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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Representing Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay

1. DEVELOPMENT EFFECTIVENESS, PARTNERSHIP AND CHALLENGES FOR THE FUTURE

Let me begin by expressing my strong support to the "Monterrey Consensus", which recognizes poverty as a global problem that calls for a global solution with full participation of developing and developed nations in a joint development compact. The "Monterrey Consensus" expands the "Washington Consensus" and places the discussion of poverty reduction/development effectiveness in a broader framework, where responsibilities of developing countries, as well as of developed countries, are clearly spelled out. September 11 reminded us that the world is a single global one, where developed and developing countries in partnership have significant roles to play to make it more livable and secure for all.

In this context, developing countries are mainly responsible for implementing sound policies, good governance and institutions. The industrial countries are primarily responsible for opening their markets to developing country exports, expanding direct foreign investment and stepping up financial assistance to developing countries, directly or through the international financial institutions. There is wide consensus that to increase development effectiveness, reduce poverty and attain the Millennium Development Goals, a three-pronged strategy needs to be followed: greater market access, good country policies and institutions, and efficient development assistance.

Let me make some comments on the proposed strategy.

Market Access for All

We are convinced that market access to developed country markets, coupled with subsidy reduction/elimination in their agricultural sectors, is the most effective way to achieve development effectiveness, and by far superior to increased development assistance. Several World Bank studies amply document the strong link amongst trade expansion, growth and poverty reduction. Moreover, trade expansion is instantly embraced by developing countries as a sound policy that does not carry the problems of ownership and conditionality normally faced in the delivery of aid packages. Examples such as the European Union's "Everything but Arms" and America's "African Growth Opportunities" are steps in the right direction. We expect that non-tariff barriers to textiles and clothing, core activities in which all developing countries can expand trade, will also be eliminated. Market access initiatives should not be restricted to poor countries because it is well known that the majority of the poor live in middle-income countries.

Agricultural support in developed countries is mostly concentrated in a small number of farmers. It costs US$350 billion a year, or six times the amount of total aid flows. These countries should take action to cut agricultural subsidies. Reducing subsidies has a clear win-win outcome, and the substantial budgetary savings could be used to develop domestic trade adjustment programs in industrial countries and to step up development assistance to developing countries, all this with substantial welfare gains in world income, derived from the elimination of a severe misallocation of resources to agriculture.

Developing countries should also continue opening their markets to world trade. Significant opportunities to expand growth and improve living standards are derived from greater trade opening. The experience in Latin America shows significant welfare gains from trade opening. We call the Bank to continue supporting policy reforms in this area through trade adjustment loans.

Country Policy Reform

The pioneering role of the World Bank in supporting policy reforms in the early 80s and its innovative lending role since the 90s deserve our full support because of its significant positive impact on development effectiveness. Aid has proven to be most effective when linked to policy reform.

The first generation reforms in Latin America, which focused on economic liberalization aimed at "getting the prices right", were well supported by structural adjustment loans from the Bank. Bold and rapid reforms proved to be the most effective way to increase economic growth and innovation.

Second generation reforms, mainly of institutional nature, require a longer time horizon for implementation. To this the Bank responded with the introduction of programmatic lending, which appropriately matches the time horizon of the reforms and allows for better measurement and monitoring of reform implementation.

Since the late 90s the Bank has focused its efforts in addressing two crucial issues of development effectiveness: how to attain sustained growth over long periods of time and how to make growth more inclusive to accelerate poverty reduction.

To address these issues the Bank launched a two-pillar strategy focused on improving the investment climate for private investment and empowering and investing in the poor. To be effective, this strategy should be implemented under the Comprehensive Development Framework (CDF) principles of a long-term holistic vision of development, owned by the client country and implemented in partnership with civil society and multilateral and bilateral donors.

The proposed strategy and the CDF principles are currently being implemented through Poverty Reduction Strategies (PRSP) in poor countries. These are country-prepared strategies providing a framework for a shared vision of development and better alignment of donors' contributions. The PRSP process has been well received by countries.

Even though it is too early to assess its impact on poverty reduction, some positive signs are already showing that we are in the right track: the emphasis on appropriate financial management and budgeting, which will permit better allocation of resources, better measuring and monitoring of the impact of poverty reduction policies, as well as greater transparency in the administration of public resources, including foreign aid.

We call donors and the international community to expand their focus of support and aid contributions to address poverty in middle-income countries. To be efficient in combating poverty we have to center our efforts in poor people. It is well known that nearly 80% of the world's poor (those living on less than US$2 a day) live in IBRD eligible countries. We should not lose sight of this fact in our future deliberations on how best to combat poverty in the world.

