statement by Ms. Heidemarie Wieczorek-Zeul, Federal Minister of Economic Cooperation and Development (Germany)

At the spring meeting, I emphasized that this year offers a unique opportunity, with the Monterrey and Johannesburg conferences, to lay the foundations for a more just world order. This opportunity is based on the far-reaching political consensus in the international community on the major issues relating to poverty reduction and to sustainably securing our planet’s life support systems. The conferences of Monterrey and Johannesburg gave expression to, and confirmed, this vast consensus. Now it is vital to translate these shared convictions into concrete policies that are designed in a joint effort.

The agreements of Monterrey and Johannesburg are ambitious and far-reaching, and indeed they must be, given the urgent need for action arising from perpetuated poverty, almost undiminished overexploitation of natural resources and, not least, the increasing incidence of natural disasters, part of which is attributable to human action. Just take the flood disasters that recently struck China as well as many European countries. These are signs which we must not ignore. I would like to thank everyone for their expressions of solidarity with us in the face of the flood.

That we have reached agreement on the Monterrey and Johannesburg agendas does not mean that all differences of opinion have been overcome. On many counts, we have missed the mark of what would have been necessary in the interest of us all, especially with regard to climate policy, but also regarding the reduction of trade barriers. We will need to continue to work on these matters. However, we should also be aware of the increasing global risks which are posed by violent conflict and terrorism on the way to reaching the Millennium Goals, and which may also be posed by war. The developing countries are the most vulnerable players in the world economy. Preserving peace and resolving violent conflict is necessary to reach the development goals that have been set.

Implementing the Johannesburg Decisions

The conferences of Monterrey and Johannesburg confirmed the important role of the UN and the IFIs. Strong global institutions are necessary to move from declarations to concrete implementation and results. We expect the World Bank to spell out its contribution to the
implementation of the Johannesburg decisions in greater detail, in line with the *Johannesburg Plan of Implementation*, and we propose to put this topic on the agenda of the spring meetings.

The World Bank's policy advice and financing practice too must be guided by the Johannesburg recommendations. The focus in this context is on issues that correspond to the Bank's mandate – poverty reduction – and to its comparative advantages, in other words, especially the areas of agriculture, water/sanitation, and energy. In Johannesburg, we agreed on a global coalition for energy efficiency and renewable energy sources, which has been joined by over 80 countries so far. The Bank should step up its activities to broaden the access of poor population groups to sustainable energy supply. This includes issues of financing renewable energy, but also the reduction of ecologically questionable subsidies in the energy sector.

In this context, Germany considers itself a partner of the World Bank. We will extend an invitation to an international conference on renewable energy sources and broaden the strategic partnership with developing countries through a "Sustainable energy for development" program. We will make available € 1 billion for that program over the coming years.

*Development Effectiveness*

The success reached in implementing the Compacts adopted in Monterrey with a view to achieving the Millennium Goals shows that concrete progress is feasible. In that context, the individual examples of the fast-track initiatives illustrate the importance of good governance, ownership and effective partnership. The case studies in the education sector demonstrate very clearly that significant progress can be made if policies and concrete activities are designed in a country-specific and results-oriented way, if they have the active support of policymakers and administrators at all levels, and if there is sufficient capacity for implementation.

Good policies are decisive for progress towards the Millennium Goals, but they cannot be devised without practical input. Draft policies must prove their worth amidst complex social realities. This is why we emphasize the aspects of transparency and participation in the PRSP process. Participation ensures that policies are designed in accordance with needs and will be owned by all stakeholders; only then will they be able to be successful. However, the studies show that we often do not know enough about the specific causal relationships between the prevailing conditions, policies, and results. Transparency and participation are important prerequisites for solving that problem. Another important factor is improved data. However, that is not enough. What is decisive is whether we succeed in strengthening countries' capacities for designing suitable policies, implementing them efficiently and ensuring the participation of groups within society. We all know that policies are only effective if they take account of a given country's social and political realities.

We also give bilateral support to the fast-track initiatives, concentrating, in particular, on building partners' institutional capacity, which is vital for the results to be sustainable. The initiatives are particularly effective if they can build on a participatory PRSP. We thus regard fast-tracking as a clear political choice of priorities on the part of the partner country based on the PRSP. This provides a basis for the coherent formulation of sector policies and for the coordination and targeted use of domestic and external resources. However, fast-tracking cannot compensate for institutional bottlenecks or deficits that can only be remedied over time, or for a lack of ownership.
Results Orientation

As a consequence of the Millennium Goals and the PRSP process, there is an emerging focus on the results of the development process, which has provided a shared framework for national policies and donor strategies and has created a criterion for judging concrete policies. Results orientation on the basis of PRSP and MDG priorities establishes a partnership that is founded on shared goals and an effective division of labor (common objectives, distinct accountabilities).

For the developing countries, this new partnership means that – to a greater extent than in the past – they will be measured against the concrete development progress they have made. They are the central players, bearing the main responsibility for managing the process, within the scope of the goals that have been agreed. This also means that this responsibility must not be undermined through conditionalities. Conditionalities must be related mainly to the desired results and to the commitments entered into by the countries themselves. Such "outcome-based conditionality" leaves countries with different policy options for achieving the results that have been agreed.

Donors too will increasingly have to accept that they are measured against the contributions they make towards concrete outputs and outcomes. Since the problem of attribution puts limits on that, it will increasingly become necessary to view, present, and legitimize development cooperation as a joint international task. Simultaneously, evaluation capacities need to be strengthened and accountability mechanisms – such as the DAC Peer Review and the World Bank Consultative Group meetings – need to be further developed. With a view to achieving results orientation, evaluations will need to shift their main focus from projects to the country level, and evaluation capacities at the non-central level need to be strengthened. Moreover, the contributions made by donors must become comparable and, to a certain extent, interchangeable, within the framework of agreed standards, without eroding donors' respective specific advantages. Given this background, I welcome the efforts for harmonizing practices and procedures that are being pursued by the DAC Task Force in close collaboration with the IFIs.

The World Bank and other development banks are faced with special challenges in this context because of their specific management forms (lending culture). The need for focusing development cooperation on concrete results in future must be accomplished within the Bank through relevant incentives. Germany will closely follow this process of reforming management systems and orienting them to quality and results. In parallel, there is a need to build a culture of cooperation between the institutions which replaces the notion of competition, which is not very constructive, with a transparent partnership. For instance, fears within the UN system that the increased provision of grants under IDA 13 may have a negative impact, in particular, on the work of UNDP should be allayed by making clear arrangements between the institutions.

German development cooperation will face up to these new realities and increasingly define, and deliver, its task as a contribution to a joint international effort. Among other things, we will increase our participation in sector programs and program aid, and we will organize in a more decentralized manner. The goal of these efforts is to bring the comparative strengths of our bilateral development cooperation to bear in the joint endeavor.
PRSP Progress Report

The PRSP process is increasingly providing a common framework for national policies and donor contributions made in their support. I expressly welcome the great efforts on the part of the Bank and the IMF with a view to orienting their policies to countries' respective PRSPs. The focus on PRSPs and results adopted for IDA 13 is exemplary in this regard. Further efforts are needed with a view to better understanding the impact of policies on poverty outcomes, institutionalizing and deepening participatory processes, more realism in defining targets, greater flexibility given differing (country-specific) circumstances, and openness for alternative policy options.

Most PRSPs focus on public spending programs, especially in the social sectors. In order for the expenditure to be effective, there is a need in many countries to strengthen public budget systems first. In addition to formal accounting, this also includes the monitoring of substantive impacts. We should help address the continuing deficits in budget management by means of increased and more systematic support in the form of Public Expenditure Reviews and Poverty and Social Impact Analyses. In this context, it is vital to have transparent, well-coordinated cooperation between governments, World Bank/IMF, and bilateral donors. The setting up of IMF centers for technical assistance in West and East Africa, which are being supported by Germany, including with funding, is therefore a helpful and necessary step.

Public expenditure alone will not overcome poverty on a lasting basis. Pro-poor growth ultimately needs to be fueled by increased domestic investment that facilitates broad-based, fairly distributed economic growth. Initial experience with PRSPs has shown that in many cases the expected results – especially economic growth rates – are not being reached. This is attributable not only to external factors but also to a lack of understanding of policies' effects in complex social systems. Experience from many countries shows that generally there must be a long-term development strategy if the potential for growth is to be tapped. The state has the role of taking targeted action for the development of institutions and of giving the general environment a design that is conducive to development. Proactive economic policies and the creation of legal certainty can bring about self-reliant growth processes bolstered by domestic and foreign investment. We also know that economic growth is particularly helpful in reducing poverty if resources and incomes are relatively evenly distributed. However, the problem is that country-specific analyses of the sources of pro-poor growth – and of the critical deficits preventing it – have only been made for a very small number of cases so far. So there is a lack of workable alternative economic policies that do not shy away from addressing sensitive political-economic deficits. We need to tackle this shortcoming, and we are willing to contribute to that together with our partners.

Donors' macroeconomic policy advice in the PRSP context must become more realistic. The experience of decades has shown that external shocks with their negative impact on economic growth and poverty reduction occur regularly in almost all countries. This should be given greater attention when projections of future economic developments and debt sustainability are made, for instance by means of reducing expected growth rates by an empirically appropriate factor. This can help prevent important economic policy decisions – for instance on new borrowings – from being robbed of their basis if an external shock occurs. Equally problematic is the fact that concrete policy advice only takes account of the possibility of external shocks in exceptional cases, and that the importance of preventive action – for
instance in the social sector – and of contingency planning is often virtually ignored, or underrated. But it is precisely during a crisis that it is vital, in addition to having functioning social security mechanisms in place, to be able to act quickly. The Bank and the IMF should therefore take account of alternative scenarios in the advice they provide, and they should develop alternative scenarios with specific recommendations for action for typical shock situations (oil price hikes, instabilities of the global economy, global recession).

Progress on Implementing the HIPC Initiative

Unfortunately, this time it does not seem as if any great progress has been made compared with the last development committee. It would appear to be inevitable that no further countries have reached decision point, given the difficult political situation in the remaining candidate countries. Nor should we make any concessions for the sake of speeding up the process when it comes to the need for good governance by the countries on issues such as respect for human rights, further democratization and conflict settlement.

I feel that the delays that have occurred with regard to more countries reaching completion point pose a more serious problem. Despite the introduction of the "floating completion point" idea as part of the enhanced HIPC initiative, there has been no noteworthy acceleration here. If the reason for this is that the participatory elaboration of meaningful poverty reduction strategy papers (PRSPs) is taking longer than anticipated, then the delay is understandable. However, we are also getting the impression that, in a number of countries, PRGF programs – and thus, the HIPC process – have been interrupted for reasons mainly due to the global economic downturn over the past year and a half. This downturn is in itself already having a negative social impact and should not be allowed to become a double hurdle for poverty reduction and for achieving the millennium goals in the HICPs by delaying debt relief.

The German government is prepared to contribute up to € 100 million, made up of a bilateral German contribution and the German share in the contribution – the total amount of which is still to be determined – from the European Development Fund, to close the financing gap in the HIPC Trust Fund and to recognize particularly good governance, provided there is appropriate burden sharing. This pledge is subject to the newly elected German Parliament giving its approval. And a decision on EU participation still remains to be taken within the EU.

We must undertake further efforts so as to convince all creditors of the need to participate in HIPC debt relief. All government creditors, whether or not they are members of the Paris Club, are represented here at this table. They were also present in 1999 when debt relief was decided upon with broad support, as a contribution to poverty reduction. The 2015 Development Goals, adopted at the UN Millennium Summit in 2000 and confirmed this spring in Monterrey, also received unanimous support. I therefore call on all creditor governments to stand by their word and implement HIPC debt relief.

The latest analysis shows that, for many HICPs, the outlook for maintaining long-term debt sustainability beyond Completion Point is not good, or only if heroic assumptions are made regarding projected economic growth and exports. This situation is being alleviated by additional measures at Completion Point, such as the practice of "Topping-Up" which has been introduced for cases where external shocks have been suffered in the interim, or the awarding of grants by IDA and many bilateral donors in future. Within the framework of German
development cooperation, LDCs receive grants exclusively; the few HIPCs which are not LDCs receive development cooperation funds largely in grant form. In 2001, HIPCs received roughly € 580 million in grants alone.

We propose, moreover, that an advisory group of nongovernmental organizations be set up at the World Bank on the topic of debt sustainability analyses. This group would have the task of commenting on debt sustainability analyses before they are completed and forwarded to the Board for a decision to be taken on debt relief.

