



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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Highlights of Ministerial Statements

IMPLEMENTING THE MONTERREY CONSENSUS

The Monterrey Consensus formalizes a shared understanding of the roles and responsibilities of both the developing and the developed countries and the international community in moving the poverty-reduction agenda forward. Ministers universally welcome the growing focus on implementation to build on the momentum of the Monterrey Consensus. They recognize that implementation is a complex and difficult process, requiring progress on the part of both developing countries and their international partners on a daunting array of fronts. These include, *inter alia*, economic growth and higher productivity, trade facilitation and market access for developing countries, sound country policies and good governance, adequate operational capacity, increased resources and longer-term commitments on the part of donors, policy coherence and coordination among development partners, better global economic governance, and a focus on results by donors and recipient countries alike.

Ministers agree that the focus on results, to be effective, will require a number of changes in organizational culture and institutional capacity. Client country capacity for measuring and monitoring results must improve to produce better statistics and baseline data. Clear accountability mechanisms are needed. Development partners must strengthen their collaboration, pool their resources, and further harmonize their operational policies and procedures. The Bretton Woods institutions have key roles to play in bringing about these changes.

The Poverty Reduction Strategy Papers (PRSPs) are the main vehicles of the Monterrey Consensus. The PRSP process has put client countries in the driver's seat of development, increasing country ownership and participation. Country-led strategies such as those embedded in the PRSPs, the Comprehensive Development Framework (CDF) or regional approaches such as NEPAD, are recognized as the best frameworks for enabling countries to adopt policy commitments and targets consistent with the Millennium Development Goals (MDGs). Ministers welcome the efforts of the Bank and the Fund increasingly to align their strategies and timetables with those of the PRSPs.

Ministers see a key role for the Development Committee in monitoring and guiding the progress in achieving the MDGs, based on concrete indicators and procedures which they suggest should be developed by Bretton Woods institutions.

Promoting Economic Growth, Trade Capacity, and Market Access

Ministers reiterate the central role of broad-based economic growth and productivity gains in reducing poverty. Observing that gains from trade would far exceed the most ambitious debt relief, many ministers stress the enormous potential impact on poverty reduction of eliminating trade barriers and increasing market access for developing-country exports. They urge developed countries to open up their domestic markets, and suggest that developing countries focus on improving their regulations, standards for investment and trade, and their capacity to negotiate and respond to market opportunities. Bretton Woods institutions are encouraged to

coordinate with the WTO in monitoring key developments in the area of trade, build trade capacity in developing countries, and strengthen their internal analytical capacity on trade issues.

Several ministers emphasize the centrality of market stability to the Monterrey implementation framework, since crisis and contagion in emerging markets hinder the attainment of the MDGs. They see a more active role for the Bank in crisis prevention and management, which complements the work of the IMF in this regard.

Ministers reiterate the importance of improving governance and transparency and fighting corruption, all of which are vital for growth and poverty alleviation.

Development Effectiveness and Scaling Up: Case Studies

Ministers agree that, as illustrated in the case studies presented, improving development effectiveness requires sound economic and social policies and strong institutions. They stress the need to strengthen countries' capacity to design suitable policies, implement them efficiently, and ensure the participation of civil society in implementing and monitoring them. They support the efforts of the Bank and the Fund to help countries analyze the consequences of various policy choices, through the Poverty and Social Impact Analysis (PSIA), as well as their efforts to strengthen countries' capacity to prioritize and track public expenditures through Public Expenditure Reviews (PERs) and other mechanisms. They also call for more research on issues such as the proper sequencing of reforms and the necessary conditions for making institutions work more effectively.

Enhanced Policy Coherence and Coordination

Ministers emphasize the need for enhanced policy coherence and coordination among development partners. They caution developed countries against giving contradictory signals to developing countries, e.g., calling on them to liberalize their markets or promoting agricultural development while erecting high tariffs and other non-tariff trade barriers themselves, or building capacity of health professionals in developing countries, only to actively recruit them to work in developed countries. Ministers continue to note the incongruity between the stress placed on country ownership and the under-representation of developing countries in the decision-making processes of international financial institutions. They call on the Bank and the Fund to identify innovative and pragmatic ways to remedy this situation. Ministers also urge the Bretton Woods institutions to strengthen their cooperation and coordination with relevant UN agencies and other development partners, making use of their relative comparative advantages.

Access to Stable, Longer-Term Financing

Ministers point to the need for stable, predictable sources of capital on the part of developing countries, and for more flexibility and longer-term financing commitments on the part of donors. A number of ministers believe that financing recurrent costs on a temporary basis could accelerate the achievement of the MDGs, although they recognize the risks of weakening ownership and accountability and encouraging aid dependency. To mitigate these risks, they stress the importance of financing recurrent costs on a case-by-case basis, in the poorest countries, and establishing a time-bound exit strategy. They recognize the need for long-term donor commitments to help clients plan better for longer-term operations and avoid compression of spending in the event of a sudden decline in aid. Care is needed to make donor allocations results-based without impeding the flow of donor resources.

