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on the
Transfer of Real Resources to Developing Countries)



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Statement by

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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 HIPCs 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 HIPCs, 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 organisations 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.