We also need to accompany efforts to achieve debt sustainability beyond the point of debt relief. We need stricter monitoring of policies and of the debt situation in the HIPCs. To achieve this, we propose that the World Bank and the IMF carry out annual debt sustainability analyses. As the largest remaining creditors after HIPC debt relief, the Bretton Woods Institutions have an obligation here. In parallel, macro policies and borrowing policy must be subject to stricter monitoring. And, above all: we must make more targeted efforts for elaborating growth strategies, thus strengthening HIPCs’ repayment capabilities.
Statements Submitted by Observers

Statement submitted by Mr. Poul Nielson, Commissioner in Charge of Development, European Commission

Over the last ten months, the three big conferences in Doha, Monterrey, and Johannesburg have forged a new global partnership that encompasses trade, development and the environment. Over the next ten years our efforts have to concentrate on translating these commitments into action and making changes in policies and institutions, both in developing and developed countries, to reach the agreed targets and goals.

As an observer to the Development Committee, the European Commission offers some reflections on the issues discussed by the Committee from a European perspective. I will focus on the Commission and the European Union’s role, and issues that arise in particular in our collaboration with the Bretton Woods Institutions, both in the context of implementing the Monterrey Consensus and the HIPC debt reduction initiative.

The European Union today already provides more than half of global aid resources. It has announced substantial aid increases that will translate into an additional US$7 billion per year from 2006 onward. The European Commission manages about 20 percent of EU aid and defines the Community’s development policy. We will now put our zest into implementation. A substantial reduction in world poverty as set out in the MDGs plus the additional goals agreed in Johannesburg, can be only reached by joint efforts of all partners. The first challenge in implementation is therefore reinforcing the partnership with the developing countries and our bilateral and international partners.

The Bretton Woods Institutions are important partners in this endeavor, prime contributors to increasing our knowledge on development issues, chief advisors to beneficiary countries on their economic and social policies, as well as important channels for resource transfer. Last not least they are at the origin of the design of the HIPC initiative and the PRSP approach, both of which have received the full support of the European Community and its Member States.

Increasing Development Effectiveness

Effective development requires action by both developed and developing countries, as well as by international aid agencies. Developing countries need to have sound policies for poverty reduction and sustainable development, along with the commitment and capacity to implement them. Developed countries’ role goes beyond aid, to ensuring coherence and promoting ‘win-wins’ in other areas such as trade policies. In many of these areas the European Union has shown leadership by advancing a positive agenda and taking unilateral commitments for more ambitious targets than agreed by all, as was demonstrated in Johannesburg. On the more practical point, we have to ensure that the resources we have been entrusted for poverty reduction are used and disbursed effectively.

Over and above the commitments to aid increases, radical improvements in development effectiveness are needed. These require (a) reducing the transaction costs of aid (b) increasing the focus on results and accepting the priority of national accountability for results (c) translation of
PRSPs into national policies and budgets and aligning of donors to national policies, procedures and budgetary schedules and (d) dealing with unsustainable debt situations.

Reducing the Transaction Cost of Aid

The Commission welcomes the call for improving policy coherence and coordination on the donor part. For the European Community and its Member States, the European Treaty mandates the coordination and consultation on their aid programs, including in international organizations. With a view to further improving aid harmonization and coordination and to extending it to the donor community as a whole, the Commission actively contributes to a number of pilot initiatives to harmonise donor practices that currently undertaken by OECD/DAC, as well as in regional fora. These endeavors should bring about concrete results, maybe in the form of a code of conduct for donors.

The use of general budget support as a preferred instrument of aid delivery is increasing. A core group of donors including the Commission have made decisive steps to increasing the use of budget support through general or sector programs, thus reducing transaction costs for donors and recipient countries alike.

Improving the Focus on Results

It is now accepted that maximizing the poverty impact of aid requires an increased focus on results at the donor and country level.

On the donors side "selectivity", i.e. the concentration of aid to good performers is often seen as the first step in introducing a results focus. The approach is potentially rewarding, but is not without risks. Performance is multidimensional and assessment of the various elements and even more their aggregation into a single figure implies a considerable degree of value judgment. It is puzzling if a country features at the time in the top performer quintile of the Bank and among the 10 percent most corrupt countries in the world in the Transparency International Index. Increased transparency of the ratings as announced by the Bank can help resolve some of these puzzles, but we must also ensure an appropriate balance between poverty and performance criteria.

Poor countries with good policies deserve our utmost support. However, many poor people live in countries with less than satisfactory policy and institutional performance. In those cases, "buying" into Government programs might not translate into poverty reduction. Donors have to look for alternative avenues and innovative approaches, as the World Bank has done with the new LICUS strategy. The European Commission welcomes the approach adopted in that strategy to give absolute priority to education and health in countries where the relationship with governments is difficult, including exploring if required delivery mechanisms for social services outside government channels.

The Commission, like others, is moving towards performance-based allocations. A system has been introduced for allocations to African, Caribbean and Pacific countries under the new ACP-EU Partnership Agreement (the Cotonou Agreement). The criteria for allocating resources are based on needs, performance and vulnerability.
A performance review is also built into country programs: In that context the Commission is working jointly with the Member States and OECD-DAC with the view to increasing coherence and share information on the use of performance indicators in country programs. The Commission proposes to monitor a core set of 10-12 indicators drawn from the MDGs across all countries, and more country specific indicators in sectors where the Commission is specifically involved.

In the Commission’s view the PRSP approach is the main anchor of results orientation and an essential part on the roadmap to the MDGs. Countries have defined short and medium term indicators in reference to the 2015 MDGs, validated them through participatory processes, and strive to include them in national resource allocation processes. It important that donor demands do not undermine national processes and that country accountability for results should be first to its citizens. Together with others, the EC also supports the strengthening of PRS monitoring systems in partner countries.

The results oriented approach to aid should not stop at the agencies own performance. However, the World Bank/IMF paper rightly highlights the problems in attributing individual agencies’ contributions to development outcomes. Peer reviews are important (e.g. the DAC); and we must encourage more feedback from the recipients of our assistance.

*The Way Forward in PRSP Support*

Changing donor behavior is particularly urgent in the context of PRSP implementation. With many countries about to start PRSP implementation, it is important to better align donor support behind PRSP and national processes. Today, consecutive uncoordinated donor missions demand excessive time from recipient country administrations, thus wiping out a good part of the efficiency gains from budget support. But it is encouraging, that joint frameworks for delivering poverty reduction budget support have emerged in a number of countries. Taking this one step further, the European Commission, the IMF, the Bank and some bilateral donors have agreed to develop the concept of a PRS cycle which should ensure in-country harmonization of donors around national budgetary processes.

The European Commission has also on various occasions suggested to donors and in particular to the Bretton Woods Institutions to revisit the need to have separate documents and matrices describing the country’s policy reform agenda. Such requirements are necessarily bound to undermine country ownership and the credibility of the PRS.

Donors and recipients agree that improving the management of public resources is key to poverty reduction and donor confidence. An initiative for "Public Expenditure and Financial Accountability" (PEFA), was started in late 2001 by the Bank, the Commission and others. It is based on the idea of a partnership in which beneficiary countries pursue improvements in this area, while the donor community continues to provide financial and technical support in a timely manner. The road to be traveled is bound to be bumpy in trying to strike a balance between the fiduciary and development objectives.

As PRSPs are reviewed and updated, longer-term aspects of sustainable development linked to economic development, infrastructure, trade and regional integration deserve more attention, in the light of the Doha Development agenda and, in the case of ACP countries, the negotiation of Economic Partnership Agreements. Macroeconomic frameworks should also be fully integrated in
the PRSP process to allow an open debate over the trade-offs between higher poverty related expenditure and stabilization targets (inflation, fiscal deficit etc.)

Finally, the European Commission believes that country accountability for outcomes cannot stay without implications on conditionality. Poverty reduction budget support by the European Commission therefore seeks to emulate the link to results through a variation of the support depending on improvements in social sector and public expenditure management measured by a limited number of indicators agreed with the Government.

Debt Reduction

The European Commission considers that the HIPC initiative, despite fresh calls for reforming it, still provides the most effective framework to deal with external debt of poor countries on a systematic and comprehensive basis. We welcome the proposal to extend the sunset clause of the initiative by two years to end 2004 to allow remaining eligible countries, mostly conflict affected or with substantial arrears problems, to join the initiative.

There is, however, a need for more work on the issue of debt sustainability in the light of achieving the MDGs as discussed in both Monterrey and Johannesburg.

We also wish to stress that a strong link between HIPC delivery and the PRSPs is to be maintained and strengthened. Due to fungibility, tracking of HIPC-related expenditures alone does not make sense but has to be extended to include all public expenditure to ensure that HIPC savings, as well as fresh aid are effectively used in a poverty-reduction framework.

The European Commission endorses the point that adequate financing of HIPC remains a crucial commitment of the international community. The EC alone has pledged more than € 1 billion for debt relief of which € 754 million have already been released. We remain committed to covering, on a fair burden sharing basis, the potential cost of the topping-up caused by the global economic downturn and the fall in commodity prices.

Statement by Lennart Båge, President, International Fund for Agricultural Development (IFAD)

The opportunity facing the members of the Development Committee is unprecedented. Equipped with the vision of the Millennium Summit, the commitments of Monterrey, and the recognition at Johannesburg that development and environment are inseparable, nations of the world stand poised to achieve historic reductions in poverty and hunger. As Committee Members identify means to seize this opportunity, let one fact be certain: success will require a sharp and decisive increase in investments in rural and agricultural development.

After all, how can aid be effective against poverty if it bypasses the vast majority of the extreme poor, who live and work in rural areas? How can aid fight hunger without reaching rural women, who produce between 60 and 80 percent of the food in most developing countries? How can aid promote broad-based economic development if it ignores smallholder agriculture and related rural employment, which in many low-income countries account for a large proportion of total employment and a substantial part of exports?
Clearly, aid will only be an effective means to achieve dramatic reductions in poverty and hunger once balance is restored to the allocation of resources between rural and urban areas. Today, however, only eight percent of ODA goes to agriculture from member countries of the Development Assistance Committee of the Organisation for Economic Co-operation and Development. Think about that. Only eight percent of such resources to support the livelihoods of three-quarters of the extreme poor. To make matters worse, this imbalance is exacerbated by declines in domestic public expenditure for the rural sector. We can, indeed, we must do better.

The HIPC Debt Initiative offers some hope of addressing this imbalance. Unfortunately, early indications suggest that rural areas have often been bypassed by increases in social sector spending resulting from the Debt Initiative. Many PRSPs, too, have paid inadequate attention to agriculture and to rural concerns. In most countries eligible for the initiative, agriculture is a pivotal source of livelihood for the poor. Hence, it is critical that PRSPs give due priority to strengthening resources for this sector and for rural areas.

We cannot content ourselves, however, merely with focusing on the quantity of resources. The nature of rural investments is also crucial. IFAD has learned many lessons about effective rural investments through twenty-five years of focus on rural poverty reduction. One lesson, in particular, stands clear: effective investments in rural development must start with the recognition that the rural poor are capable, creative, and committed actors. It is they who are the experts in their own potential. It is they who must take the lead in identifying their own needs.

Our role, as development partners, is to empower the rural poor to fulfill their potential as agents of change, and to create an environment that enables them to lead the drive toward reducing the poverty and hunger in their own lives. This points to the critical importance of strengthening the capacity of the rural poor and their organizations, and it underscores the tremendous obstacle posed by large urban-rural gaps in the critical “human assets” of health and literacy. Such disparities are not only unjust, they are also inefficient. The bulk of social sector expenditure should target the areas where the bulk of the poor and vulnerable live: rural areas.

The HIV/AIDS epidemic illustrates this need for a balanced rural-urban focus all too clearly. In absolute numbers, most of those infected and affected by the epidemic are found in rural areas of Africa and also in Asia. By infecting agricultural workers, rural income providers and heads of household in the prime of their lives, AIDS is threatening food supplies. It is also placing profound strains on rural household resources, strains that worsen as the costs of caring for sick community members mount and as HIV-infected urban dwellers return to their home villages for care. Indeed, HIV is deepening existing processes that cause rural poverty and creating a new “ultra-poor” pool of potential victims whose poverty increases their vulnerability to infection.

