DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
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on the
Transfer of Real Resources to Developing Countries)

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Statement by
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1. 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.

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 <u>per year,</u> 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 lift 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.

2. 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.

3. 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.

4. 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.

5. Poverty Reduction Strategy Papers (Prsp) – 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.

6. 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.

7. Harmonization of Operational Policies, Procedures and Practices: Information Note

Harmonization remains high in the agenda of the development community due to its importance in reducing the administrative burden and transaction costs for recipient countries and in building their capacity.

We encourage the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD-DAC) Task Force and Multilateral Development Banks (MDB) technical groups to continue developing good practice principles and standards in the priority areas of the international harmonization agenda, and to yield insights into the practical challenges of implementing harmonization on the ground. The next high-level forum to be held in February 2003 is very promising.

Adequate provisions should also be made to include implementation of harmonization policies in Middle Income Countries (MICs) because they may entail substantial cost savings. We understand that the World Bank has the potential to play a more active role in facilitating coordination in the MICs to bring together ongoing efforts among MDBs, and convergence with other agencies.

We are looking forward to the next progress report on the outcomes of the second stage of the agenda: the development of good practice principles and standards, and on the challenges that have been met as the work to harmonize policies and procedures progresses to its third stage: institution-level adoption of the principles and standards and country-level implementation.