Better Measuring, Monitoring and Managing for Development Results

Ministers applaud the efforts to increase the focus on results. They believe that a results focus can make a significant difference in combating poverty and call on the Bank Group to fully integrate this approach into its activities, taking care to avoid risk-averse behavior. They advocate further work to refine the conceptual framework and determine the capacity required, the risks involved, and the behavioral changes that will be needed on the part of both development institutions and client country systems.

The new focus will require sharpening the way that results are measured and monitored. Client countries must play a leading role in project implementation and results-based management. To do so, they will need to build capacity in every aspect of the measuring, monitoring and managing chain. Concerted efforts are needed to enhance and develop national statistical systems, strengthen data collection, and knowledge sharing. Quality baseline data is necessary to operationalize the results-based system. Clear accountability for standardizing and collecting data and building capacity to measure poverty and social indicators needs to be established. Ministers stress the importance of reaching agreement on a protocol of intermediate indicators to assist developing countries in establishing their own indicators, in order to generate consistent, comparable data. Ministers supported the Bretton Woods institutions' efforts to strengthen statistical capacity at the country level.

Streamlining Conditionality

Ministers support enhanced Bank/Fund collaboration and the streamlining of conditionality, which will enable countries to focus on their own results and performance frameworks and develop clear lines of accountability to their citizens. They point out that a results orientation, based on the PRSP and MDG priorities, establishes a partnership founded on shared goals and responsibilities which must not be undermined through excessive ex-ante conditionality. Instead, conditionality should be "outcome-based" i.e., related to desired results and commitments made by the countries themselves. This allows developing countries to choose the most appropriate policy options for achieving the desired results based on their individual country circumstances.

Donor Performance

Ministers welcome the trend toward measuring donor performance. They stressed the need for much stronger donor coordination on the ground in support of country strategies. They welcomed the piloting of the "results-based CAS" and the new CAS Completion Reports. They stress the need to strengthen evaluation capacity, sharpen accountability mechanisms, and put in place the appropriate incentives. In keeping with the trend toward evaluating country outcomes rather than the results of individual agencies, they urge the Bank to strengthen cooperation with other development partners.

PROGRESS REPORT ON THE HIPC INITIATIVE

Ministers note that progress in implementing the HIPC Initiative has been steady but slower than in the previous six-month period. Some ministers stress the need for patience and urge the international community to remain committed to HIPC's original principles and eligibility thresholds. More must be done to address the underlying governance problems and

capacity constraints that contribute to the delays. Some ministers call on the Bank to focus more sharply on tracking the impact of HIPC resources on social expenditure.

The deterioration in the world economy and the fall in commodity prices have generated external shocks that have caused delays in reaching the completion point. Ministers stress that these shocks should not be allowed to delay debt relief. Ministers support the floating character of the completion point, which gives HIPC countries a chance to recover from downturns, complete the required programs, and prepare participatory PRSPs. Ministers support the extension of the sunset clause by another two years until the end of 2004.

Call for Full Financing of HIPC

Ministers urged all donors to make good on their commitments to fully implement the HIPC initiative. Further efforts are needed to convince all creditors—bilateral and multilateral—of the need to participate in HIPC debt relief, and to ensure that the HIPC Trust Fund is fully financed. HIPC analyses, including export and growth projections, must be more realistic up front, taking account of potential downside risks. Commitments to provide new financing to HIPC countries only through credits on highly concessional terms or grants must be reaffirmed. Some ministers called on the Bank and other IFIs to watch the risk of loans made on commercial terms and to highlight them publicly if they should materialize.

Debt Sustainability beyond HIPC

The biggest challenge, according to many ministers, is maintaining debt sustainability beyond HIPC. It is increasingly apparent that HIPC relief cannot guarantee long-term debt sustainability. While recognizing that the primary responsibility for maintaining debt sustainability rests with the countries themselves and no amount of debt relief can compensate for structural vulnerabilities, ministers stress the urgency of developing innovative support mechanisms beyond debt relief. They emphasize that delivering improved economic performance and poverty reduction will require helping HIPC countries implement long-term growth strategies that promote strong productivity gains, human resource development, and individual enterprise. Some ministers also stress the need for stricter debt monitoring and propose that the Bank and the Fund conduct annual debt sustainability analyses in HIPC countries.

PROGRESS REPORT ON PRSPs

Ministers reaffirm the central role of PRSPs in setting an appropriate framework and building countries' ownership of development strategies. Ministers commend the progress to date in the PRSP process. They applaud the efforts of the Bank and the Fund to align their policies and connect their financial assistance to PRSP priorities. Harmonization of donor policies, practices and procedures is essential to reduce the costs of aid and technical assistance. Several ministers call for further efforts to analyze the impact of policies on poverty outcomes and to institutionalize and deepen participatory processes. They also urge greater realism in defining targets and flexibility and openness to alternative policy options in developing countries.