Social investments alone cannot address HIV/AIDS. Nor, indeed, can social investments on their own drive poverty reduction, achieve food security, or reach the 2015 development goals. Economic development and, indeed, sustainable development, are not possible if there is not substantial economic growth for the many poor smallholders. Such growth requires investments that improve access of the rural poor to the natural resources, technology, and financial services that they need to produce more, to grow more, and, in the end, to earn more.
Increased productivity will mean little, however, if farmers and rural producers cannot bring their goods to market. The rural poor deserve a meaningful Development Round that creates new opportunities for developing nations, and they deserve investments in the institutions, policies, infrastructure and services that developing nations need to increase export production capacity. Such new trade opportunities must be complemented by targeted assistance that links the rural poor to markets where they can purchase inputs and transform the fruits of their labours into increased income.

In partnership with one another and with the rural poor, the development community can seize this historic moment. We can turn opportunities into outcomes, resources into results, and vision into victory. All that is required is an unwavering commitment to following the path that leads to our ultimate aim: a world where poverty and hunger no longer exist. I assure you, this path proceeds through rural areas, and we will only reach our goal if the rural poor make this journey with us, not as passengers or followers, but as full and equal partners.

Statement by Mr. Juan Somavia, Director-General of the International Labour Office (ILO)

The World Economic Outlook rightly paints a gloomy picture on the state of the global economy. Recovery in the industrialized countries is beset by significant downside risks while much of Latin America, over and above the catastrophe in Argentina, is facing significantly lower growth. Famine is erupting again in East Africa and the prices of primary commodities important to sub-Saharan Africa remain weak. Apart from the Republic of Korea, growth in the countries affected by the Asian financial crisis remains well below pre-crisis levels and unemployment remains higher. Globally, growth in trade has stalled while financing conditions for emerging economies has deteriorated. Overall, the world economy is performing well below potential, implying lost ground in terms of poverty reduction and employment creation.

Against this backdrop there would appear to be a need for a greater sense of urgency than the largely conventional policy discussion that is contained in the report. Firm concerted action is required to restore higher and more stable growth in the world economy and this should be posed explicitly as an integrated package. This would include continued easing of monetary policy in most industrialised countries and the scope for fiscal stimulus should be exploited to the fullest extent possible. Reinforcing the regulation of the corporate sector in the wake of recent accounting and auditing scandals should also be a priority. The repeated calls in past WEOs for decisive action to overcome the decade long stagnation in Japan needs to be followed through. The danger of an abrupt adjustment in balance of payments and exchange rate adjustments among the U.S., Europe and Japan needs to be reduced through a greater effort at policy coordination. Measures to stimulate domestic demand in several emerging Asian economies also need to be adopted. Equally important would be to undertake new initiatives to overcome lingering problems of global economic governance such as the prevention and resolution of financial crises, increasing market access for developing countries in the world trading system, and an increase in ODA directed at achieving the Millennium Development Goals.

More generally, there needs to be a fundamental reform of the present model of unequal globalization. While there have been achievements, for too many people and too many countries the present policy prescriptions are simply not working. Viable alternatives are available and they
can be applied with due care to preserving macroeconomic stability. We need to concentrate on creating opportunities for decent work and income in rural areas and large cities. The single most important thing that can legitimate globalization worldwide is ensuring sustainable livelihoods through full employment. This requires a global economy that will generate higher and more stable economic growth. In addition, we need to increase the rate of productive investment in the global economy in order to generate the hundreds of millions of additional decent jobs that are necessary to halve poverty by 2015. To achieve this we need an enhanced level of coherence within the multilateral system, including constant vigilance over the social impact of economic policies. At the same time we must place policy options on a sound footing by promoting social dialogue among workers and employers and civil dialogue with representative voices of society.

The issue of reducing subsidies in the industrialised countries needs to be addressed. There is a strong case that there should be significant progress on this front in the Doha agenda. We fully endorse the view, expressed in the World Economic Outlook, that ‘given their wealth and the small size of their agricultural sectors, industrial countries are clearly best placed to take the lead in this area.’ It should be noted in this context that while it is true that the reduction of protection for agriculture in the developing countries is also required, this has to be handled with caution in view of the importance of agriculture for the welfare of the poor. The report also usefully emphasises the fact that the dynamic gains will be substantially higher than the static gains that are usually cited. This reinforces the importance of rapid progress on this issue for achieving a more equitable sharing of the benefits of globalization. It should also be noted that since much of the gains from the reduction of subsidies will accrue to the industrialised countries themselves, this should make it possible to increase the volume of aid to the poorest countries. Moreover, since there are reasons to believe that industrial country subsidies undermined agricultural growth in many poor countries, liberalization combined with increased aid should stimulate agricultural growth in poor countries in the medium term. This issue of improved market access for developing countries is also equally important in the case of textiles and other labour-intensive manufactures.

With respect to the progress report on the PRSP process, we are pleased to see the significant increase in the number of countries that have adopted the framework. Nevertheless, there is still significant room for improvement. We note in particular that the report concedes that “policy dialogue needs to be deepened on several levels, including the design of macroeconomic frameworks underpinning PRSPs, the development of alternative scenarios and policy reform actions, the extension of participatory processes to include private sector representatives and linking to representative bodies, especially parliaments”. We would emphasize the importance of this deepening of the participatory processes for policy dialogue, and of meeting the challenge of institutionalizing the many participatory processes that the PRSPs have stimulated. The ILO has considerable knowledge and experience in the development of institutions for social dialogue. Such institutions can be a good foundation for building the wider participatory arrangements that are aimed for in the PRSP process and the ILO would be pleased to share this knowledge and experience on social dialogue. We also consider it important that steps be taken to harmonise the PRSP process with the new initiatives that are being taken with respect to achieving the Millennium Development Goals. In addition, the introduction of Poverty and Social Impact Analysis into more countries would be highly desirable. We also support the proposed research in the Bank and the Fund designed to improve understanding on the sources of growth and of the poverty and social impacts of key policy reforms.
On the HIPC initiative, a major new issue is that of how to deal with the fact that “the outlook for many HIPCs has deteriorated with the global economic slowdown and the fall in commodity prices.” Additional financing is clearly required and action on this should not be unduly delayed by the need to choose between competing proposals on the mechanisms through which this should be done. There is added urgency to act in view of the strong international commitment to attaining the Millennium Development Goals.

The papers on “Development Effectiveness and Scaling Up” and on “Better Measuring, Monitoring and Managing for Development Results” are very useful. We fully support the need for an enhanced focus on developmental outcomes and results rather than on inputs. A major benefit from this would be the synergies that can be reaped from a more comprehensive approach to policy that takes into account all the multiple influences on development outcomes. We are also pleased to note the emphasis on capacity building in order to increase the absorptive capacity for additional aid, and also support the proposal to re-examine the World Bank’s policy on the financing of recurring costs in investment loans. Flexibility to finance recurrent costs will certainly facilitate the scaling up of development assistance. The idea of reducing the leakage of benefits through the introduction of participatory public expenditure reviews is a good one.

The Progress Report on implementing the Monterrey Consensus provides a very useful overview of the current status of global commitments. The range of issues addressed in the report shows how vast the challenge of meeting the Millennium Development goals is. Simultaneous progress is required on a wide front of interrelated issues and this requires, above all, real progress in strengthening coherence and partnership within the multilateral system. It is true, as the report notes, that both the Bank and the Fund ‘have stepped up their presence and engagement with the UN.’ But there remains considerable scope for doing more, both in terms of policy dialogue among all stakeholders and of concrete cooperative action at the global and national level. As the report rightly notes, ‘although much is underway, there is no room for complacency as the risks of not attaining the Millennium Development Goals are considerable.’ For its part, the ILO has engaged actively in several key parts of the Millennium Development Goals Agenda is committed to working closely with the Bank and the Fund and all other partners in meeting the difficult challenges ahead.

Statement by Mr. Dr. Ahmad Mohammed Ali, President of the Islamic Development Bank

The Islamic Development Bank (IsDB) is happy to be participating in the 66th meeting of the Development Committee, which has gathered to consider a substantive agenda. It is particularly interesting to see that the meeting has chosen to focus on issues that would further the Monterrey process and facilitate the realization of the Millennium Development Goals. In this context, the IsDB is confident that the ongoing discussion on vital issues of Education For All, Combating the HIV/AIDS/Communicable diseases, the HIPC Initiatives, the PRPSs, and Combating Money Laundering and Terrorist Financing will all lead to highly fruitful outcome and important decisions. The IsDB stands to equally benefit from the progress achieved in the work being carried out on Development Effectiveness; Improved Measurement, Monitoring and Managing for Development Results and Harmonization of Operational Policies, Procedures and Practices among institutions operating in the area of multilateral development financing.
As all of the above issues are of great and immediate relevance to the IsDB and its member countries, I would like to address briefly each of the issues on the agenda and give IsDB’s perspectives on them. However, it would be useful to briefly dwell on the recent economic performance of the IsDB member countries and the latest trends in the transfer of resources to developing countries to set the stage.

Economic Performance and Recent Trends in the Transfer of Resources

We are relieved to observe that the world economy is doing relatively better this year as it tries to recover from the sharp slowdown during the year 2001. According to the IMF estimates, it is expected to grow at a 2.8 percent rate this year and would accelerate to 4.0 percent in 2003.

Deceleration in the GDP growth rate in the year 2001 affected both the developed and the developing countries so that the World output growth went down from 4.7 percent to 2.5 percent. As would be expected the IsDB member countries as a group were negatively affected from the overall economic environment in 2001, with a decline in the GDP growth rate to 3.3 percent in 2001 from the 5.5 percent realized in 2000. Luckily, the growth rate in the IsDB least developed member countries (LDMCs) remained almost unchanged at 5.1 percent during 2001. As a result of these developments, the trade balance of IsDB member countries as a group decreased from 9.5 percent of GDP in 2000 to 8.0 percent, while for the LDMCs group, the chronic deficit position deepened to –5.2 percent from –4.6 percent that was realized in the year 2000.

Given the continual reliance of the developing countries on external resource flows to achieve accelerating growth and reduced poverty, the decrease in net long-term resource flows to these countries continues to be a point of concern. It is understood that the decrease in 2001 was due mostly to the global economic slowdown and the ensuing decline in resource flows from international capital markets and in terms of commercial bank loans, which constitute the second largest source of finance for developing countries during last few years.

The aggregate net financial flows to developing countries have registered continuous decline over the past several years. In 2001, the decline in such flows was even more pronounced. The aggregate net flows fell from US$264 billion in 2000 to US$196 billion in 2001. There was particularly a major drop in the portfolio equity investment from US$60 billion to US$18.5 billion. Concessional flows also registered a decline from US$40.7 billion in 2000 to US$39.3 in 2001. These trends are hardly in line with the development objectives which the global community would like to achieve in the coming years. It is, however, very encouraging to see about 13 percent increase in the World Bank financing to developing countries which went up from US$17.3 billion in its Financial year (FY) 2001 to US$19.5 billion in FY2002.

As regards Foreign Direct Investment (FDI) to developing countries, there was a marginal increase from US$167 billion in 2000 to US$168.2 billion in 2001. There are, however, serious concerns about the steep decline in FDI flows to the IsDB member countries over the past several years. In fact, the share of the IsDB member countries in the total FDI inflows to the developing countries decreased from around 22 percent in early 1990s to 12 percent in 1994 and 7 percent in 34 The LDMCs include 23 IsDB member countries, namely Afghanistan, Bangladesh, Benin, Burkina Faso, Chad, Comoros, Djibouti, The Gambia, Guinea, Guinea-Bissau, Maldives, Mali, Mauritania, Mozambique, Niger, Senegal, Sierra Leone, Somalia, Sudan, Togo, Uganda and Yemen. As a special case, the State of Palestine is also treated as an LDMC by the IsDB.
2000. Out of this, excluding the share of the emerging IsDB economies like Indonesia, Malaysia and Turkey, only a small proportion of the FDI flowed to the IsDB member countries as a whole. The causes of the imbalance in these flows need to be thoroughly studied, and urgent measures need to be taken at different levels and by all stakeholders to promote the flows of such resources to a larger spread of developing countries, including the great majority of the IsDB member countries.

It is also a point of grave concern for the IsDB that official development finance (ODF) has declined from US$38 billion in 2000 to US$36 billion in 2001, a drop for the third consecutive year. The IsDB understands that the ODF flows may have been restricted, especially in the Sub-Saharan African countries where aid remains crucial, on account of delays that have occurred in implementing reforms. Nevertheless, the ODF flows should urgently reach the UN target of 0.7 percent of donors’ GNP.