Development Assistance

On development assistance effectiveness, we agree that substantial progress has been made, despite methodological issues related to the attribution of country gains to this assistance. This progress can be viewed as a significant result, but it can also be viewed as an initial step in the right direction. Reallocation of aid from political to policy reform based allocations has produced substantial gains, but there is much more to be done to increase aid efficiency in the international financial institutions as well as in the bilateral donors' camps. The blame for inefficiencies is placed highly on the recipient countries, and less on donors. Donors have significant room to increase efficiency in aid delivery by, among other measures, eliminating tied aid schemes, focusing aid on policy and institutional reform, harmonizing their operational policies, grounding projects on country realities, economizing/eliminating wasteful tied consultancy and seminars, and concentrating on knowledge transfer to locals, which are really the instruments for long-term commitment and consistency.

After Monterrey, despite significant commitments to increase aid by the European Community and the US, it is becoming evident that an important financing gap will remain to achieve the Millennium Development Goals in 2015. This reinforces the case to increase efficiency in aid allocation through the support of policy and institutional reform in client countries, but also by improving internal efficiency of aid delivery through harmonization, untied aid, quality capacity building and knowledge transfer, among others. It also reinforces the case to accelerate industrial countries' market opening to exports from all developing countries.

2. EDUCATION FOR DYNAMIC ECONOMIES: ACTION PLAN TO ACCELERATE PROGRESS TOWARDS EDUCATION FOR ALL

Good quality education is the best way to empower and invest in the poor to improve their quality of life, enhance their capacity to be more productive and increase their incomes. Education also helps to develop good institutions, improve governance and civility, which are crucial ingredients for an appropriate investment climate.

We salute the effort of management to present key building blocks of a plan to launch our crusade for education for all in the context of the Millennium Development Goals. In particular, we are grateful for the enormous effort to achieve better measurements of educational results and to develop parameters that are associated to the outcomes of educational systems. We, of course, endorse adding completion rates to enrollment rates, as a more accurate, even though imperfect, measure of educational results.

However, we have some comments on the quality of education; on the parameters or benchmarks that are proposed in the action plan; on the emphasis that is placed in some policy recommendations, as opposed to others that have to do with results, competition and accountability; on political will and ownership of the reform process; and on the incoming consultation process for the implementation of the proposed action plan.

Quality is a serious concern in education, more so with the advent of globalization and the increasing digital divide. Quality is a serious problem even in middle-income countries (MICs), which supposedly have complied with the target of having full completion rates in primary education. Even the most advanced within the MICs show very weak results in educational outcomes when compared with industrial countries. We should not be complacent of achieving the Education for All (EFA) goal, if serious quality problems still persist in most developing countries.

We think it is dangerous to take the parameters that you have collected on good performers and convert them into "a set of technical benchmarks or norms to guide service delivery and financing reforms". For example, to devote a higher share of resources to public primary education, to establish a pupil-teacher ratio of 40:1 and to increase teacher salaries has little meaning if not placed in a context of efficient delivery systems, where the structure of incentives is well aligned to obtain quality results. Furthermore, those parameters may imply a significant increase in government spending. To reduce government-financing requirements, we should think about bringing on board the private sector and civil society at large.

We would have liked to see more on the principles governing good delivery systems in education in the proposed action plan than an ad-hoc listing of policy prescriptions. In particular, systems where students and parents have a genuine way of being empowered to exert social control over educational outcomes. We would have liked more illustrations on the role of accountability and sound incentive systems to enhance the delivery of high quality education. This is very important for countries that have the opportunity of beginning to construct their education systems because, as you well say, they are in need of radical reform. Moreover, we believe that eliminating user fees in education can have a negative impact on income distribution and public finances. There are several alternatives to elimination of fees that are more equitable and robust on financial grounds.

On political will and ownership, we agree that these are indispensable ingredients of reform. But we have to keep in mind that education reform is a long-term generational effort that likewise requires continuous commitment. It goes beyond particular electoral cycles and, therefore, it also calls for long-term ownership of the different political parties and the civil society at large to be successful.

On the next steps to implement the action plan, we urge to focus your consultations not only in donors and countries, but more importantly, in students and parents that will be the direct beneficiaries of the reforms, as well as potential private sector/civil society providers.

Finally, we surely support the establishment of a development compact for education where developing countries commit to policy and institutional reforms, including promoting private sector participation in education, and where donor countries and the international financial institutions provide financial support, technical assistance and knowledge transfer to materialize the goal of Education For All in 2015.

3. HIPC PROGRESS REPORT

Since the last meeting of the Development Committee and the International Monetary and Financial Committee in September 2001, countries covered by the Initiative have peaked to 26, a welcome event. Two additional countries have reached their completion points in this last period, making a total of four countries, including Bolivia, from our constituency, that are benefiting from HIPC relief.

The implementation of the Initiative seems to be moving ahead at a slower pace than expected. We learn that it has been difficult for some countries to develop track records of good policy performance that could enable them to reach their decision points and start benefiting from debt relief. At the same time, we estimate that the events of last September 11 impacted countries, affecting the sustainability of their foreign debt and the formulating process of their development strategies. Another aspect of importance is the preparation of a poverty-reduction strategy linked to debt relief to enhance the poverty focus of concessional lending. It seems that countries require more time than expected to develop poverty-reduction strategies. While the floating character of the completion point gives countries the necessary time to fulfill these requirements, it would be important to make an assessment in order to establish the necessary assistance requirements to overcome some of the constraints encountered by these countries in the process.