Ministers note that the experience of implementing PRSPs is still limited. Ministers stress the need for the Bank and the Fund to help countries improve the quality of the design and implementation of their PRSPs so as to ensure growth and poverty reduction. This will require, *inter alia*, setting more robust priorities, developing realistic and measurable indicators to track development outcomes, linking PRSPs to budget processes, providing more technical assistance

and strengthening the institutional capacity of low-income countries. Finally, development partners need to ensure that PRSPs are adequately financed.

Another challenge identified by several ministers is the need to make the participatory process more relevant, taking into account the different legal and institutional frameworks existing in each country. They cautioned against creating parallel mechanisms of civil society participation that may undermine legitimately elected governments and democratic institutions.

PROGRESS REPORT ON ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

Ministers reiterate their support for the strengthening of international cooperation in combating money laundering and the financing of terrorism (AML/CFT). They welcome the achievements of the Bank and the Fund, in collaboration with the Financial Abuse Task Force (FATF), in developing a comprehensive, unified, voluntary and cooperative framework for assessing the ability of national financial systems to combat money laundering and the financing of terrorism (AML/CFT).

Ministers call for a cooperative approach in addressing money laundering, involving many different institutions that deal with financial sector supervision and regulation, good governance, judicial and legal reform, and effective law enforcement. They stress that the Bank's and Fund's principal contribution to these efforts should continue to be to assist countries in addressing structural and institutional weaknesses, providing technical assistance and strengthening institutional capacity, particularly in addressing implementation of the 40+8 FATF recommendations. Involvement of the Bank and the Fund in law enforcement activities is to be avoided. Many ministers feel that AML/CFT efforts should be led by the FATF, the United Nations, and the regional anti-money laundering task forces. Ministers welcomed the Bank and the Fund's engagement in the AML/CFT pilot program.

Ministers stress the importance of transparency of the procedures and adherence to the poverty reduction mandates of the two institutions. Some ministers point out that progress in achieving the MDGs will reduce the breeding ground for money laundering and terrorism.

HARMONIZATION OF OPERATIONAL POLICIES, PROCEDURES AND PRACTICES

Ministers welcome progress in donors' efforts to harmonize their operational policies, practice and procedures in the interest of improving the efficiency of aid, reducing administrative burdens and lowering transaction costs. Areas of particular interest are procurement, financial management, and reporting. Some ministers stress the importance of greater collaboration between the Bank and the Fund in two areas: public financial management and accountability (PFMA) and Poverty and Social Impact Analysis (PSIA). Ministers call on the Bank to accelerate its participation in Sector-Wide Approaches (SWAs). They welcome the pilots on collaboration and in-country harmonization and look forward to their results.

Some ministers caution against underestimating the difficulties of meeting this goal, particularly in view of the nature of bilateral assistance. They suggest adopting a more modest approach, which entails basic exercises such as the development of common reporting systems and a common set of guidelines and forms, and common satisfaction of preconditions required for obtaining development assistance. One of them suggests depoliticizing assistance as a first step toward better coordination and synchronization of donor activities.

In the next phase of harmonization work, some ministers suggest that the role of recipient countries should come into play, and more attention should be paid to coordination and consultation between donors and clients. Also, a common set of environmental and social safeguards could be developed. Adequate provisions should be made for implementing harmonization policies in middle-income countries.

OTHER ISSUES

IDA13 and Grant Financing

Several ministers discussed issues arising from the decision to increase the grant element in IDA13. They stressed the need to complement guidelines for allocating grants under IDA13 with clear priorities and operational rules. They noted that the increased grant element will result in diminished reflows, for which IDA must be fully compensated. They urged donors to take long-term responsibility for IDA.

Middle -Income Countries

Some ministers pointed out that recent events in Latin America demonstrated the need for the Bank and the Fund to remain engaged in middle-income countries (MICs), where the majority of the world's poor lived. Ministers suggested the need for explicit references for implementation frameworks for both Low-Income Countries Under Stress (LICUS) and MICs.

Global Public Goods

Some ministers noted that the call for a clear strategy on global public goods has yet to be answered. The Bank needs to reflect on its role vis-à-vis that of other development agencies. A minister wanted to see the Bank take a leadership role on GPGs, especially given the link between the provision of GPGs and achievement of the MDGs and called for discussion at the next meeting..

Increasing Transparency in Extractive Industries

A minister urged other donors and developing countries to join in the new work to increase transparency in the extractive industries. This initiative will help increase the accountability of developing countries to their citizens for the revenues earned from natural resources.

Drug and Arms Trafficking

A minister urged the international community to pay more attention to drug and arms trafficking, issues closely related to AML/CFT.