Given the vital importance of the transfer of adequate resources to its member countries and the various difficulties encountered in securing sufficient amounts through its traditional sources, the IsDB is taking new initiatives to mobilize resources from the international market. This will be backed by the substantial increase in the capital stock of the Bank approved last year. The Bank would maintain its financing policy towards the LDMCs of providing interest-free loans and other concessional financing. This will be in line with its commitment to support appropriate development strategies in its member countries in order to help them achieve the Millennium Development Goals, particularly the target of reducing the poverty by half by 2015.

Development Effectiveness and Scaling up

The IsDB fully supports the initiatives being made to enhance the effectiveness of development assistance. One major effort should be to continue such assistance, as it has actually resulted in higher average incomes per capita and brought about populations that are healthier and better educated in the developing countries than fifty years ago. On the other hand, it is also observed that positive social change and economic development is strengthened even more when there is ownership, transparency and committed prudent policies followed by the countries themselves, and when the development assistance is geared better to the needs and realities in the field. The IsDB is already inculcating this approach in its operations and development assistance to member countries.

In this regard, the IsDB will continue to explore different ways and means of further increasing concessional financing to LDMCs. In addition to its special account targeted to the special needs of these members, the IsDB, through the newly established World Waqf Foundation, intends to make available additional and more directed resources for poverty alleviation. Moreover, through its recent program on Formulating and Implementing Schemes for Financing Medium, Small, Very Small and Micro Enterprises in Least Developed and Low Income Member Countries, the IsDB is providing lines of financing to small and micro-enterprises in its least developed and low-income member countries, which carry highly advantageous terms and conditions.

The IsDB also agrees with the need to maintain the PRSPs, while believing that they should be rendered more flexible by focusing on essential policy requirements for accelerating growth and reducing poverty. At the same time, increased efforts should be spent to better operationalize and implement these country-owned strategies and to strengthen the Country Assistance Strategy exercise. In this way, the new approach using PRSP will enhance development assistance
effectiveness, with its emphasis on country ownership, institutional capacity needs and social impact, unlike the earlier approach that was based on structural adjustment programs.

On its part, the IsDB shall continue with its own country assistance strategy studies (CASS) with a view to aligning the Bank’s assistance with the real needs of the member countries. In this way, the IsDB aims to develop a niche over a few strategic sectors in which it can identify and finance specific projects and programs. Studies by the IsDB, carried out within the framework of the Poverty Reduction Strategy Papers (PRSPs), ensure the Bank that the operations financed by it have the commitment of the beneficiary countries.

In a further effort to increase development effectiveness, the IsDB continues to provide technical assistance for preparation of projects, supervision and capacity building to key line ministries and executing agencies, make extensive use of its regional offices and field representatives in selected countries, and utilize post-evaluation results for the design of new programs, in fine-tuning the Bank's policies and procedures and in managing projects under implementation.

To fully cater for the complex and changing needs of the member countries and to keep pace with the rapid evolution of the disbursement procedures techniques and practices at other multilateral financial institutions, a number of initiatives have been taken by the IsDB to improve the disbursement process and achieve its development objectives. These include, developing a new strategic Framework to create a better focus for its financing and non-financing activities, internal reorganization of the operation complex to create better financial focus, a revamping and streamlining of the disbursement process at the Bank to expedite payments necessary for smooth implementation of the IsDB financed projects. In this connection, a tracking system for monitoring the movement of disbursement applications from the beginning to the stage of actual payment has been developed.

All in all, besides undertaking many changes in its practices and procedures to help improve development effectiveness of its operations and assistance activities, the IsDB is also committed to work together with other multilateral development banks (MDBs) and other donors in the international community to augment/complement each other's efforts, and subsequently improve collective impact. In this connection, the IsDB is intently following the highly important work in progress relating to harmonization of policies, procedures and practices across the MDBs and other international donors, as yet one more effort to increase efficiency of development assistance and to increase its overall impact and effectiveness.

*Education For All*

Serious efforts to promote education, as part of the overall human development strategy, is a key to alleviating poverty and to ensuring that the benefits of economic development are widely shared in the society. The IsDB shares the deep concern of the development community of the failure of many developing countries, including many of its member countries, to implement suitable policies and to mobilize adequate resources that will realistically help in achieving the goal of universal primary education by 2015. The IsDB supports the notion that both technical and financial resources need to be made to countries that are willing to demonstrate firm commitment to adopt appropriate education sector policies. However, the assistance made available by the
international donor community needs to be additional to the current aid flows, and hence more efforts are needed to explore new sources of concessional finance.

For its part, the IsDB considers basic education as a priority sector in its current strategic and operational planning agenda. The Bank intends to continue with the strategic thrust in the education sector because the basic educational indicators of its member countries remain unsatisfactory compared to developing countries averages. In this respect, although IsDB member countries have registered significant progress during the last two decades in terms of various educational indicators, the adult illiteracy rate still stands at 38 percent for the IsDB member countries as a group.

Since inception, the IsDB has financed 137 projects and 58 technical assistance operations in the education sector amounting to around US$870 million and US$13 million respectively. Its LDMCs benefited from around one third of total approvals, which were mainly financed through loans and grants from its ordinary resources. In addition, the IsDB has financed educational operations in its member countries as well as in Muslim communities in non-member countries through its Special Assistance Operations amounting to US$221 million. It has also disbursed an amount of US$60 million under its various scholarship programs. Finally, the IsDB is playing an active role within the framework of the Task Force of the Organization of the Islamic Conference on Literacy and has earmarked US$3.5 million as technical assistance grant for member countries with the highest adult illiteracy rate.

Regarding the suggested World Bank’s action plan for “Education For All”, the IsDB hopes that many of its member countries will be included in the list of selected countries for “fast track” implementation. Like for HIPC debt initiative, the IsDB will also engage in active participation in the proposed multi-donor education consortium for providing immediate assistance to the selected member countries. Furthermore, the IsDB would also like to utilize the education sector database on its member countries in order to improve quality of its operations in the education sector by using new monitoring indicators such as the “completion” rate of at least 5 to 6 years of primary education rather than focussing only on “enrolment” rate.

**HIV/AIDS/Communicable Diseases and Water in the Community**

On this agenda item, the IsDB expresses its deep concern about the rapid spreading of the epidemic since the last meeting of the Development Committee. According to available data, about 3.8 million people were newly infected in Sub-Saharan Africa in 2000. During the same year, around 3 million people died of AIDS. It is to be noted that this is happening despite the growing global awareness and commitment, increased financial assistance, and rapid fall in HIV/AIDS drug prices.

While the IsDB is fully aware of the negative impact of the rapid expansion of HIV/AIDS on socio-economic development, it recognizes that greater efforts are still needed in developing efficient programs at the national, regional and international levels. To this end, it is important to take into consideration the actual factors explaining the deterioration of the situation such as the increased incidence of sexually transmitted infections which constitutes the most significant factor in almost all affected countries. In this context, it is hoped that the summit on HIV/AIDS of the Heads of States of the African countries to be held shortly in Abuja, Nigeria will adopt a more concrete course of action.
For its part, the IsDB will continue to support its member countries enhancing their health infrastructure to deal with various kinds of diseases and health problems. Its health projects and programs aim at benefiting both the rural and urban population by financing primary health-care centers in its member countries. In particular, the health sector has been a priority sector under the LDMC Program of the Bank.

**Better Measuring, Monitoring and Managing for Development Results**

The IsDB fully concurs that in order to realize the MDGs, the efforts need to be focused on managing the development projects with a view to produce quantifiable results. In this context, it also agrees with the broad areas identified by the Roundtable on Better Measuring, Monitoring and Managing for Development Results. These are: (i) actions to build demand for and increase capacity to adopt results-based approaches at the country level; (ii) the need for donors to offer coordinated support for capacity building and to harmonize approaches to results measurement, monitoring, and management; and (iii) ways for development agencies to develop results-focused corporate cultures and incentives, as well as corporate reporting systems. The IsDB very much appreciates the conceptual framework developed by the World Bank on this subject. Accordingly, it is correctly pointed out that the thinking in producing results have to be applied across the various stages of the development cycle: (a) before, at the strategic planning and program formulation stage; (b) during, for day-to-day management of implementation; and (c) after, at the program evaluation stage.

The IsDB is already in the process of streaming its efforts across the stages of development as identified above. The Bank is about to finalize a new strategic framework with a key focus on poverty alleviation. This is expected to sharpen and further enhance IsDB’s financing policies in the area of poverty alleviation in general and in education and health in particular. A number of improvements have been enacted to strengthen the institutional capabilities of the Bank and its day-to-day management of implementing and follow-up of the projects approved. A specialized department has also been created to post-evaluate the operations of the Bank on regular basis. Similarly, the outcome of various Country Assistance Strategic Studies (CASS), which the Bank completed over the past seven years have been critically evaluated with a view to enhancing their relevance on project selection and implementation.

The Bank stands ready to participate in efforts being planned in this area in particular in the joint evaluation of the programs in supporting country assistance strategic studies. This will be in line with the Bank’s existing role in the HIPC Initiative and in accordance with its policy of actively seeking collaboration and cooperation with regional and international development partners.

**HIPC Initiative**

Concerning the implementation of the HIPC debt initiative, the IsDB would like to express its satisfaction for the progress achieved after the adoption of the enhanced framework. The Bank considers that the issue of external indebtedness remains a serious problem in developing countries and continues to be a source of deep concern to all. For IsDB LDMCs, the ratio of external debt to GDP is estimated to be as high as 67.5 percent in 2001 while in the case of IsDB member countries as a whole, it is estimated at 33.6 percent. Obviously, more efforts need to be deployed by the donor
community in terms of debt relief for the least-developed countries, including the IsDB LDMCs, as their external debt-to-export ratio is clearly unsustainable.

In this regard, the IsDB hopes that the enhanced HIPC debt initiative, endorsed by its member countries almost three years ago, will succeed, as declared, to reduce the ratio of debt to GDP for the 25 eligible countries, including IsDB member countries, from 60 percent to 30 percent with the debt servicing cut by one-third. In order to achieve this objective, debt relief packages by MFIs under the enhanced Initiative are currently estimated at US$17.6 billion in 2001 NPV terms. As stated above, stronger cooperation among MFIs is crucial in order to help a greater number of developing countries reach as quickly as possible their floating completion points by meeting two major challenges, namely adopting a prudent debt management policies and adequately implementing PRSP.

On the one hand, HIPC countries should ensure that their public debt is sustainable and serviced at the lowest possible cost. This naturally entails that stakeholders involved in this process coordinate their policy actions to make them mutually supportive and conducive to more efficiency in public debt management. In this regard, the IsDB understands that a good public debt management system is one that would ensure prudent and efficient fiscal practices, greater accountability and transparency, an efficient financial market, and a sound risk management framework. But, it is also equally important to keep public finance policies consistent with development objectives. Therefore, the question is how to maintain the quality of government related services over the long term so that the methods of raising revenues and allocating public spending promote rather than hamper growth and poverty alleviation programs. In sum, the IsDB considers that an appropriate technical assistance for capacity building would help its member countries to better cope with their public debt management difficulties.

On the other hand, it is also important that leading MFIs, mainly the World Bank Group and IMF, maintain, as stated above, PRSP as flexible as possible by focussing on essential policy requirements for accelerating growth and reducing poverty.

For its part, the IsDB has supported the enhanced HIPC debt initiative, including the provision of interim debt relief. Currently, the cost for IsDB is projected at around US$130 million in 2001 NPV terms. Up to March 2002, 13 member countries had qualified for debt relief under the enhanced HIPC initiative. The Bank has approved debt relief packages for Benin, Mali, Mauritania and Senegal. Debt relief packages have been fully implemented in Uganda and Burkina Faso, with the other approved countries expected to follow in 2002. Implementation is to begin after the decision point with the result that the Bank is in effect, delivering interim debt relief. This relief is expected to contribute to the country’s efforts in putting in place the measures and reforms set out in its PRSP and in effectively meting the conditions for attaining the completion point set out by the HIPC’s initiative. The debt relief packages for countries which qualified at the end of 2000 are currently under consideration. In order to encourage and support the efforts made by IsDB member countries in their fight against poverty, the Bank is considering delivering part of the debt relief attributable to the IsDB under certain financing mechanisms to finance specific poverty reduction projects. These projects will be selected from the PRSPs of a given country to ensure that the assistance of the Bank fits the overall framework of the initiative and that of country’s poverty reduction strategy.
Combating Money Laundering and Fighting Terrorist Financing

Concerning this item on the agenda, the IsDB is fully aware of the negative impact of money laundering and terrorist financing on socio-economic development of its member countries. Therefore, it fully supports the efforts for fighting against money laundering and terrorist financing. In this regard, while the IsDB feels that multilateral institutions with global financial and developmental involvement have a greater role to play in this area, a participatory process involving all stakeholders should be adopted in order to achieve better progress in this field. This will entail strengthening institutional and human capacities of the MFIs, such as the IsDB, which stand ready to actively cooperate with the World Bank, IMF and other MFIs with a view to deepening the understanding on ways and means to fight money laundering and terrorist financing.