It is a matter of concern to see that 12 additional countries, some of which are conflict-affected, are still struggling to come to their decision point. We understand that the challenges to achieve peace and internal stability, pursue sound economic policies and develop economic management capacity, are daunting. The Bank should intensify efforts to work with the authorities in these countries to develop strategies to move ahead.

The implementation of the Initiative will depend on longer-term debt sustainability in qualifying countries through sustained economic growth, poverty reduction and the pursuit of prudent debt management policies. In those countries already past their decision points, it will be equally challenging to remain on track and reach their floating completion points without delay. We have to agree that the deterioration of the global economic environment has made external debt sustainability more difficult; most HIPCs are dependent on primary commodities for their export earnings and government revenues.

HIPC relief provides a strong basis for debt sustainability. Yet we have to recognize that its magnitude is modest when compared to net external resource flows to these countries. In order to achieve the objectives of increased economic growth and poverty reduction in the context of the Millennium Development Goals, HIPC countries will continue to require substantial inflows of grants and concessional loans.

We welcome the news that the 26 countries will receive about US$25 billion worth of debt relief in net present value (NPV), or about US$40 billion in nominal terms. This means that overall annual debt-service payments during 2001-05 are estimated to be cut by about 30% as compared to 1998-99. This is a positive event, because at the same time these countries are committed to using the resulting debt service savings to support their poverty reduction strategies. As a consequence, social expenditure primarily on health and education is projected to rise, and governments are expected to spend more than three times the amount of debt service in social sectors in 2001-02.

The total cost of assistance under the HIPC Initiative is now estimated at US$34.4 billion in 2000 NPV terms, or US$36.4 billion in 2001 NPV terms, an increase of US$1.2 billion in 2000 NPV terms. It is important to note that virtually all multilateral and Paris Club creditors have indicated a willingness, in principle, to participate in the Initiative. The share of assistance remains broadly equally divided between bilateral and multilateral creditors. Even though there is a wide support for the Initiative, the Bank will have to be careful when assessing it own future commitments with the Initiative in light of a declining trend of its net income and its transfer possibilities to the HIPC Trust Fund.

4. HARMONIZATION OF OPERATIONAL POLICIES AND PROCEDURES

During the recent Annual Meeting in Ottawa, Ministers recognized the critical importance of harmonization of operational policies and procedures by the Bank, other multilateral agencies and bilateral donors, in order to reduce the transaction costs of assistance.

This commitment started in April 1996, and it was reiterated in the spring of 1998. At the September 2000 Development Committee, the need to take further steps towards harmonization of operational policies and procedures was stated.

At the meeting in April 2001, Ministers agreed on a program and a framework to implement concrete actions in both the multilateral and bilateral fronts. It was recognized that in spite of several harmonization initiatives, progress had been limited and uneven.

The first Progress Report submitted in November 2001 reported mostly on the first stage of the effort, information gathering and stocktaking. This second Progress Report concentrates on the second stage of the agenda, the development of good practice principles and standards since early September 2001.

Obstacles to come across a set of reliable and transparent standards have delayed the possibility of reducing the cost of doing business for recipient countries. The lack of harmonized processes and procedures adds to the costs originated in the compliance with other conditionalities, safeguard and fiduciary standards, assessments, etc.

We agree that harmonization is not only to adopt common basics for development assistance, but also to insert them as a single set of enforceable global standards in the interest of all parties involved. The development community must focus in developing national capacity and creating standard setters to achieve convergence in the harmonization process.

We urge the Bank and its partners to join their efforts to pursue meaningful results with concrete cooperation among all parties involved. In our next meeting we are expecting to see the outcome and actual progress of the first two stages and to be informed on the status of the third stage, institution-level adoption of principles or standards and country-level implementation.

5. ANTI-MONEY LAUNDERING AND FIGHTING TERRORISM FINANCING

Fighting against money laundering and combating the financing of terrorism are very important initiatives of the international community to ensure a more transparent and self-assured international financial system.

We support these efforts recognizing, however, that our main task as a development bank is to fight against poverty on the basis of selectivity, focusing in areas of our expertise.

There are a number of international organizations working in this area since long time ago, with more expertise and better knowledge of this very complex issue than the World Bank. The role of the Bank in this effort should remain a complementary one through strengthening the structural aspects of the financial system.

With respect to the assessment of Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT), the comparative advantage to address this topic lies with the IMF, based on its broader relationship with all countries, through the Article IV consultation process, as well as the FASP and ROSC.

The international community has to improve coordination to avoid duplicity and promote synergy among the different multilateral organizations that are working in this area.

The inclusion of AML/CFT issues within the CAS process could be interpreted as the introduction of new conditionalities, and we favor actions based on a more voluntary approach.

We encourage the international community to pay greater attention to other relevant issue that is strongly related to the financing of terrorism: drugs and arms traffic.