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

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Statement by

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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 per cent 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.