Fighting terrorism is also essential for effective utilization of financial and economic assistance in the context of reconstruction efforts in conflict and post-conflict countries. The IsDB is an international finance institution using modes of financing used by others and applying the same procedures. It follows the practice of international bidding in procurement in conformity with international law. So there is no room for money laundering and financing of terrorism in its operations and other related activities. The IsDB fully supports the efforts of the international institutions towards developing appropriate guidelines for curbing money laundering and flow of financing to terrorist organizations. It is also willing and ready to collaborate with all concerned in these efforts and share its experience in setting standards for greater transparency and financial responsibility.

Harmonization of Operational Policies and Procedures

On this agenda item, the IsDB takes note with satisfaction of the significant progress made during the last few years by multilateral and bilateral donors to work in partnership and agrees with putting the focus on reducing differences in operational rules and requirements. These differences constitute the most important impediment to the effectiveness of external development assistance and their elimination will help reducing transaction costs for both institutions and countries.

The IsDB welcomes the current partnership, which brings together all MFIs to harmonizing operational policies and their procedures in order to lower the delivery cost of development assistance. Obviously, better implementation of good practices and common operational procedures requires that the standards should be developed cooperatively keeping in view the institutional capacities of relatively small MFIs. Accordingly, the IsDB appreciates the most significant accomplishments so far of the two working groups created by the MFIs, namely on “Development of Good Practice Standards for Private Sector Evaluations” and on “Standardized Bidding Document for Equipment and Goods”.

At the country level, the current partnership among the MFIs will allow all of us to pay greater attention to country ownership and capacity building. In this respect, the IsDB supports various efforts aimed at raising country-level capacity sufficiently so that donors need no longer specify their own specific requirements. For its part, the IsDB contributed in the development of financial management harmonization and would like to express its keen interest in working with the World Bank and other MFIs in the areas of institutional as well as country-level harmonization.
Earlier, the IsDB did participate in various institutional-level collaborative activities, within the framework of its overarching objective of economic cooperation, by signing memoranda of understanding with the World Bank and other regional development banks and specialized institutions. We actively participate in the Heads of MFIs Meetings organized in conjunction with IMF/World Bank joint Annual Meetings.

The IsDB expresses its readiness to share its experience in the context of harmonization of various operational policies in the Coordination Group. The major purpose of this Group is to facilitate the pooling of resources and combining of efforts in common member countries. While respecting the differences in individual strategies and policies, the Group succeeded to achieve better operational efficiency through harmonizing technical procedures, such as various types of engineering consultancy services, procurement procedures, tender and contract documents for civil works. Other areas of cooperation in the Coordination Group range from project appraisal to post-evaluation, and more recently, discussions have focused on simplification and standardization of project supervision and monitoring.

The experience of IsDB in harmonization activities dates back to 1991 when it supported the establishment of the Accounting and Audit Organization for Islamic Financial Institutions (AAOIFI). This effort emerged from the need to harmonize accounting standards amongst stakeholders in the Islamic banking industry so as to install good governance and bring about transparency to highest professional standards. The AAOIFI embarked on the codification of accounting principles for the whole range of Islamic banking activities. It is an institutional arrangement for self-regulating the financial reporting of Islamic banks and financial institutions as well as the auditing practices of their external auditor. The AAOIFI is also cooperating with the IMF, the Basel Committee and major international rating agencies in an effort to develop internationally recognized accounting and auditing standards for Islamic banking. More recently, in order to further activate and stimulate coordination among Islamic banks and financial institutions, the IsDB has played a leading role in the establishment of the General Council of Islamic Banks and Financial Institutions.

Furthermore, in order to ensure the success and expansion of Islamic banks in the global environment, the IsDB is playing an important role in the current wide-ranging consultative process among concerned stakeholders to set internationally acceptable and codified prudential framework for the Islamic banking industry. In this regard, a standard-setting regulatory institution for Islamic banks, called Islamic Financial Services Board (IFSB), has been established by some central banks and other institutions, namely IMF and AAOIFI. It is expected that IFSB will help in developing internationally acceptable standards, such as prudential regulations and supervision standards in key areas of the Islamic banking industry. Obviously, development of regulatory standards for Islamic banks will enhance the confidence of market participants and supervisory authorities at the international level.

Finally, on this subject, the IsDB greatly appreciates the progress made since April 2002 in identifying issues and constraints and developing instruments for achieving greater harmonization.

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35 This Group comprises of Saudi Fund for Development, Arab Fund for Economic and Social Development, Abu Dhabi Fund for Development, OPEC Fund for International Development, Kuwait Fund for Arab Economic Development and Arab Bank for Economic Development in Africa. The major shareholders of these institutions are held by the Arab governments.
of operation policies, procedures and practices among the MDBs. It has noted with particular interest the World Bank’s initiative of country pilot work to support government-led harmonization programs. It is also gratifying to learn that under the Strategic Partnership for Africa (SPA), a greater attention will be given to (a) increasing the alignment of assistance to national strategies; (b) reducing transaction costs through greater alignment of procedures and instruments, and (c) enhancing national capacity, particularly in public financial management. The IsDB will consider reflecting these new ideas in its strategic studies related to its member countries in Africa.

In sum, all the items on the agenda of the Development Committee are important for the IsDB and its member countries and have provided the opportunity for all concerned to share experience and to further coordinate efforts among development partners in order to reduce poverty in all countries and ensure education for all. The IsDB is confident that the discussion in the 66th Meeting of the Development Committee will contribute to enhancing the effectiveness as well as reducing the transaction costs of development assistance, particularly for least developed countries.

Statement by Mr. Jean-Claude Fauré, Chairman-OECD Development Assistance Committee

Working Together: Carrying Forward the Common Course

The thrust of the high quality background documents prepared for the Committee makes it clear that, for multilateral and bilateral donor communities alike, working together is not just an option but an imperative. Our agenda carries a demand for collective action on the side of the donor community.

Development results are the outcome of the collective efforts of partner countries and donors to support their partners’ own strategies, resources and institutions. A focus on managing results together with enhanced aid effectiveness will contribute to making it possible for the larger volumes of aid now in prospect to be delivered and absorbed rather than adding to pipelines and institutional disarray.

The MDBs, the UN system and the bilateral donors, with all their specific features in terms of governance structures and procedures, have progressively increased their interaction. The common commitment to the MDGs has brought our different donor communities together in a way that could not be imagined a few years ago. We are currently working together on the fundamentals of the new results-based approaches, including the PRSPs and the harmonization agenda.

We will need to continue and increase this collaboration. These considerations suggest that one objective for this Development Committee meeting should be to send a clear message that this collaboration between the bilateral and multilateral donor communities will be sustained and should be reinforced through adequate follow-up and monitoring mechanisms.

The comments below essentially follow the structure of the Provisional Agenda of the Development Committee. They build, inter alia, on the discussions held in the Round Table of the Development Committee convened in Paris on 11 September 2002; as Observers, DAC and OECD welcome this initiative and the opportunity to share views with Members that such occasions provide.
The Monterrey Consensus

The Monterrey Consensus constitutes a two-way commitment between donors and partner countries to improving policies, practices and performance.

The OECD will continue to collaborate with the Bank, Fund and UN, and to provide data related to the MDG indicators for which OECD/DAC has a comparative advantage, including data on aid flows and the coherence of OECD policies affecting development (cf. MDG8 – Develop a Global Partnership for Development).

As part of its ongoing mandate, the DAC is tracking announcements and commitments on aid volume made at Monterrey and subsequently. While the figures are still emerging, we are definitely in a new context, with up to an additional USD 13 billion by 2006 announced so far – an increase of some 25 percent over current ODA flows. An initial paper by the DAC Secretariat on the new ODA volume prospects is currently being updated.

DAC Members are now implementing the 2001 DAC Recommendation on Untying ODA to the Least Developed Countries, with its objectives concerning the quality and effectiveness of ODA, and a monitoring system has been set in place. In the area of trade and development, the Guidelines on Strengthening Trade Capacity for Development, agreed in 2001, are providing a reference point for working to foster more locally and regionally owned approaches to trade capacity development. In line with the Doha Development Agenda, the WTO and OECD are jointly developing a database using the OECD’s Creditor Reporting System, to monitor trade-related technical assistance and capacity building. The database will be launched at a joint OECD/WTO meeting in November 2002, and presented to the WTO General Council in December 2002 and updated for the WTO Ministerial 2003.

The development agenda emerging from Monterrey and Johannesburg embraces various initiatives to bring in the private sector in support of pro-poor growth. DAC is working on these issues, including on financial and corporate governance, as well as on promoting the contribution of SMEs to development.

Integrating the activities of the DAC in the broader perspective of OECD general endeavors, OECD Ministers adopted in May 2002 a policy statement on “OECD Action for a Shared Development Agenda”. The statement specifies four ways in which the Organization at large would advance the shared agenda:

- Encouraging policy coherence for development.
- Supporting developing countries’ governance and policy capacities.
- Improving aid effectiveness and ensuring adequate aid volume.
- Strengthening partnership and accountability.

The statement concludes with an undertaking that the OECD will account for its actions to advance this shared development agenda through regular review and reports on progress.

Coming to the first main topic for discussion on Development effectiveness and scaling-up, the paper and its supporting case studies address a key challenge all donors face as we talk of scaling up assistance. To contribute to the implementation of the Monterrey consensus, increased volumes of aid are to be mobilized, but at the same time, it will be essential to identify, in particular through learning from experience, how to better ensure that those funds will be used effectively. This raises, for donors and for partner countries alike, a whole set of issues that have to be addressed with renewed determination:

- Working together and coordinating aid within country-led frameworks.
- Targeting of aid to where it has the greatest impact.
- Providing more predictable finance, including for recurrent costs.
- Using cost effective modalities for delivery.
- Determining appropriate country level application of new approaches (e.g. by identifying under what local conditions and frameworks will Swaps, budget support and other instruments of delivery work best) and how to integrate new sectoral and sub-sectoral global funds and frameworks with country-led PRSPs.

The forthcoming DAC Guidelines on Poverty and Health also emphasise a number of other points raised in the paper, including the need for a more holistic focus, as well as the importance of global research and intellectual property issues.

The DAC Task Force on Donor Practices is continuing work on the development of Good Practice Reference Papers (GPRP) on Donor Practices that could be used to harmonise operational policies, procedures and practices between bilateral donors. A first set of these Good Practice Reference Papers is expected to be submitted by the end of this calendar year for endorsement by the DAC Senior Level Meeting, relating to the pre-implementation phase of the project cycle, to reporting and monitoring, and to financial accountability and auditing practices. They will provide an important input into the High Level Forum on Harmonization, to be sponsored by the DAC jointly with the MDBs and hosted by the Government of Italy in February 2003. A further part of these endeavors in the current joint work between the DAC Working Party on Financial Aspects of Development Assistance, the World Bank and the MDBs on strengthening procurement capacities in developing countries and harmonizing donors’ procurement practices.

One area that needs more emphasis is how to “scale up” in countries where our common model of supporting country-led programs is not applicable, because of serious problems of governance and capacity, but where reinforced efforts to tackle endemic poverty remain imperative. The World Bank analysis on this issue focuses on what are called Low Income Countries under Stress. The comparable DAC paper presented to our High Level Meeting in May uses the term “difficult partnerships”. But the underlying assessment of the issue and what donors can do in such circumstances is remarkably similar between the two. In these cases, for example, there must be more recourse to the capacities of NGOs and civil society as a whole if a generation of young people in need of education and health care is not to be abandoned. The DAC welcomes on-going collaboration with the Bank in this area, including the co-sponsoring of a conference on our joint work, along with UNDP and the European Commission, on 28-29 October 2002. Similarly, we will
be sponsoring an Expert Seminar early next year, in collaboration with the Bank and DFID, on how to integrate our shared concern about giving weight to performance in aid allocations with our converging approach when dealing with countries in difficulty, including conflict-affected countries.

Finally, the DAC is addressing the role of development in helping to prevent international terrorism. Following on from discussions at the DAC High Level Meeting in April 2002, the DAC Network on Conflict, Peace and Development Co-operation will produce a note on policy options for donors for the forthcoming Senior Level Meeting in December 2002.

**Better measuring, monitoring and managing for development results**

When it comes to better measuring, monitoring and managing for development results, it is fully recognized that better development outcomes are the results of many factors, starting with developing countries’ own policies and efforts. For low-income countries PRSP processes provides opportunities for strengthening the results focus. This means that monitoring and evaluation systems need to be strengthened along with statistical systems. Building capacity in these two areas thus becomes a strategic priority.

An important issue that arises out of the results focus is that, as each agency elaborates its specific results-oriented approach, it has to confront the collective action agenda and challenges. Individual efforts by aid agencies and development banks to increase their results focus will not be effective unless such efforts are part of coherent action in the context of partners’ priorities.

It is evident that partner countries must be fully engaged on the results-based agenda, with all that these approaches imply for their public sector management systems and capacities. For this reason, the issues and experiences so far with results-based management will be discussed with development partners in the forthcoming DAC Development Partnership Forum on "Managing For Development Results and Aid Effectiveness". The Forum will be held, back-to-back with the DAC Senior Level Meeting, on 11-12 December 2002 and is being prepared in collaboration with the World Bank. All MDBs have been invited to participate in this effort. The Forum will draw on DAC work on results-based management and on the Round Table on “Better Measuring, Monitoring and Managing for Development Results” held in Washington in June 2002, as well as the discussions at this Development Committee meeting.

Monitoring development progress, including the achievement of the MDGs, and aid effectiveness requires new efforts to build sustainable statistical capacity. PARIS21 –(Partnership in Statistics for Development in the 21st Century) was created in 1999 to promote sustainable statistical capacity building as a Consortium bringing together policymakers, analysts, and statisticians from all regions and countries. The Bank and the IMF are active partners in PARIS21, both in regional workshops - usually linked to PRSPs - and as members of six task teams on Advocacy, Population Census, Rural and Agricultural Statistics, Statistical Capacity Building Indicators, Strategic Statistical Development Plans, and Improved Statistical Support for Monitoring Development Goals.
The papers before us highlight numerous examples of close collaboration and joint efforts among multilateral and bilateral donors to strengthen partner country capacity to generate data, mobilize civil society, and develop and manage government policy and budgets. The PRSP provides a framework for bringing the international community together and for organizing donor support.

The impetus for forward movement in the next phase will depend on the measure of genuine country ownership for the decisions and actions - and the implicit tradeoffs - that will be required to reduce poverty. The innovative political dimensions of the PRSP paradigm, with its emphasis on broad-based participation, accountability and good governance, establish a solid foundation on which to build in this regard.

The DAC continues to work in close collaboration with the Bank and the IMF on PRSP implementation issues, in particular through the work of i) the POVNET, in monitoring donor alignment with partner country policy priorities, budget and planning cycles and local systems and ii) the Task Force on Donor Practices, in promoting harmonization of donor procedures and practices. Joint efforts through the Strategic Partnership with Africa (SPA) to test and pilot practical solutions to aid management challenges in the field deserve strong support.

To conclude, the range of complementary, converging or joint activities set in train to implement our pledge to the Monterrey Consensus is impressively wide. Sharing in such a common course now calls in practice for effective and efficient arrangements at the working level between the DAC, the MDBs and the UN development system to further shape these activities as a type of action plan.

Statement by Mr. Y. Seyyid Abdulai, Director-General and Chief executive Officer of the OPEC Fund for International Development

Working in Partnership to Confront the HIV/AIDS Pandemic

This 66th Meeting of the Development Committee examines the challenges of enhancing the efficiency and effectiveness of development co-operation, and of achieving the Millennium Development Goals (MDGs). The MDGs, which were adopted in September 2000 and re-confirmed at various occasions thereafter, include the ambitious targets of reducing world poverty, and of halting and beginning to reverse by 2015 the spread of the human immuno-deficiency virus (HIV), a lethal infection which causes the Acquired Immune Deficiency Syndrome (AIDS).

First identified 21 years ago, HIV/AIDS ballooned to become a true pandemic, stubbornly spreading around the globe. By end 2001, some 60 million people had been afflicted by the deadly disease – most of them in their productive prime (age 15-49) - and over 20 million had died of AIDS, one-fifth of them children.

HIV/AIDS affects more people than it infects, orphaning millions and wiping out an entire century’s hard-won progress in improving public health, raising life expectancy and developing human resources. Although the pandemic does not respect borders or class, 95 percent of HIV infections are
in the developing world. Its devastating impact is felt particularly on socio-economic development in low-income countries, which have fewer resources at their disposal to cope with the crisis.

The crisis puts massive pressure on public health budgets, reducing health care services for communities, even as they grapple with an ever-increasing number of patients. In some countries, health care systems lose up to a quarter of their employees to the disease, which claims huge numbers of teachers, doctors, and all types of skilled labor. Teachers and students are dying or leaving school, reducing both the quality and efficiency of education systems, and jeopardizing the MDGs of guaranteeing primary education for all children around the world by 2015.

By preying largely upon young men and women in the prime of their working and parenting lives, the pandemic slowly destroys the productive backbone of society, decimating the labor force, reducing output growth in all sectors of the economy and inflicting untold hardship upon communities already struggling to survive.

The OPEC Fund’s Contribution


However, recognizing the formidable threat posed by the pandemic to sustainable development and human life itself, the Fund intensified its engagement, moving from constructive dialogue to decisive action.

In June 2001, the Fund set up an HIV/AIDS Special Account to help “find effective means for containing the pandemic as well as mitigating its impact.”

In August, the same year, the Fund intensified work with other agencies to confront the HIV/AIDS onslaught. The scaled-up efforts of the Fund to fight the epidemic in partnership with all relevant stakeholders in the process are in line with the conclusions of the Financing for Development Conference (FfD) held in Monterrey, Mexico, in March 2002. The FfD and the ensuing Monterrey Consensus aimed at mobilizing resources while strengthening partnerships among global players in North and South in a concerted effort to meet the MDGs.

The Fund co-ordinates its activities with other relevant actors in the HIV/AIDS arena not only to avoid overlap and ensure an effective distribution of resources, but also to foster convergence and policy coherence, and to build on existing know-how, experience, strategies, processes and procedures. Partnerships were thus developed to help identify programs and projects where the Fund’s contribution could have the greatest impact; and in June 2002, a co-operation agreement was signed between the Fund and the World Health Organization (WHO), the global lead organization on matters of international health.
In joining the battle against HIV/AIDS, the Fund has taken great care to maximize the efficiency and effectiveness of its development co-operation efforts, drawing upon its more than 26 years of experience in international development. With some 16,000 people in the world dying of AIDS every 24 hours, there is no time to lose. More than ever, HIV/AIDS forces the international community to be hands-on and results- and action-oriented, to establish and maintain effective partnerships, and to collaborate with key stakeholders at all levels in order to maximize outreach to affected people and communities.

Established in 1976 by the member countries of the Organization of the Petroleum Exporting Countries (OPEC) as a token of South-South solidarity and co-operation, the Fund was mandated to assist particularly the poorest countries and the poorest segments of their populations in pursuit of their economic and social advancement. Consequently, the least developed countries (LDCs) received the lion’s share of the Fund’s resources, accounting for 58 percent of the organization’s cumulative public sector lending as of end 2001, with the rest going to other low-income countries. In line with this mandate and established policy, Africa - home to the majority of LDCs - was also given adequate attention in the allocation of the Fund’s HIV/AIDS Special Account grant resources.

HIV/AIDS has become the greatest menace to Africa’s socio-economic advancement and the continent’s quest to bring about an African Renaissance through such efforts as the New Partnership for Africa’s Development (NEPAD) and related initiatives. As an institution with an active portfolio in 109 countries - almost half of them in Africa – the Fund spearheaded action to check the advance of the epidemic.

In June 2002, the Fund launched “The OPEC Fund Initiative against HIV/AIDS in Africa,” in collaboration with WHO. The Initiative aims at preventing and controlling the spread of HIV/AIDS in 12 highly affected, low-income countries in sub-Saharan Africa.

The pandemic is slowly unraveling socio-economic structures across the African sub-region, reversing the fragile gains accomplished in the last decades. In parts of sub-Saharan Africa, AIDS claims the life of one in every three adults, orphaning every 10th child, and destroying entire communities. Most deaths among young adults in the sub-region today are attributed to the pandemic, which has reduced average life expectancy from 62 to 47 years, while raising poverty levels by 5 percent in some countries. In half of sub-Saharan Africa, annual per capita growth is falling by 0.5-1.2 percent as a direct result of the crisis, and this figure could reach 8 percent by 2010 in the hardest hit countries.

Other initiatives have been finalized and concern other affected regions of the developing world, namely Central America and the Caribbean, the Middle East and North Africa, and the Asia-Pacific region. These initiatives have been elaborated taking into account the resolve of the international community to foster strong partnerships among concerned actors to tackle this crisis. Well aware of the imperative need to synergize various efforts at country level, the Fund has devoted great attention to ensure that its interventions are consonant with other schemes aimed at the same struggle. Also, relying on the technical assistance capabilities of partner institutions in this particular field, the active role of targeted countries at all stages, is always being emphasized.
Implementation Modalities: Managing for Results

The Fund’s intervention against HIV/AIDS focuses on prevention and provision of support and care to those affected by HIV/AIDS, and on reducing, the vulnerability of individuals and communities exposed to the pandemic.

Given the urgency of the crisis, due attention has been paid to ensuring a rapid delivery of the Fund’s assistance.

In line with internationally established best practice, the Fund’s Initiative against HIV/AIDS in Africa aims at strengthening responses to the crisis by authorities and stakeholders at the national level. The Fund aspires to achieve this objective by delivering high-quality technical support to fill gaps at the normative level, by providing capacity building that is tailor-made to national and local conditions and priorities, and by scaling up key-interventions as defined by beneficiary countries in their National Strategic Plans.

Under the Initiative, youth friendly information, education and communication will be provided to help meet the UN target of ensuring that by 2005, at least 90 percent of young women and men will have the information, education, and services needed to prevent HIV infection. Unlike many other regions of the world, most sub-Saharan African countries are far from meeting this target, and far too many young Africans, particularly women, are dangerously ignorant about the epidemic and its consequences.

The Fund’s strong determination to help mitigate the devastating impact of HIV/AIDS on local people and communities may also be evidenced by its provision in September 2002 of a grant for The Children’s Town in Maputo, Mozambique. Implemented in partnership with Development Aid from People to People (DAPP), a non-profit, non-governmental organization, the grant aims at developing the social, vocational and academic potential of vulnerable Mozambican adolescents and children, including many children that have been orphaned by the HIV/AIDS pandemic.

Looking Ahead

The corrosive impact of HIV/AIDS on development and ongoing efforts to meet the MDGs, and the acute need to conceive joint strategies and find resources to combat the pandemic were discussed at the World Summit on Sustainable Development, Johannesburg, South Africa, August-September, 2002. At the Summit, in which the OPEC Fund actively participated, the urgency of fostering partnerships at all levels to launch a concerted attack on HIV/AIDS was underlined.

In particular, the Summit stressed the importance of strengthening existing and fostering new partnerships in the fight against HIV/AIDS with the corporate sector. The private sector has a clear interest in helping address the consequences of the epidemic, as it increasingly suffers losses as a result of a decline in productivity and rising costs due to AIDS-related absenteeism, labor turn over, shrinking labor supply, and medical, pension, and death-related benefits.

However, corporate social responsibility in helping contain HIV/AIDS should go beyond the working place. Considering the magnitude of the crisis, the public sector cannot single-handedly tackle this major problem, and the Summit made an appeal on the private sector to join global efforts to fight the pandemic.
Since HIV/AIDS has a long incubation period, the impact of the disease is gradual, but grave and long-lasting. The pandemic is still in its early stages, and unless innovative solutions are found for halting its progress and prevention programs are vastly expanded, its spread will continue unabated. According to conservative estimates, AIDS could claim an additional 65 million lives by 2020, more than triple the number who have died in the first 20 years of the epidemic.

Let us firmly integrate the fight against HIV/AIDS in our wider development strategies and form a united front in the uphill battle against this human tragedy of massive scale, whose full-blown effects on sustainable development are yet to be felt.

Statement by Mr. Oscar de Rojas, Executive Coordinator, Financing for Development Coordinating Secretariat, Department of Economic and Social Affairs, United Nations

The United Nations welcomes the decision of the Development Committee to discuss implementation of the “Monterrey Consensus”. The World Bank and the International Monetary Fund, along with the World Trade Organization (WTO), were essential and full partners of the United Nations in the process that led to the Consensus, and the United Nations is pleased that, as the joint staff report before the Committee indicates, the Bretton Woods institutions intend to be equally essential and full partners in its implementation. This will contribute importantly to meeting the challenge embodied in the Millennium Development Goals (MDGs).

Meeting each of the MDGs in every Member State of the United Nations will be difficult. It requires peace, stability and reconstruction in war-torn societies, and no more wars. It requires substantially increased international assistance for the poorest countries with the weakest financial and human resources, alongside the capacity to ensure the most effective use of this assistance. It requires sound policies, good governance and the rule of law in all nations, individually and collectively. It requires an enabling international economic environment, including dynamic trading opportunities and adequate and sustainable financial flows. It also requires more substantial and sustained growth of the world economy than experienced in the past few years or projected for the near term. It requires, finally, the sustained commitment of the international community to strengthen the coherence and consistency of the international monetary, financial and trading systems for strong, inclusive and equitable global development.

In this context, it is important to achieve the improvements in development effectiveness that the international community seeks and to realize fully the commitments to “scaling up” official development assistance (ODA) that were made in Monterrey. However, it will be necessary to go beyond those commitments if the MDGs are to be achieved: recent additional ODA commitments are only a “down payment” on the levels of international assistance needed to reach these shared goals.

By the same token, the progress made in implementing the initiative for the Heavily Indebted Poor Countries (HIPC), as reported by the Bank and Fund to this meeting, is encouraging, but full success requires that countries exit the HIPC programme in a timely fashion and with

37 “Progress Report on Implementing the Monterrey Consensus” (DC2002-0021).
sustainable debt profiles. This, too, requires additional international support, in terms of both donor assistance to reduce debt levels adequately and a lowering of the trade barriers that make it difficult for HIPCs, as well as other developing countries, to use trade to generate additional resources for development.

As requested in the Monterrey Consensus, the Secretary-General will inform the present session of the General Assembly about implementation of the Consensus, both multilaterally and in developing countries and countries with economies in transition. His report describes activities of the United Nations and its funds, programs and specialized agencies, including the Bretton Woods institutions, and the World Trade Organization. The Monterrey Consensus calls for a global campaign for development and the MDGs, and the multilateral system as a whole is responding to the challenge.

The present session of the General Assembly will finalize arrangements for its own follow-up to Monterrey and related consideration of international economic and financial matters of importance to development. The Monterrey Consensus calls for a set of meetings so that all relevant stakeholders will be able to “stay engaged” on financing for development. In particular, the Consensus encourages the annual spring meeting of the Economic and Social Council and the Bretton Woods institutions, in which WTO now participates, “to address issues of coherence, coordination and cooperation as a follow up to the Conference.” In addition, the Consensus identifies a re-constituted bi-annual high-level dialogue in the General Assembly as the intergovernmental focal point for general follow up to the Conference and related issues, including the theme of “coherence and consistency of the international monetary, financial and trading systems in support of development.”

The progress report on implementing the Monterrey Consensus that is before this Committee shows that the Bretton Woods institutions are responding to the demand in Monterrey for a new partnership between developed and developing countries. It details progress in implementation by the World Bank and IMF in the six months since the International Conference on Financing for Development, focusing on strengthening country policy and institutional frameworks and delivering on global commitments.

The report also includes actions relating to such systemic areas as reform of the international financial architecture so as to better prevent financial crises and lessen their severity when they do occur. As we are witnessing in parts of Latin America, unheard-of levels of poverty can be visited with unprecedented speed on countries that only recently were celebrated as “success stories” in international financial and development circles. It remains clear that the international community has not yet developed a sufficient set of international frameworks, principles or policies for the

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38 “Follow-up efforts to the International Conference on Financing for Development,” Report of the Secretary-General (A/57/319, forthcoming). This report, as well as other material relating to the International Conference on Financing for Development, including the Monterrey Consensus, are available at www.un.org/ffd.


40 Ibid., para. 69(c).
world financial system to successfully mediate a stable, effective and adequate “transfer of real resources to developing countries” which this Committee was created to foster.

One focus of the Monterrey Consensus on which many countries place great importance is governance of the global system. According to the Consensus, “To better reflect the growth of interdependence and enhance legitimacy, economic governance needs to develop in two areas: broadening the base for decision-making on issues of development concern and filling organizational gaps. To complement and consolidate advances in those two areas, we must strengthen the United Nations system and other multilateral institutions.” We welcome the concrete steps by the Bank and Fund in this direction. More can and should be done.

As implementation of the Monterrey Consensus bears on the work of both development and finance ministries, as well as trade ministries, it would be desirable for Governments to re-employ the kinds of contacts across ministerial lines that many used in working with their representatives to the United Nations during the preparatory process and the Financing for Development Conference itself. The work of each of our institutions needs to be further enriched by regular contacts among our representatives in the different institutions; such continuing cooperation across ministries was specifically called for in the Monterrey Consensus. Within the clear understanding and respect for the mandates and governance structures of all our institutions, it remains essential to continue to build bridges between development, finance, and trade organizations and initiatives, within the framework of the holistic agenda of the International Conference. This was one of the explicit aims of the Heads of State and Government and other high-level representatives of all nations of the world who together adopted the Monterrey Consensus six months ago.

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1 Ibid., para. 61.
DEVELOPMENT COMMITTEE COMMUNIQUE

1. We met today to discuss implementation of the strategies and decisions agreed in Monterrey and Johannesburg and achieving debt sustainability for heavily indebted poor countries.

2. At our meeting last April, we welcomed the very important progress achieved in Monterrey laying out a new partnership between developed and developing countries, based on mutual responsibility and accountability, to achieve measurable improvements in sustainable growth and poverty reduction. We welcomed the announcements by a number of donors of significant increases in their ODA. Earlier this month, the WSSD concluded in Johannesburg with a number of decisions that provide additional direction to our task of eradicating poverty and achieving sustainable development. A series of important commitments were made in the areas of water and sanitation, energy, health, agriculture, biodiversity and ecosystem management, accompanied by the launch of implementation initiatives. Today we committed ourselves with a new vigor and determination to implement the agreed strategies and partnerships and to use our future meetings regularly to review progress through clear and measurable indicators. Building on the outcomes of Monterrey and Johannesburg, we also intend to have further discussions on global public goods.

3. The global community must now convert the ideas and the shared approaches agreed in Doha, Monterrey and Johannesburg into concrete action and measure ongoing progress. Experience has repeatedly shown that progress will only be made through implementation of sound and sustainable country-driven strategies. To make existing and new aid commitments more effective, these strategies must also be supported by better coordination and cooperation amongst development partners and by effective alignment of donor support with country strategies. We underline our commitment to work together and with civil society and the private sector, under the leadership of the government concerned, in a coherent way to achieve concrete results.
4. We reaffirmed the crucial importance of trade as a source of growth and poverty reduction. We recognized that it is essential for developed countries to do more to open their markets and eliminate trade-distorting subsidies for products that represent major potential exports for developing countries, such as agriculture, textiles and clothing. At the same time, we recognized the importance of continued efforts towards trade liberalization in developing countries as part of an overall development strategy, in conjunction with the necessary policies and capacities that facilitate an appropriate supply response and minimize the adjustment burdens on the poor. We therefore welcomed the increased attention to trade issues in the work of the World Bank and International Monetary Fund in support of a successful Doha Development Agenda. We urged intensified efforts to mainstream trade in the development dialogue with the Bank’s members, with an enhanced operational focus on building both institutional and physical capacity to help developing countries take advantage of new trade opportunities.

5. Last April, we endorsed a World Bank plan to help make primary education a reality for all children by 2015 and gender equality in primary and secondary education by 2005. Today we reviewed implementation of the Fast Track Initiative and requested a progress report on results achieved for our next meeting. In addition, we considered the challenges of scaling up activities in two additional areas – HIV/AIDS/Communicable Diseases and water and sanitation. We urged the World Bank to pursue its work in these areas.

6. We endorsed the overall approach set out for discussion today for making results central to the management of development programs in both developing countries and in development agencies. We urged the Bank to expedite implementation of the action plan for increasing its results orientation and to intensify its work with multilateral and bilateral partners to share information on planned and ongoing country development activities, including diagnostic work and operational support, as a basis for enhanced alignment of donor support for national development strategies. We also urged increased use of joint evaluations of donor programs, especially for country and sector program support, to complement assessments of individual agencies’ performance, including as development partners. We highlighted the need for increased and coordinated donor support for capacity building, including for results-oriented monitoring and evaluation and statistics. We asked the Bank to report on these efforts at our next meeting.

7. We recognized the need for intensified efforts to harmonize operational policies and procedures of bilateral and multilateral agencies at the institutional and country levels so as to enhance aid effectiveness and efficiency and promote greater ownership by developing countries. We committed to further action in streamlining such policies, procedures and requirements over the period leading to the high-level forum scheduled in Rome in February 2003 and beyond.

8. Recognizing the special challenges faced by Africa in meeting the millennium development goals, we urge the Bank and the IMF to scale up assistance to these countries and to build on the NEPAD initiative as a unique opportunity to make significant and quick progress building on African leadership.
9. Our discussions have reinforced our conviction that major progress on achieving the Millennium Development Goals is possible. What is needed now is determined implementation of agreed strategies and partnerships on the part of both developed and developing countries, as well as multilateral agencies and the setting out of a clear framework identifying responsibilities and accountabilities by which progress can be regularly measured. The Development Committee intends to contribute to moving this implementation agenda forward through regular monitoring and review of the policies, actions and outcomes needed to achieve these goals. We request the Bank and the Fund to present proposals at our next meeting for taking this forward, whilst recognizing the role of the United Nations in monitoring the MDGs.

10. The Monterrey Summit also stressed the importance of greater coherence, coordination and cooperation among multilateral organizations and the need to broaden and strengthen participation of developing countries and countries with economies in transition in international decision-making and norm-setting. The Summit encouraged the World Bank and the IMF to find pragmatic and innovative ways to further enhance participation of these countries and thereby to strengthen the international dialogue and work of these institutions. We requested the Bank and the Fund to prepare a background document to facilitate consideration of these important issues at our next meeting.

11. We welcomed the continued progress made on the HIPC initiative and reconfirmed our commitment to its implementation and full financing. We fully support the objective of helping our poorest, most heavily indebted members achieve an enduring exit from unsustainable debt but we recognize that considerable challenges remain. Success will require: a sustained commitment by HIPC countries to improvements in domestic policies and economic management; capacity building for the management of financial assets and liabilities; full participation and delivery of relief by all affected creditors; and adequate and sufficiently concessional financing by international financial institutions and the donor community. We call upon all official and commercial creditors that have not yet done so to fully participate in the HIPC Initiative. We have asked the Bank and the Fund to undertake an early review of the difficult issues of HIPC-to-HIPC debt relief and creditor litigation. We stressed the urgency of meeting the financing shortfall of the HIPC Trust Fund which could be up to $1 billion. We welcome the recent announcements of support and call upon other donor countries to make firm pledges and contributions as early as possible. At the same time, we reaffirm our commitment to ensuring that the cost of debt relief to IDA is not permitted to compromise IDA’s resources, and we note the arrangements in place to accomplish this objective.

12. We reviewed further experience with PRSPs which confirmed the broad findings of the joint Bank/Fund review earlier this year. The Committee is encouraged by the increased momentum in countries’ efforts to develop and implement their PRSPs. We call on the Fund and Bank together with all donors to align their support with country PRSPs and to collaborate with each other to: strengthen their analysis of the sources of growth; streamline conditionality; help countries improve their public expenditure management systems; facilitate an environment conducive to private sector development; and intensify
efforts to help countries undertake poverty and social impact analyses on a more systematic basis.

13. Finally we reviewed the role being played by the Bank and Fund, in collaboration with other international institutions, in combating money laundering and the financing of terrorism (AML/CFT). We endorse the conditional addition of the FATF 40+8 Recommendations to the list of international standards and codes useful to the operational work of the Bank and the Fund, and the conditional beginning of the 12 month pilot program of comprehensive AML/CFT assessments and accompanying ROSCs, in accordance with the voluntary, cooperative and uniform approach. We encourage the Bank and the Fund to continue to integrate these issues into their diagnostic and surveillance work in line with their respective mandates and to enhance their technical and capacity-building efforts.

14. We express our deep condolences to the family of the late Mr. Bernard Chidzero, former Minister of Finance of Zimbabwe. Minister Chidzero served with great skill and distinction as Chairman of the Development Committee from 1986 to 1990.

15. The next meeting of the Development Committee will be held in Washington, D.C. on April 13, 2003.
NOTICE OF MEETING

The 66th meeting of the Development Committee will be held on Saturday, September 28, 2002, commencing at 2:30 p.m. in the Preston Auditorium in the World Bank Building in Washington D.C.

PROVISIONAL AGENDA

I. Topics for Discussion

1. Implementing the Monterrey Consensus
   A joint Bank/IMF overview document on progress towards achievement of the MDGs and implementation of the Monterrey Consensus will be circulated. In addition, the following reports will be provided:
   A. Development Effectiveness and Scaling Up;
      Policy Conclusions of Case Studies on Education for All;
      HIV/AIDS/Communicable Diseases and Water in the Community;
   B. Better Measuring, Monitoring and Managing for Development Results

2. HIPC – Joint Bank-Fund Progress Report

II. Items for Comment in Circulated Ministerial Statements

   A. Joint IMF/World Bank Progress Report on PRSPs
   C. Harmonization of Operational Policies, Procedures and Practices

III. Other Business

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1 The President of the World Bank and the Managing Director of the Fund will each provide a statement, in advance of the meeting, focused on agenda topics and other items. A Note on Recent Trends in the Transfer of Resources to Developing Countries will provide background information relevant to the Committee’s work.
On this occasion there will be only one session of the Committee – from 2:30 p.m. until 6:30 p.m., during which the agenda items under I. above will be discussed. There will also be a Chairman’s dinner for Members (7:00-9:30 p.m.) in Room MC13-121 of the World Bank Building.

Ministers are invited to provide their prepared statements, as far in advance of the meeting as possible, for circulation to all delegations. Prepared statements submitted by Members and Observers must be received not later than 24 hours in advance of the meeting; these will be printed and circulated upon receipt and available at the session.
# Development Committee

## September 28, 2002

Washington D.C.

Trevor Manuel, Chairman  
James D. Wolfensohn, President, World Bank  
Horst Köhler, Managing Director, International Monetary Fund

Thomas A. Bernes, Executive Secretary

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<th>Members</th>
<th>Executive Directors</th>
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<th>Group</th>
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</table>
| Ibrahim Al-Assaf  
Minister of Finance and National Economy  
Saudi Arabia | Yahya Abdullah Alyahya  
(Bank)  
Sulaiman M. Al-Turki  
(Fund) | Saudi Arabia | 1 |
| Peter Costello  
Treasurer of the Commonwealth of Australia | Neil Frances Hyden  
(Bank)  
Michael J. Callaghan  
(Fund) | Australia, Cambodia, Kiribati, Republic of Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Papua New Guinea, Republic of Palau, Samoa, Solomon Islands, Vanuatu | 2 |
| Pascal Couchepin  
Federal Councillor and Minister of Economic Affairs  
Switzerland | Pietro Veglio  
(Bank)  
Roberto F. Cippà  
(Fund) | Azerbaijan, Kyrgyz Republic, Poland, Switzerland, Tajikistan, Turkmenistan, Uzbekistan | 3 |
| Francisco Gil Diaz  
Minister of Finance and Public Credit  
Mexico | Moisés Pineda  
(Bank)  
Fernando Varela  
(Fund) | Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, República Bolivariana de Venezuela | 4 |
| Hans Hoogervorst  
Minister of Finance  
Netherlands  
Alternate Member  
Agnes Van Ardenne  
Minister for Development Cooperation | Pieter Stek  
(Bank)  
J. de Beaufort Wijnholds  
(Fund) | Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, former Yugoslav Republic of Macedonia, Moldova, Netherlands, Romania, Ukraine | 5 |
| Famara L. Jatta  
Secretary of State for Finance and Economic Affairs  
The Gambia | Girmai Abraham  
(Bank)  
Cyrus D.R. Rustomjee  
(Fund) | Angola, Botswana, Burundi, Eritrea, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Seychelles, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe | 6 |
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| Somkid Jatusripitak (not attending)  
Minister of Finance  
Thailand  
*Alternate Member*  
Mr. Suchart Jaovisidha  
Deputy Minister of Finance  
Thailand | Mohd. Yaacob Abdul Aziz  
(Bank)  
Dono I. Djojosubroto  
(Fund) | Brunei Darussalam, Fiji, Indonesia,  
Lao People’s Democratic Republic,  
Malaysia, Myanmar, Nepal,  
Singapore, Thailand, Tonga, Vietnam | 7 |
| Aleksei Kudrin (not attending)  
Deputy Chairman of the Government and  
Minister of Finance  
Russian Federation  
*Alternate Member*  
Sergei Kolotukhin  
Deputy Minister of Finance  
Russian Federation | Alexey G. Kvasov  
(Bank)  
Aleksei V. Mozhin  
(Fund) | Russian Federation | 8 |
| Pedro Sampaio Malan  
Minister of Finance  
Brazil | Jaime Ruiz  
(Bank)  
Murilo Portugal  
(Fund) | Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Panama, Philippines, Suriname, Trinidad and Tobago | 9 |
| John Manley  
Minister of Finance  
Canada  
*Alternate Member*  
Susan Whelan  
Minister  
Canadian International Development Agency | Terrie O’Leary  
(Bank)  
Ian E. Bennett  
(Fund) | Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines | 10 |
| Francis Mer  
Minister of Economy, Finance and Industry  
France  
*Alternate Member*  
Pierre-André Wiltzer  
Minister of Cooperation  
Ministry of Foreign Affairs | Pierre Duquesne  
(Bank and Fund) | France | 11 |
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| Affi N’Guessan (not attending)  
Prime Minister  
Côte d’Ivoire  
Alternate Member  
Bohoun Bouabre  
Minister of State, Minister of Finance & Economy | Bassary Touré  
(Bank)  
Alexandre Barro Chambrier  
(Fund) | Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Côte d’Ivoire, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Republic of Congo, Rwanda, São Tomé and Principe, Senegal, Somalia (informally), Togo | 12 |
| Paul O’Neill  
Secretary of the Treasury  
United States | Carole L. Brookins  
(Bank)  
Meg Lundsager (Alternate)  
(Fund) | United States | 13 |
| Fathallah Oualalou  
Minister of Economy and Finance  
Morocco | Ahmed Sadoudi  
(Bank)  
Abbas Mirakhor  
(Fund) | Islamic State of Afghanistan  
(informally), Algeria, Ghana, Islamic Republic of Iran, Iraq, Morocco, Pakistan, Tunisia | 14 |
| Didier Reynders  
Minister of Finance  
Belgium | Philippe M. Peeters  
(Bank)  
Willy Kiekens  
(Fund) | Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, Turkey | 15 |
| Bosse Ringholm (not attending)  
Minister of Finance  
Sweden  
Alternate Member  
Jan O. Karlsson  
Minister of Development Cooperation  
Sweden | Finn Jonck  
(Bank)  
Ólafur Ísleifsson  
(Fund) | Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden | 16 |
| Abdulla Hassan Saif  
Minister of Finance and National Economy  
Bahrain | Ismail Aljazzaf  
(Bank)  
A. Shakour Shaalan  
(Fund) | Bahrain, Arab Republic of Egypt, Jordan Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Republic of Yemen | 17 |
| Masajuro Shiokawa (not attending)  
Minister of Finance  
Japan  
Alternate Member  
Haruhiko Kuroda  
Vice Minister of Finance for International Affairs  
Ministry of Finance | Yuzo Harada  
(Bank)  
Ken Yagi  
(Fund) | Japan | 18 |
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| Clare Short  
Secretary of State for International Development  
United Kingdom  
Alternate Member  
Gordon Brown  
Chancellor of the Exchequer  
United Kingdom | Tom Scholar  
(Bank and Fund) | United Kingdom | 19 |
| Javier Silva-Ruete  
Minister of Economy and Finance  
Perú | Mario Soto-Platero  
(Bank)  
A. Guillermo Zoccali  
(Fund) | Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay | 20 |
| Jaswant Singh  
Minister of Finance  
India | Chander Mohan Vasudev  
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| Giulio Tremonti  
Minister of the Treasury  
Italy  
Alternate Member  
Antonio Fazio  
Governor of the Bank of Italy | Franco Passacantando  
(Bank)  
Pier Carlo Padoan  
(Fund) | Albania, East Timor, Greece, Italy, Malta, Portugal, San Marino | 22 |
| Heidemarie Wieczorek-Zeul  
Federal Minister for Economic Cooperation and Development  
Germany | Eckhard Deutscher  
(Bank)  
Karlheinz Bischofberger  
(Fund) | Germany | 23 |
| Xiang Huaicheng (not attending)  
Minister of Finance  
Ministry of Finance  
P.R. of China  
Alternate Member  
Jin Liquin  
Vice-Minister of Finance | ZHU Guangyao  
(Bank)  
WEI Benhua  
(Fund) | China | 24 |
**Observers**

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<th>Name</th>
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<tbody>
<tr>
<td>African Development Bank</td>
<td>Omar Kabbaj</td>
<td>President</td>
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<tr>
<td>Arab Bank for Economic Development in Africa</td>
<td>Medhat S. Lotfy</td>
<td>Director-General</td>
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<tr>
<td>Arab Fund for Economic and Social Development</td>
<td>Not attending</td>
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<tr>
<td>Arab Monetary Fund</td>
<td>Jassim Al-Mannai</td>
<td>Director-General and Chairman of the Board</td>
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<tr>
<td>Asian Development Bank</td>
<td>Kunio Senga</td>
<td>Director General</td>
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<td>Strategy and Policy Department</td>
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<td>Commonwealth Secretariat</td>
<td>Winston Cox</td>
<td>Deputy Secretary-General</td>
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<tr>
<td>Cooperation Council for the Arab States</td>
<td>Nasser Al-Kaud, Director of Money, Banking</td>
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<td>States of the Gulf</td>
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<td>and Investment Department</td>
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<td>Council of Europe Development Bank</td>
<td>Rainer Steckhan</td>
<td>Director General, Loans</td>
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<td>Development Assistance Committee</td>
<td>Jean-Claude Faure</td>
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<td>European Bank for Reconstruction and Development</td>
<td>Willem Buiter</td>
<td>Chief Economist</td>
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<tr>
<td>European Commission</td>
<td>Poul Nielson</td>
<td>Commissioner in Charge of Development</td>
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<td>European Investment Bank</td>
<td>Philippe Maystadt</td>
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<td>Food and Agriculture Organization of the United</td>
<td>Charles Riemenschneider</td>
<td>Director, FAO’s Liaison Office in North America</td>
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<td>Inter-American Development Bank</td>
<td>Enrique Iglesias</td>
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<td>International Fund for Agricultural Development</td>
<td>Lennart Bage</td>
<td>President</td>
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<td>International Labour Organisation</td>
<td>Stanley Taylor&lt;br&gt;Coordinator for Relations with International Financial Institutions</td>
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<td>Ahmad Mohamed Ali&lt;br&gt;President</td>
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<td>Jens Lund Sorensen&lt;br&gt;President</td>
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<td>Y. Seyyid Abdulai&lt;br&gt;Director-General and CEO</td>
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<td>Michael Roeskau, Director Development Co-operation Directorate</td>
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<td>Oscar de Rojas&lt;br&gt;Executive Coordinator of the Financing&lt;br&gt;For Development Coordinating Secretariat</td>
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<td>Y. Akyüz&lt;br&gt;Director&lt;br&gt;Division on Globalization and Development Strategies</td>
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<td>United Nations Development Programme</td>
<td>Michael Marek, UNDP Representative in Washington DC</td>
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<td>Boni Yayi&lt;br&gt;President</td>
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<td>Supachai Panitchpakdi, Director-General&lt;br&gt;Richard Eglin, Director, Trade and Finance Division</td>
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